

and more nearly adequate ways of providing for medical care to persons in need.

Needed Changes

In its *Ninth Annual Report* the Social Security Board recommended a prepayment plan for medical care under a national insurance system. Under such a plan all insured workers and their dependents would be able to get needed medical services. The plan would permit families dependent on public funds to be covered also through payments made by assistance agencies on their behalf.

In the same report the Board also made recommendations about the assistance titles which would affect the provision of medical care to needy persons. These include: removal of maximums governing Federal matching in aid to dependent children and increase in the maximums for old-age assistance and aid to the blind; authorization of Federal matching of payments made directly by the assistance agency to doctors, hospitals, or other agencies that furnish medical

care to assistance recipients; special Federal aid to low-income States; and Federal grants to States to share costs of general assistance.

Many of the public and other groups directly concerned, including State legislatures, the Council of State Governments, and the American Public Welfare Association, have long urged that the existing public assistance program be strengthened and that Federal grants-in-aid be extended to general assistance. In 1938 the House of Delegates of the American Medical Association advocated "recognition of the principle that the complete medical care of the indigent is a responsibility of the community, medical and allied professions and that such care should be organized by local governmental units and supported by tax funds."² This resolution of the House of Delegates also

² Resolution adopted by the House of Delegates of the American Medical Association, Sept. 17, 1938, reported in the *Journal of the American Medical Association*, Vol. 111, No. 13 (Sept. 24, 1938), p. 1216.

recognized that "the necessity for State aid for medical care may arise in poorer communities and the Federal Government may need to provide funds when the State is unable to meet these emergencies."

The objectives for which the United Nations have been fighting for these 5 years and more and the changes impending in our social and economic life as the war economy declines now give added reason to review and revise our provision for people in need. By helping States make more nearly adequate assistance payments to all persons in need and by equalizing the financial burden among States and localities, the Board believes that the Federal Government could take important steps toward assuring at least a minimum of economic security to any needy person. By permitting greater flexibility in the administration of the medical aspects of public assistance, the Board hopes to strengthen the efforts of States to make better provision for the health of needy persons and thereby for the economic security of the Nation.

Perspectives on the Reconversion

By W. S. Woytinsky*

OUR DEMAND FOR economic projections and prognostications is due to some extent to a feeling of insecurity. As victory dawns, we are aware of three dangers: the threat of economic dislocations and unemployment during the coming reconversion; the threat of set-back, unemployment, and social conflict after demobilization; and the danger of mass unemployment and misery a few years later, after a short spell of prosperity while industry has been catching up with the demands which have accumulated during the war years.

Experience After Previous Wars

Experience after the Civil War and the First World War justifies these apprehensions.

In the summer of 1865, immediately after the end of the Civil War, the United States experienced a set-back.

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Then, after an inflationary boom, a new set-back came in 1869. It was followed by a short period of prosperity and then a deep depression which lasted until the end of the 1870's.

Similarly, the end of the First World War brought a minor set-back in the autumn of 1918 and a violent contraction of economic activity in 1920. The subsequent period was called "prosperity" by some people, and "fools' paradise" by others. In relation to the First World War, this period may be described as catching-up expansion, while the great depression of the 1930's appears as the secondary postwar depression, analogous to that of the 1870's.

