The original documents are located in Box 10, folder "Employment Policy, 1975" of the Stanley Scott Papers at the Gerald R. Ford Presidential Library.

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY FOR MANPOWER
WASHINGTON, D.C. 20210

JUN 2 1975

Honorable Stanley Scott
Special Assistant to the President
The White House
Washington, D. C. 20500

Dear Mr. Scott:

This is in response to the request dated May 16 made in your behalf by Mr. Roger D. Semerad, Staff Assistant to the President, Domestic Council, for information on Administration policy and/or initiatives in employment.

It is the Administration's view that the main approach for dealing with the current unemployment problem is to stimulate the economy through tax policies, thus, creating new private sector jobs. In this regard, the Tax Reduction Act of 1975 signed by the President last March 29 provides a much needed stimulus.

In addition to private sector stimulation, it is necessary to provide income support through unemployment benefits to workers who are unemployed. Recent emergency legislation has greatly increased the amount of this type of assistance that is available to unemployed workers. Whereas, last year $6 billion were paid out in unemployment benefits, in 1975 it is estimated that $20 billion will be paid out in benefits. The Administration has proposed extension of much of that emergency legislation through 1976. It is also the Administration's view that a balanced Public Service Employment (PSE) program is a useful adjunct to these policies, but the use of subsidized PSE should be approached cautiously since the job creation effects of PSE programs diminish over time, and the funds may merely substitute for State and local tax revenues. Currently, over 300,000 public service jobs are being funded under the Comprehensive Employment and Training Act, as amended.

In regard to maximum employment, the Secretary of Labor recently commented that "The objective now should be for a

sustainable (economic) expansion that leads to stable high employment and not a peak that explodes in more inflation and collapse."

We are enclosing a copy of recent testimony by the Secretary of Labor which may be of interest to you.

Sincerely,

William H. Kolberg

WILLIAM H. KOLBERG
Assistant Secretary for Manpower

Enclosure

Statement of the Honorable John T. Dunlop
Secretary of Labor
before the
Subcommittee on Economic Growth of the
Joint Economic Committee
May 13, 1975

LABOR MARKET POLICIES TO RESTORE FULL EMPLOYMENT

Mr. Chairman and Members of the Committee:

I have some considerable professional difficulties -- at the outset -- with the title of these hearings on which brief preliminary comments are essential.

In professional discourse "labor market policies" are ordinarily to be distinguished from general fiscal and monetary policies and refer to measures designed to enhance training and skills, to reduce frictional unemployment and enhance job search, and to offset discrimination. They also include measures to deal with structural and area unemployment associated with long-term changes in employment patterns and characteristics of the labor force, indigenous or immigrant. This usage of "labor market policies" is often associated with developments that received greatest attention first in Sweden under the leadership of Gösta Rehn and Rudolf Meidner. In this country the phrase "active" manpower or labor market policies has sometimes been used to distinguish governmental manpower measures originating on a broad scale in the 1960's from such policies as apprenticeship, vocational education, employment exchanges, and other long established activities which influence the labor market.

To the best of my knowledge no advocate of an active manpower policy has regarded manpower measures as a distinctive or sufficient means to full employment apart from general fiscal and monetary measures. Labor market policies are ordinarily regarded as incremental tools to secure a somewhat higher level of employment, a better match of people and jobs, a less inflationary and more sustained expansion, with perhaps higher productivity and real income and product. Labor market policies alone are not powerful enough to achieve or to sustain high employment.

Then, I have some problems with the phrase "restore full employment." I am not certain when we last had "full employment," if ever, in the sense of providing "... useful employment opportunities including self-employment for those able, willing and seeking to work ..." at prevailing compensation. The level and structure of unemployment historically provide an indication of the extent to which we have fallen short of the objective set forth in the Employment Act of 1946 or have found other needs, obligations or considerations to preclude this objective.

A final comment on a matter generally associated with discussions of "full employment:" Full employment without "unreasonable" inflation is a worthy goal, but we have ample experience to know how difficult is this high aspiration. The most essential requisite for making headway is the adoption of longer term public policies, less responsive to immediate considerations, with a lesser imperative to meet the dates of November or July or January on the political calendar.

