

THE CAUSES AND CURES FOR UNEMPLOYMENT

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SECTION I

"AGGREGATE DEMAND" VS. "STRUCTURAL" UNEMPLOYMENT

Introduction

After World War II there was a great fear of large-scale unemployment, such as that prior to the war. It was for this reason that the Employment Act of 1946 was passed. The federal government promised monetary and fiscal policies which would encourage full employment. But after the war, pent-up demand in the form of consumer purchasing power and government spending for foreign aid and defense caused inflation and full employment up to the late 1940's. Before and after the Korean War, there were minor recessions, but they did not last long. Following the 1953-1954 recession, the economy had relative prosperity and price stability.

During the period 1946 to 1955 there were spells of unemployment, such as in 1949 and in 1954, but they were not severe and could not be taken seriously, considering the country's relative prosperity. The unemployment problem seemed to be severe only for those who were affected by it. In the first decade after World War II, the major problem for policy makers seemed to be "creeping inflation" and how to cope with it.

However, in 1957, conditions changed. Unemployment started up from the average of 4.2% for the 1947-1957 post-war

decade. The growth of the Gross National Product declined, and prices stabilized. In 1958 unemployment went up to 6.8%, and stayed above 5.5% until 1964.¹ Because of rising unemployment, two programs were instituted: the Temporary Unemployment Compensation Act of 1958; and the Temporary Extended Unemployment Compensation Act of 1961. These two acts were a start to help rectify the hardships of unemployment, but more basic measures were needed. This was the start of the concern over "creeping unemployment" rather than "creeping inflation."

Economists had two different explanations for the increasing rates of unemployment; one emphasized a lack of aggregate demand while the other emphasized increased structural unemployment. It should be stressed that these two forms of unemployment are not mutually exclusive. Probably, they are both responsible in varying degrees for the unemployment in the American economy during this period. In 1961, the Joint Economic Committee held hearings to determine what were the causes of the increased unemployment. These hearings stimulated debate among economists as to the cause of increased unemployment. As background information for the Joint Economic Committee hearings, James W. Knowles and Edward D. Kalacheck presented a committee staff paper arguing that a lack of aggregate demand was the

¹1969 Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1969), p. 255.