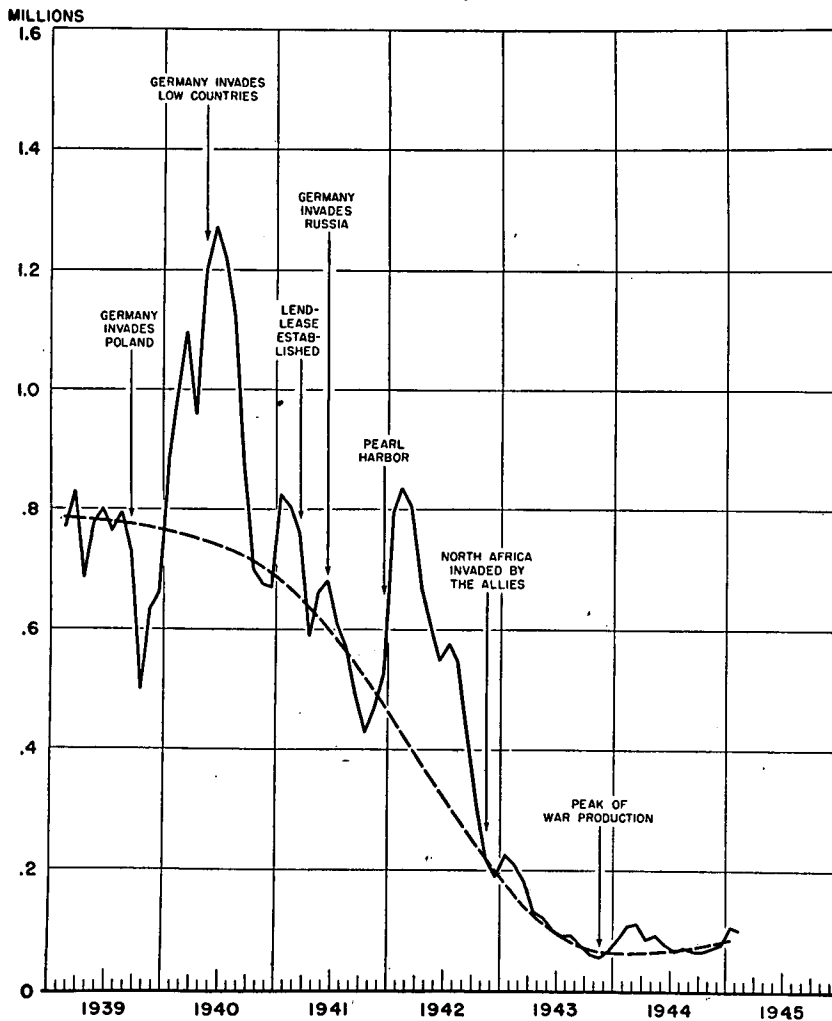
While history will not necessarily repeat itself, past experience is disturbing. Three dangerous turning points are hidden somewhere in the future, in the phases of the postwar economy analogous to the autumn of 1918, to 1920, and to the 1930's. Persons responsible for employment security are particularly eager to figure out what will happen in the

unemployment compensation system during the coming vicissitudes.

Experience in Unemployment Compensation, 1939-44

A general answer to the last question may be drawn from an examination of the average weekly number of beneficiaries under State unemployment compensation systems during the years 1939 through 1944 (chart 1). When Germany invaded Poland, the United States was recovering from the depression of the 1930's. The first manifestation of the war boom cut down the number of beneficiaries. Then, after the conquest of Poland, a lull developed in the war theater. The "phony war" in Europe caused uneasiness and a feeling of uncertainty in this country. Recovery was interrupted by a mounting tide of unemployment. The weekly number of beneficiaries was at a peak, more than 50 percent above the prewar level, when Germany opened its second offensive by invading the Low Countries. After Dunkerque and the surrender of France, when the war became a struggle for survival, this country assumed the role of the arsenal of democracy. The drop in the number of beneficiaries was due to the expansion in de-

Chart 1.—Average weekly number of beneficiaries, unemployment compensation, January 1939–February 1945



fense industries which began in the second half of 1940. By the end of that year, however, the average number of beneficiaries was still as high as it probably would have been if domestic recovery had followed its course and there had been no war in Europe. The additional cost to the unemployment compensation system for this interruption of recovery—for compensating unemployment resulting from these uncertainties—was probably some \$200 million.

The situation changed after the enactment of the lend-lease law and especially after the invasion of Russia. The lend-lease program gave us tools for preparing ourselves for our role in the world drama. Hitler's drive eastward to Ukrainian wheat and Caucasian oil gave us time to complete our preparations. After Pearl Harbor, when production of automobiles and other durable goods was stopped

in the interest of a speedy mobilization, the number of beneficiaries skyrocketed again. Its upturn reflected temporary displacement unemployment in industrial areas. At a rough approximation, the contribution of the unemployment compensation system to financing that phase of mobilization may be estimated at \$100 million.

Further development of the war economy is reflected in the gradual decline of the benefit load to the low point late in 1943, when munitions production was at its peak. The curve of beneficiaries turned up when the curve of munitions production turned down.