The objective now should be for a sustainable expansion that leads to stable high employment and not a peak that explodes in more inflation and collapse.

First, I would like to comment briefly on expected characteristics of the labor market over the next decade. Changes in the demographic and skill composition of the labor force have been important factors affecting the rates of unemployment, productivity, and the rate of inflation. In the past, we have failed adequately to anticipate or respond to those trends, perhaps, because we did not have the tools at our disposal to capitalize on those trends that we were able to estimate.

Second, I would like to discuss the programs under CETA and the role of this approach in achieving high levels of employment, higher real incomes and economic growth generally.

Third, I will discuss an area of economic policy that has significant labor market implications -- capital formation. This third subject is, in my view, a prerequisite for providing the economic conditions in which specific labor market policy tools can be most effective in helping Americans find good jobs. Capital formation has received much attention lately

Under the topic of "capital shortage." Secretary Simon testified before the Senate Finance Committee on the subject on May 7. It is my view that economic growth, particularly at this time, depends heavily upon capital formation, but capital formation can be severely hampered without attention to labor markets, and capital severely underutilized if long term labor policy considerations are not included in efforts to achieve sustainable economic growth.

I. LABOR MARKET CHARACTERISTICS

Over the coming decade the economy may be expected to undergo numerous changes in its structure. Many of these cannot be foreseen even approximately, but some will result from forces currently at work and, accordingly, are identifiable now. Three such forces affect labor market developments: (1) the age distribution of the population, (2) shifts in occupational and industrial distribution of employment, and (3) the geographical distribution of employment and population.

Table 1 shows changes in the age distribution of the labor force since 1950 and projects these changes through 1990. These estimates are based on Census Bureau projections of birth rates, current life expectancies, and the age structure of the population today. The relative increase in the youth population was a factor in such social phenomena as teenage unemployment, increased juvenile deliquency and the burgeoning of college education during the last decade. The growth in the population age 65 and over has led to a migration to warmer parts of the country and to growing interest in improvements in Social Security benefits and in other post-employment benefits. Continued growth in this age group will likely sustain interest in these areas. Also, more attention may be necessary to enable older citizens to make the transition from work to retirement.

The projected decline in the proportion of the population age 16-24 has important implications for education and training needs in the remainder of the 1970's and in the 1980's, just as the relative growth of this group during the 1960's had a major impact. While we found ourselves short of teachers and educational plant in the 1960's, we now find

Table 1
Distribution of the Population by Age
(Percent)

Age Group	1950	1960	1970	1980 (Projected)	1990 (Projected)
Below 16	28.3	32.6	31.1	25.4	25.8
16-24	13.3	12.1	15.0	16.7	12.8
25-44	30.0	26.1	23.6	27.8	31.9
45-64	20.3	20.0	20.5	19.4	18.2
65+	8.1	9.2	9.8	10.7	11.3

Distribution of the Population by Age
(Millions)

Age Group	1950	1960	1970	1980 (Projected)	1990 (Projected)
Below 16	43.1	58.8	61.9	56.8	63.6
16-24	20.2	21.8	32.5	37.5	31.6
25-44	45.7	47.1	48.4	62.3	78.7
45-64	30.8	36.2	41.9	43.5	45.0
65+	12.4	16.7	20.2	24.1	27.8

Source: Manpower Report of the President, 1975.

ourselves with a surfeit of teachers and school buildings. This resulted as many of the youth who crowded our schools during the 60's were trained to teach a population wave that was cresting with their graduation.

With respect to economic growth during the next decade, the most important demographic change will be the relative rise in the group aged 25-44, which is expected to rise from 24 percent of the total in 1970 to 27 percent in 1980. This increase reflects the bulge in the birth rate that occurred after 1945, which caused the growth in youth population that we have just discussed. In the late 1970's and the 1980's the experience, maturity and energy of this group will provide the labor force with the potential to be unusually productive. This contrasts sharply with the late 1960's when this group was at an historical low, proportionately, and jobs requiring their energy, experience and greater skills went begging or were filled with relatively less productive labor.