This experience may be summed up in two statements: The benefit and work load of the unemployment compensation system is extremely sensitive to all the events which affect the economic outlook and business conditions. It is likely to grow whenever

large-scale readjustments in production and in the distribution of the labor force take place.

It is fairly certain that during the next 2 or 3 years of reconversion we can anticipate several up and down movements of compensable unemployment similar to those in 1940 and 1942. Remembering its experience in the early phase of the war, a State may try to visualize its future work load in relation to the peak load before Dunkerque and after Pearl Harbor.

The Duration and Magnitude of Reconversion

In contrast to the Civil War and the First World War, this war is not ending suddenly. It is ending in stages; it is over in Europe but nobody knows how long it will last in Asia and the Pacific. The order to cease fire will not bring an immediate restoration of peace. The grim task of finishing the job in the Pacific and of policing the aggressor nations will make a swift demobilization impossible and will stretch reconversion over a long period of time.

In a broad sense, reconversion began in the autumn of 1943. Further steps toward economic demobilization are to be expected with the end of the war in Europe. Readjustments are likely to continue, at a slower pace, while the struggle in the Pacific approaches the climax. They will be accelerated after the military collapse of Japan. After that day, however, a year or more may elapse before all the servicemen return to their homes. If one assumes the defeat of Japan sometime in 1946, reconversion and demobilization may stretch to the end of 1947 and would last—counting from the end of 1943 when reconversion actually started—about 4 years; if the road to victory in Asia turns out to be longer, reconversion may take even longer.

What is the job to be done in this period—say by May 1948—in terms of regearing the economic forces in the Nation?

In March 1945 the United States had a labor force of approximately 64 million, including about 6.5 million war emergency workers. Of the total, 12 million were in military service, 52 million in the civilian labor force (table 1). Less than 1 million were unemployed and more than 51 million were at work: more than 40 million in peacetime jobs (including self-employment, agriculture, and civil gov-

Table 1.—High lights of the reconversion

	Number (in millions)
I. Manpower on V-E day, May 1945: ¹	
Total.....	64.0
In military service.....	12.0
Civilian labor force available, total.....	52.0
Unemployed.....	.8
Employed, total.....	51.2
Peacetime activities.....	40.2
Munitions and related industries.....	9.0
War agencies.....	2.0
II. Assumed changes, May 1945-May 1948:	
A. Increase in civilian labor supply, total.....	20.5
Cut-backs in munitions and related industries.....	9.0
Cut-backs in war agencies.....	2.0
Ex-servicemen returning to civilian occupation (net change).....	8.0
Increase in labor force from population growth.....	1.5
B. Absorption of labor displaced by demobilization of industry and the armed forces, total.....	19.0
Filling vacancies now open.....	1.0
Openings due to curtailment of hours of work.....	3.0
Withdrawal of emergency workers. New peacetime jobs:	8.0
In same establishment (without interruption of employment).....	2.5
Created through reconversion.....	7.5
C. Unemployment:	
Increase.....	1.5
Total at end of reconversion ²	2.3

¹ Based on March 1945 figures of the War Manpower Commission; no allowance for seasonal variation and other changes, March-May 1945.

² Including 800,000 out of work on V-E day.

ernment agencies); 9 million in munitions production and related industries; 2 million in civilian employment by Federal war agencies. Apart from seasonal ups and downs, this was about the situation on V-E day.

Reconversion to peacetime conditions entails lay-offs of 11 million war workers and drastic reduction of the armed forces. If 3 million men remain in military service (including some type of military training) and 1 million ex-servicemen either continue their education or are unable to return to civilian occupations, about 8 million ex-servicemen will join workers laid off by war industries. Meanwhile, an additional 1.5 million persons will be added to the labor force by reason of the normal growth of population. Thus the gross increase in the supply of labor for peacetime work, from May 1945 to May 1948, may represent some 20.5 million persons.

We do not know exactly the timing of this tide, but the general pattern of the process is fairly clear: a long and gradual flow of men and women from war service and war jobs back to peacetime occupations.

Four factors will offset this move-

ment: readjustment of hours of work; withdrawal of war emergency workers; the pending demand for labor (unfilled jobs); and the expansion of peacetime production.

The number of jobs which may be made available through reduction of hours of work may be estimated at 3 million on the basis of the following considerations:

The average workweek of factory workers has increased 20 percent, from 37½ hours in 1939 to 45 by 1943. A similar rate of increase was recorded in building construction and public service. The increase was more than 20 percent in mining but less in trade, public utilities, and service industries. No precise information is available for agriculture, although the acute shortage of farm labor suggests that the number of hours per agricultural worker has increased in at least the same proportion as in industry. In brief, it is conservative to assume that, for the Nation as a whole, the average number of hours worked weekly has increased at least 15 percent.

It is fairly probable, however, that the output per worker has risen at a lower rate, say 10 percent. Applying this rate to total civilian employment (annual average in 1944: 52 million), it is found that the increase in the number of hours of work was equivalent to recruiting more than 5 million additional workers. In peacetime industries alone the increment probably represented nearly 4 million man-years of work. These figures seem to support the conclusion that from May 1945 to May 1948 at least 3 million vacancies would be opened in peacetime industries by return to the prewar pattern in hours of work.

The extent to which emergency war workers will "evaporate" is another unknown variable. The labor force has grown with the increasing pressure of the war and the progressive induction of boys, some of whom have never had civilian jobs (chart 2). Growth was accelerated when unemployment dropped below the minimum necessary for the normal labor turnover. Special measures were necessary to bring to factories and offices millions of persons who, under peacetime conditions, would not be in the labor force. These measures will be relaxed during the reconversion and stopped when the war ends.

It is likely that school attendance will be restored to the prewar pattern

or will be further improved, in accordance with the long-range trend. Even if boys and girls who have entered gainful work prematurely during the war fail to return to school, they will cease to be emergency workers after they reach the age at which they would have taken jobs if there had been no war. This part of the surplus labor force is, therefore, self-liquidating; its elimination is simply a matter of time. Self-liquidating likewise is the employment of many service wives and of superannuated workers who have postponed their withdrawal during the war or found their way back to employment after retirement. Dwindling work opportunities may be anticipated for submarginal workers.

On the other hand, it is not unlikely that some of the married women who took work during the war will remain in the labor force. Increase in the proportion of working women is in line with the long-range trend.

All in all, assuming that the labor force now includes about 6.5 million persons who would not be available for work under normal conditions, withdrawal of 5 million individuals in the course of reconversion and demobilization—by May 1948—seems to be in the realm of probability.

The third unknown item is the number of unfilled jobs available for workers laid off by munitions factories. In attempting to estimate this item, one should take into account that some vacancies will disappear when the war boom is over. For example, the conspicuous demand for labor in retail trade and services in the centers of war industry will decline as war production is cut back. The pending demand for labor which will remain and may cushion the reconversion lay-offs is therefore estimated, very conservatively, at 1 million.

To sum up changes in the period from May 1945 to May 1948: on one side of the ledger are increases in the civilian labor force totaling some 20.5 million; on the other side, the offsetting factors—readjustment of hours of work, withdrawal of emergency workers, and unfilled jobs—which may absorb 9 million persons. The remainder 11.5 million represents the net demand for new peacetime jobs to keep unemployment at the present level. The figure will be nearer to 10 million if allowance is made for a moderate increase of temporary "frictional" unemployment.

These considerations lead to a rough estimate of the goal of industrial reconversion in terms of the number of new peacetime jobs required to ensure a reasonably high level of employment after the war. In addition to readjusting hours of work and filling the existing vacancies, the goal is to raise the number of peacetime jobs from 40 million as in March 1945 to 50 million, in round numbers. With 3 million persons who would obtain jobs through readjustment of hours of work and 1 million through filling existing vacancies, civilian employment at that time would total, under the assumptions set forth, about 54 million.