Beyond these changes due to underlying trends in the relative sizes of the various population groups, additional changes will be caused by variations in labor force participation rates. Predicting these changes is somewhat more difficult than predicting population changes. Two phenomena do, though, seem very likely to occur: (1) Participation rates of women will continue to rise, especially as opportunities for employment of women expand with the easing of sex discrimination, and (2) Participation rates of those age 60 and over will continue to drop. Table 2 provides additional detail on these trends in participation rates.

As in the 1960's and early 1970's, professional and technical employment is expected to increase slightly as a fraction of the total (see Table 3). Reciprocally, during this period, employment of semi-skilled and unskilled workers is expected to fall. This reflects the historical trend toward greater white-collar and skilled employment, which is related to increasingly complex technology, higher educational attainment and diminishing interest in low-level jobs, or those jobs considered menial.

Substantial changes in the structure of employment by industry are also likely. Employment in the public sector

Table 2
Participation Rates by Age and Sex

	1960	1970	1980	1990
Male				
16 years and over	82.4	79.2	78.0	78.4
16 to 19 years	58.6	57.5	56.0	55.4
20 to 24 years	88.9	85.1	83.0	82.1
25 to 34 years	96.4	95.0	94.6	94.4
35 to 44 years	96.4	95.7	95.1	94.7
45 to 54 years	94.3	92.9	91.9	91.5
55 to 64 years	85.2	81.5	79.1	77.5
65 and over	32.2	25.8	21.2	19.3
Female				
16 years and over	37.1	42.8	45.0	45.9
16 to 19 years	39.1	43.7	45.5	47.0
20 to 24 years	46.1	57.5	63.4	66.2
25 to 34 years	35.8	44.8	50.2	51.5
35 to 44 years	43.1	50.9	53.2	55.2
45 to 54 years	49.3	54.0	56.2	58.0
55 to 64 years	36.7	42.5	44.7	45.8
65 and over	31.0	35.6	37.5	38.8
Both sexes 16 and over	59.2	60.3	60.8	61.5

Source: Manpower Report of the President, 1975.

Table 3
Employment by Occupational Group, 1972 and
Projected 1980 and 1985 Requirements

(Numbers in thousands)

Occupation group	Actual 1972		Projected			
			1980		1985	
	Number	Percent distribution	Number	Percent distribution	Number	Percent distribution
Total employment[1]	81,703	100.0	95,500	100.0	101,500	100.0
Professional and technical workers	11,459	14.0	15,000	15.7	17,000	16.8
Managers and administrators, except farm	8,032	9.8	10,100	10.5	10,500	10.3
Sales workers	5,354	6.6	6,300	6.6	6,500	6.4
Clerical workers	14,217	17.4	17,900	18.7	19,700	19.4
Craft and kindred workers	10,810	13.2	12,300	12.8	13,000	12.8
Operatives	13,549	16.6	15,000	15.6	15,300	15.1
Nonfarm laborers	4,217	5.2	4,500	4.7	4,500	4.4
Service workers	10,966	13.4	12,700	13.3	13,400	13.2
Farmers and farm laborers	3,099	3.8	2,000	2.1	1,600	1.6

Source: Manpower Report of the President, 1975.

may be expected to continue to expand, though much less rapidly than in the 1960's. Retail trade, finance and services will continue their relative expansion though, here too, the rates of change will not be so great as they were during the 1960's. Employment in the goods-producing sectors--manufacturing, transportation and public utilities, mining and construction--may be expected to continue their relative decline. (See Table 4.)

Education is also an important factor in determining the structure of the labor force. The more highly educated are interested in obtaining jobs with higher status, higher pay and more interesting content. Educational attainment is not expected to be changing as fast as in the last decade, but the average level of attainment and accompanying level of skills and expectations will remain at high levels. This makes the search for policies that will create better jobs an important national priority.

Table 4
Total Employment by Major Industry Sector,
1960, 1972, and Projected 1980 and 1985

(Numbers in thousands)

Industry sector	Actual		Projected		Percent distribution			
	1960	1972	1980	1985	1960	1972	1980	1985
Total	68,869	85,597	101,576	107,609	100.0	100.0	100.0	100.0
Government [1]	8,353	13,290	16,610	18,800	12.1	15.5	16.4	17.5
Total private	60,516	72,307	84,966	88,809	87.9	84.5	83.6	82.5
Agriculture	5,389	3,450	2,300	1,900	7.8	4.0	2.3	1.8
Nonagriculture	55,124	68,857	82,668	86,909	80.0	80.4	81.4	80.8
Mining	748	645	655	632	1.1	.8	.6	.6
Contract construction	3,654	4,352	4,908	5,184	5.3	5.1	4.8	4.8
Manufacturing	17,197	19,261	22,923	23,499	25.0	22.5	22.6	21.8
Durable goods	9,681	11,071	13,629	14,154	14.1	13.0	13.4	13.2
Nondurable goods	7,516	8,190	9,294	9,345	10.9	9.6	9.2	8.7
Transportation and public utilities	4,214	4,726	5,321	5,368	6.1	5.5	5.2	5.0
Transportation	2,743	2,842	3,250	3,266	4.0	3.3	3.2	3.0
Communication	844	1,150	1,300	1,312	1.2	1.3	1.3	1.2
Public utilities	624	734	771	790	.8	.9	.8	.7
Wholesale and retail trade	14,177	18,432	21,695	22,361	20.6	21.5	21.4	20.8
Wholesale	3,295	4,235	4,946	5,123	4.8	4.9	4.9	4.8
Retail	10,882	14,197	16,749	17,238	15.8	16.6	16.5	16.0
Finance, insurance and real estate	2,985	4,303	5,349	5,932	4.3	5.0	5.3	5.5
Other services [2]	12,152	17,118	21,815	23,913	17.6	20.0	21.5	22.2

Source: Manpower Report of the President, 1975.

While changes in geographic dispersion are difficult to predict, we should note the impact on economic growth and investment of recent population shifts such as those to warmer climates in the southwest, west and southeast; to suburbs and beyond and; to new cities and planned communities. No doubt existing population patterns and new migration and settlement trends will have an important effect on the pattern of future economic growth and labor market adjustments.

II. CETA'S ROLE AS A LABOR MARKET POLICY TOOL

With this background on the changing nature of our labor markets, I should like to discuss with you, for a few moments, CETA's important role as a labor market tool. Fifteen months have now elapsed since the passage of the Comprehensive Employment and Training Act (CETA), which represents a desirable initiative toward the type of local cooperation and flexibility necessary for labor market policy. There have been operational problems because of recent economic

conditions and, therefore, a diversion away from long term policies toward emergency measures. The establishment of local governments in a lead role appears to be the proper long term approach in making manpower programs responsive to local conditions, and especially to local labor market conditions, and there has been progress towards this during the year.

There are three principles which have guided the Department's implementation of CETA.

1. Training programs should produce participant skill levels which match available and anticipated jobs. This is particularly true for persons who have significant disadvantages in competing in the labor market.

2. Skill training must be more responsive to the longer term needs of the labor market where shifting economic demands require increased or different levels of skill.

3. Better labor market and occupational information is required for local decision makers developing program strategies and curricula.

The key role in this conception is played by local elected officials and manpower directors. The Federal government, therefore, must move more towards assistance to local sponsors to allow them to more effectively plan and manage their programs. Good local and area labor market information is critical to this role, and the Federal government must take the lead in improving our existing information, collection and dissemination systems.

At the national level, much more can be done toward effectively coordinating and rationalizing Federal social and labor-related programs which influence the labor market, including CETA, Vocational Rehabilitation, Vocational Education and Welfare and Social Services. The Department of Labor and Health, Education and Welfare have taken the initial steps toward coordinated planning, and enhancement of the progress gained over the first year of CETA operations will be a priority in the future. Rural labor market areas require special attention.

One of the most critical elements of an effective labor market policy that can be influenced somewhat at the Federal level is improved interaction of the key participants

in a local labor market such as local officials, employers, representatives of organized labor and the client community. Formal and informal relationships betwen the Federal government and client groups can help form the base for an effective manpower system, but these relations with governments, schools, labor and industry must be nurtured at a local level if the program is to firmly establish itself as a long-term policy instrument.