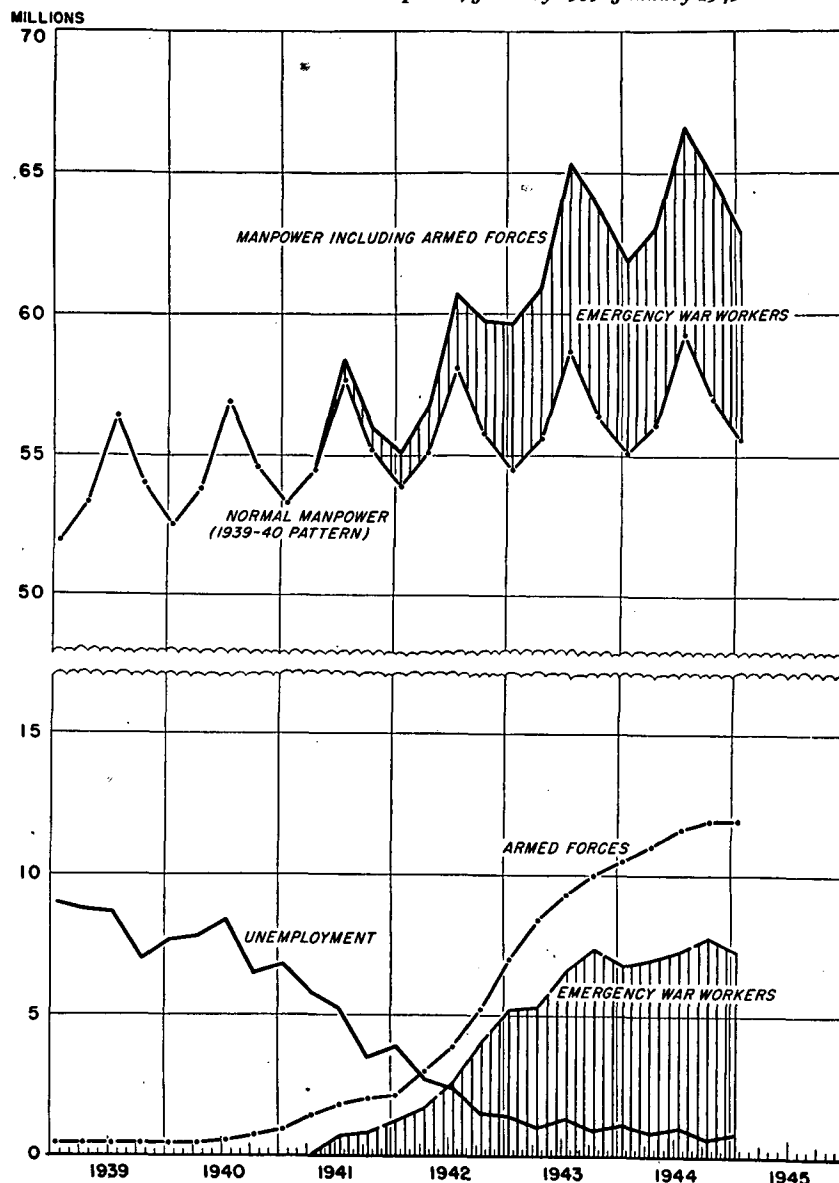
Postwar Employment

What are the chances that full employment will be attained after the war? The question may be approached through two lines of reasoning—one starting from the prewar pattern of employment, the other based on the present distribution of jobs and the possibility of expansion in various fields of economic activity.

In March 1940, our economic system had about 45 million civilian jobs. Allowing about a 9-percent increase for the growth of population, in 1948 the same pattern of employment would mean approximately 49 million jobs. The postulate of full employment—54 million peacetime jobs by what might be the end of demobilization—is, therefore, 5 million jobs more than we would have according to the prewar pattern. Taking into account how far we were from the goal of prosperity in 1940 and making allowance for the deferred demand for housing, durable consumer goods, capital goods, and public works in our postwar economy, as well as for the new possibilities of exports and investments abroad, the goal appears within reach.

To take the second approach, in March 1945 about 17 million workers were employed in manufacturing and mining, more than half of them in war production. The shift to a peacetime economy does not necessarily mean termination of 9 million jobs. Some war workers will have peacetime jobs in the same establishment, at the same lathe or bench. According to a survey made by the National Association of Manufacturers in November 1944, the peak of factory employment during the war was about 50 percent above the prewar level; the

Chart 2.—Variations in manpower, January 1939–January 1945



low point during reconversion may be somewhat above the prewar level; and postwar employment is expected to be 31 percent above it. This estimate suggests that, as a result of termination of 9 million war jobs, not 9 million but about 6 million workers will be laid off; that 3.5 million new peacetime jobs will be provided in a comparatively short time by industrial reconversion; and that all in all, after the completion of reconversion, manufacturing would employ 2.5 million fewer workers than at the peak of the war effort.