There are some important issues that can be resolved by this more cooperative local approach and by efficient delivery of data and technical assistance, employment and other services. For one example, as the President pointed out in his speech last summer at Ohio State University, the incidence of youth unemployment can be reduced by local cooperation. Most particularly, the link between the educational establishment, training and work must be strengthened at the local level in order to attack this problem. To digress slightly, the efforts of the military as a link between school and work--especially in more recent recruitment activities--provide an example of the kinds of things that can be done to improve training opportunities for young people.

The efforts of the past year in CETA represent beginning steps in the establishment of a locally oriented manpower program as a component in a comprehensive labor market policy and as a component in a more comprehensive economic policy. As we perfect our tools, we will be better able to adjust to changing conditions without having to react to instant emergencies, whose solutions may only have short term benefits. In part, because of its flexibility and its potential to act in a catalyst role, the CETA program becomes a critical part of long term labor market policy. It can adjust to changing conditions, including shifts in population or technology.

III. LABOR MARKET POLICIES FOR ECONOMIC GROWTH

The American economy, we should remind ourselves, has shown great capacity to adjust to a changing labor force and to dynamic social and economic developments. In the 25 year period 1949-1974 total civilian employment increased from 57.6 to 85.9 million average jobs, an increase of 28.3 million jobs. In the last decade the increase was 16.6 million jobs.

Although government employment in this quarter century increased from 5.9 to 14.3 million--an increase of 8.4 million--private, nonagricultural employment increased from 37.9 to 64.0 million, an increase of 26.1 million jobs. In this quarter century the employment of women doubled from 16.7 to 33.4 million while the employment of men increased 28.3 percent from 40.9 to 52.5 million. During this period, the participation rate of women in the labor force rose from 33.2 percent to 45.7 percent. The employment of youth, 16-19 years, also doubled, from 3.7 to 7.4 million, but the number of youth, especially those seeking work, grew even faster, as we discussed earlier.

This overview of growth in employment should serve to demonstrate the dynamism of the American economy and the context in which we must view future growth. We have made good progress over the last 25 years, though not without problems and mistakes, and it is our task now to try and identify the requisites for our continued growth. It seems to me that this requires us to construe the term "labor market policy" in a rather broad sense. In so doing, one comes to the conclusion that policies to promote stable, long term growth should be the cornerstone of labor market policy as well as economic policy generally.

Provision of "Good" Jobs

More specifically, with respect to future labor market policy, the country has raised its sights and is interested not merely in the total number of jobs, but rather in the quality and character of these jobs. Some people are concerned that we have too many low-level jobs and not enough "good" jobs. The social and economic difficulties involved in the elimination or diminution of low-end jobs, or using them as a step to better jobs, is most complicated.

I should like to briefly outline the characteristics of a "good" job:

- good pay and benefits
- challenging and rewarding job content
- opportunities for advancement
- pleasant working conditions
- safe working conditions

EEOC will help

Although good jobs exist to one degree or another in all sectors, there are certain common characteristics of industries with such jobs that are worth noting as we seek policies to expand job opportunity.

Although the data are somewhat ambiguous on such matters I think it is fair to say that capital intensive industries tend to have higher earnings, partly due to their generally higher productivity and partly due to the skill-salary correlations that typically exist.

As an illustration, I have attached, in Table 5, some approximations that tend to demonstrate the relationship between the amount of capital employed and the average hourly earnings per worker in some broad manufacturing categories. You will notice that higher hourly wages tend to correspond to industries in which greater amounts of capital per worker prevail. While there are various ways to measure compensation and capital stock, I think the attached table illustrates an important relationship in our economy.

Furthermore, creation of jobs through investment in capital broadens opportunities, thus allowing more upward mobility in salary and skills as people are promoted and new jobs created.

In industries where new technology and capital exist, working conditions generally tend to be better than average. Even in older technologies, investment in occupational safety can help to improve working conditions.

Even in the service industries, some of the same parallels hold. Highly skilled service jobs that require training -- and which use educational capital -- also pay well or have other characteristics of good jobs. Oftentimes, these services, such as medicine and law, utilize significant amounts of public capital in the form of schools, hospitals and court systems to perform their tasks. In other, lower paying service occupations we might note that the "white collar" orientation of such jobs often raises their status and that capital, albeit in lower proportions, often plays a role in improving the quality of working conditions, often in the form of buildings or offices.

Table 5
Capital Intensity, Earnings, Employment
2-Digit SIC Manufacturing, 1971

SIC	Industry	Capital/Employee $/Empl.	Rank	Production Worker Average Earnings $/Hour	Rank	Industry Employment Thousands
29	Petroleum & Coal	87,190	1	4.57	1	190.6
28	Chemicals	36,450	2	3.94	6	1,008.2
33	Primary Metals	35,060	3	4.23	3	1,227.4
26	Paper	29,440	4	3.67	9	683.6
32	Stone, Clay & Glass	20,550	5	3.66	10	633.7
20	Food	14,160	6	3.38	14	1,758.3
30	Rubber/Plastics	14,140	7	3.40	13	580.9
21	Tobacco	12,690	8	3.15	15.5	76.3
37	Transportation Equip.	12,080	9	4.41	2	1,723.9
35	Non-Electric Machinery	11,640	10	3.99	5	1,805.3
34	Fabricated Metals	11,540	11	3.74	8	1,328.2
22	Textiles	10,840	12	2.57	20	957.0
19	Ordnance	10,560	13	3.84	7	192.1
24	Lumber	10,270	14	3.15	15.5	580.8
38	Instruments	9,410	15	3.52	11	437.0
36	Electrical Equipment	8,830	16	3.48	12	1,768.5
27	Printing	8,580	17	4.20	4	1,071.2
39	Miscellaneous	6,490	18	2.97	17	409.6
25	Furniture	5,210	19	2.90	18	458.5
31	Leather	2,530	20	2.60	19	302.4
23	Apparel	2,110	21	2.49	21	1,335.7

While there are a variety of ways to approach the problem of improving job quality, including job enrichment and improvement in mobility and opportunity, the most basic and far reaching objective for national policy in this context should be to encourage development of new technologies and the formation of new capital. The benefits of such policy extend to the economic life of all Americans in the broadest possible fashion, not the least of which is the direct creation of good jobs. Also, the increase in output and income implied by new capital formation means a higher level of living and income for all Americans, whether or not they are employed by industries involved with new capital formation and productivity gain.

Given the central role of capital formation in economic growth, it is sensible today, then, to draw directly the link between policies that have traditionally been considered peculiar to the labor market and policies that relate to the broader issues of growth and capital formation.

Research, Technology and Productivity

One important component of capital formation is research into and development of new technologies of production. Many studies have shown that research and development expenditures are correlated with growth in capital stock, productivity and profitability.

One of the important relationships defining productivity per worker is the amount of capital employed per worker. Traditionally, the U.S. has had the highest capital-to-labor ratio in the world. However, other nations have narrowed the gap significantly in the past two decades, as the rate of investment per worker added to the labor force has fallen off in the U.S. (See Table 6.)

The development of better technology often spurs new investment, and public and private research and development has been lagging of late. Encouragement of research can have important dividends in increasing the opportunities for capital investment and can add to productivity, jobs and real economic growth.

While there is little dispute that research and technological development have a positive impact on productivity and growth, the importance of simultaneous skill identification

Table 6
Gross Nonresidential Fixed Investment
Per Person Added to Civilian Labor Force

(In 1958 dollars)

Period	Amount
1956 - 1960	$49,500
1961 - 1965	55,300
1966 - 1970	46,400
1971 - 1974	41,000*

*Estimate based on incomplete data for 1974.

Source: Statement of Paul W. McCracken before the Committee on Ways and Means, January 29, 1975. Basic data from the Department of Commerce and Labor.

and training is often overlooked. In this area, cooperative effort between industry, labor and government, especially at the local level, can help to ameliorate potential problems. Without adequate development of skilled manpower to operate infusions of technology, the potential benefits of capital improvement will go unrealized.

The Dangers of a Capital Shortage

Many private economists, government officials, businessmen and others are becoming increasingly concerned over the ability of the domestic economy to provide adequate capital for necessary growth during the next decade. In addition to the direct impact on employment opportunities, job quality and production, there are serious short and long term consequences to a capital-short economy.