Even if one discards this estimate as too optimistic, it appears likely that of the required 10 million or so peacetime jobs (in addition to the 40.2 million available in May 1945, unfilled

vacancies, and vacancies provided by readjusting hours of work), manufactures would provide 5.5 million—2.5 million immediately in the same establishments without interruption of employment and 3 million as a result of reconversion. The number of new peacetime jobs required in other than manufacturing industries would thus be reduced to somewhat less than 4.5 million.

How these jobs might be distributed among industries is a matter of speculation. It seems, however, that by May 1948 the booming building industry might demand not less than 1.5 million workers; that about 500,000 would flow back—at least temporarily—to agriculture; that 500,000 persons may find work opportunities

for self-employment. An additional 2 million jobs might be found in trade, public utilities, transportation and communication, educational and medical services, other professional pursuits, government, service industries, and domestic service.

However, the statement that individuals released from war activities may be reabsorbed by the peacetime economy, after the completion of the reconversion, does not suggest that there would be no unemployment in the transition period.

Actually, in many cases a considerable time will elapse before a suitable peacetime job is found by a worker laid off by a munitions factory, an ex-serviceman released from a separation center, or a worker displaced from a civilian job by a man released from the armed forces. The goal of reconversion policy is to fit the reabsorption of the available labor force to the course of demobilization. It will be comparatively easy to find jobs for the first 2 or 3 million war workers, but difficulties will increase as time goes on. The final phase of demobilization will probably be the most difficult, and all the intermediate steps should serve to prepare the most favorable conditions for handling that situation.

Timing of Different Aspects of the Reconversion

Essentially, regearing the economic system from war to peacetime conditions requires a series of expansions in peacetime production and contractions in the labor force and in hours of work. The crucial question is the timing. Is it preferable to effect all possible expansion first, say in 1945 and 1946, and launch the process of contracting the labor force later, say in 1947, after the end of hostilities in the Pacific, when ex-servicemen will be returning to civilian occupations? Or to begin with the necessary curtailment of the labor force and hours of work and synchronize expansion with the final phase of the demobilization?

The first pattern is easier—in fact, in its early phase it would meet the desires of all pressure groups. The second pattern presents considerable difficulties. It implies that expansion of peacetime production in certain industries should be deliberately postponed and the shift from the war boom to a more frugal type of economy should be accelerated. On the other hand, the corollary of a reduc-

tion of hours of work in the early phase of the reconversion is a rise of wage rates which would prevent an excessive loss of purchasing power by workers and ensure stability of wage cost per unit of production. Employers have been paying premium pay for overtime work and have been using many inexperienced workers who would not meet peacetime standards of efficiency. Output has not increased in proportion to the rise in time worked and the ensuing wage bill. If the workweek is shortened and the labor force curtailed, wage rates, therefore, could be increased without increasing wage costs per unit of output. However, an increase in wage rates may be opposed by employers while curtailment of hours of work without adjustment in wages would be opposed by labor unions. It would not be easy to make both parties agree on a policy contrary to their immediate interests and current slogans.

In spite of its obvious difficulties, it should be recognized that this second pattern of reconversion would have tremendous advantages from the point of view of a smooth demobilization and general welfare. Reduction of the workweek in the early phase of reconversion would create an additional demand for labor immediately after the cut-backs in munitions industries, in those areas where such cut-backs took place. This policy would also stretch the necessary readjustments in the size of the labor force over a longer period of time. Its main advantage is that it would prevent development of mass unemployment in the crucial phase of demobilization, say in 1947, after the end of the war in the Pacific.

As long as we do not know the timing of different aspects of reconversion we are compelled to use alternative estimates of the probable volume of unemployment in its consecutive phases—one for the type of reconversion which postpones difficult decisions and leaves ex-servicemen to carry the main burden of unemployment; the other for the type of reconversion which begins with readjustment in the labor force and synchronizes industrial expansion with the high tide of demobilization.