The U.S. economic experience of 1973 and 1974, wherein high rates of inflation followed shortages in basic industries, is indicative of the kind of short-term disruptions that a capital shortage can cause. These shortages came as a direct result of inadequate capacity to meet demand in these important areas. Industries such as paper, cement, fertilizer and certain metal products simply could not produce enough to meet demand, given the amount of capacity available to them.

While we should not be guided strictly by the various published measures of capacity that are available -- for they often misstate the real utilization rates -- it is clear, nevertheless, that relatively little need for capacity addition was perceived in 1970, yet in 1973 and 1974 we found ourselves severely capacity-short and this factor contributed to rapidly rising prices for these materials that were in short supply. There are indications today similar to those of 1970-71 as measured by ratios of capacity to output and by the prevailing high rate of unemployment along with low levels of industrial activity. We do not need statistics to tell us that the underutilization of the labor force and production base is pronounced at this point in 1975. But, one of my points today is that, because of the complexity and time involved in adding to capacity, it is not too soon to begin looking beyond the valley towards the next peak.

The capacity shortage of 1973 and 1974 also illustrated a number of other important dangers that inadequate capital can produce such as an adverse trade balance. While a number of factors, such as the ongoing worldwide economic boom of 1973-74, were important determinants of our poor trade balance, our less modern capital stock in some industries no doubt continue to play an important role in weakening our competitive position. As domestic industries find themselves at a competitive disadvantage, the prospect of fewer jobs over the longer term is raised.

Domestic shortages in one product can have serious price, production and employment effects on other sectors. Carried through to their logical conclusion, the implications for jobs during capital-short circumstances is that production interruptions may mean employment interruptions. It is important to point out that adequate capacity, even in peripherally related industries has important employment implications for each and every sector.

Areas Warranting Particular Concern

Electric utilities are central to any analysis of capital formation, domestically and throughout the world, and thus are important to long-term labor market conditions. The reason for the importance of utilities comes from the simple fact that power is necessary for running industries. The lack of adequate power means less industrial expansion

and fewer jobs in the long run. In the short run, interruption of power generation can result in job loss. We can recall that the 1973-74 energy shortage created anticipations of massive power interruptions and related severe employment effects.

A secondary reason for the importance of utilities to today's topic is that utilities are highly capital intensive. Not only does the placement of utilities create jobs in the industries that provide the machinery, equipment and services for utilities, but new utilities mean both construction jobs and new permanent jobs. Also, new utilities mean higher quality jobs and, in this context, we should note that the utility industry ranks among the top 10 industries in both average hourly earnings and in capital employed per worker.

Basic industries are another area where capital formation is critical to long-term growth in the most fundamental sense: Basic industries provide the building blocks for capital formation of any kind and, in this respect, represent a particularly critical link in the process of forming adequate productive capacity. Machines cannot be built without basic metals, nor can plants be built without cement.

With respect to the number and quality of jobs, we might point out that most basic industries, especially in the metals, are among the top ranking industries both in capital per worker and in average hourly earnings, as Table 5 points out. This is an indication of the impact on employment and job quality that investment in basic industries can have.

Financial Considerations

While the actual construction and operation of new industrial capacity is the immediate link between jobs and the capital formation process, the availability of financial capital is also important. Without adequate financing, the capacity necessary and desirable for economic growth cannot be put in place. Secretary Simon, in his May 7 testimony before the Senate Finance Committee has suggested that substantially larger funds will have to be committed during the next decade, compared to the last, in order to provide adequate financing for expected capital needs.

Inflation and Growth

Because of widespread concern for growth without "unreasonable inflation," as some have put it, I thought I should mention briefly my views on this. As you know, I have testified on numerous occasions before various subcommittees of the House and Senate on the matter, so I shall not burden you with an extensive discourse today. However, in connection with labor markets, the most far reaching policies with respect to dampening inflation are those that augment productivity, improve the collective bargaining structure and dispute settling machinery in each sector, and those that work to prevent product and skill shortages. Hence, policies to encourage capital formation and concommitant labor force development at this time are the most appropriate vehicles both for providing jobs and for promoting price stability.

Thank you for the opportunity to present my views on these important matters. I shall be pleased to answer any questions you may have.