The Coming Reconversion

The tide of unemployment which may be anticipated in the next few years is related to the economic and military demobilization rather than

to the aftermath of the war economy. It is analogous to the economic setbacks in 1865 after the Civil War and in the autumn of 1918 after World War I, not the dislocations in 1867 and 1920.

The experience of the previous wars indicates that the threat of unemployment is less serious immediately after the end of hostilities than in later phases of the postwar economy—after demobilization is completed and, still later, when the economy has caught up with postponed demands. Available information on the possible extent of lay-offs in the first 12 months after V-E day seems to indicate that the initial part of the reconversion program will be completed without large-scale unemployment. It is anticipated, in fact, that about 5.5 million workers may be laid off in this period by war factories and Federal war agencies.¹ An additional 1 to 1.5 million men may join the civilian labor force because of reduction of the Army. On the other hand, withdrawals of emergency workers may curtail the civilian labor force by 500,000 to 1 million. The total addition to the peacetime labor force in the first year after V-E day may amount to 6.5 million. On the other hand, on the basis of investigation of possibilities in various industries, it is estimated that at least 3 million new jobs will become available during this time in manufactures; 1 million in construction; 500,000 in mining, trade, and services; 100,000 in Government; 400,000 in agriculture. Since the total is 1.5 million short of the total increment in the number of individuals available for peacetime activities, unemployment would have risen, a year after V-E day, to 2.3 million, which is less than the theoretical irreducible minimum of the reserve labor force associated with the concept of "full employment."

This estimate makes no allowance for reabsorption of the labor force through readjustment of hours of work. As far as the volume of unemployment in this period is concerned, it does not make much difference whether peacetime jobs are provided by expanding production of civilian

¹ This figure includes not only the lay-offs in war industries already announced by the Office of War Mobilization and Reconversion but also allowance for further reconversion of war-production programs which the favorable development of military operations may make possible.

goods or readjusting working hours. A readjustment of hours of work—even on a regional basis—might keep unemployment below the limit of 2.3 million, even if industrial production is expanded more slowly than assumed in this estimate. Conditions in the following 12 months, however, appear less reassuring.

If, according to the previous estimates, 6.5 million workers are set free for peacetime jobs in the first year after V-E day, an additional 12.5 million individuals will appear in the labor market in the subsequent phases of reconversion, say from May 1946 to May 1948. Let us assume that between May 1946 and May 1947 the war in the Pacific will have been won and that an additional 12 months will elapse before repatriation of troops is completed. This assumption suggests two consecutive waves of influx to the peacetime labor force; say 7.5 million persons (mainly war workers) by May 1947 and 5 million (all veterans) in the following 12 months. The reabsorption of the first wave will be more difficult than the similar task during the year following V-E day. More pressure will be required for reduction of the labor force, and unemployment might rise temporarily, in this phase of reconversion, to 3 or even 4 million.

In the final phase of demobilization the progress of reabsorption may keep pace with the return of ex-servicemen to their homes if necessary readjustment of the labor force has been completed in advance and the economic system is expanding. On the other hand, considerable difficulties may develop, and unemployment may rise temporarily to 5 or even 7 million if no leeway has been left for expansion of peacetime production.

Loads of the Unemployment Compensation System

In the first 12 months after V-E day, the work load of unemployment compensation agencies, in the United States as a whole, may be about the same as in 1942, during the displacement unemployment after Pearl Harbor. Benefit payments in this period may total about \$500 million or about 50 percent of contributions collected. This ratio, however, will vary widely from State to State. Some States may have a heavier work load than in 1942 and pay out in benefits more than they collect. In other States, the

early phase of reconversion may differ little from the boom of 1943 or 1944.

The work and benefit load in the second 12 months is likely to be much heavier. Even if fewer war workers are laid off, those displaced will have greater difficulty in finding suitable jobs. A larger proportion of job terminations will result in claims for unemployment benefits. The ratio of continued to initial claims will rise. It seems fairly probable that, in the United States as a whole, benefit payments in this second phase of reconversion may exceed the peak in the summer of 1940. All in all, \$600 to \$750 million might be spent by State agencies in these 12 months, and it is probable that some States will have to dip into their reserves to cover current expenditures.

As things look now, however, it is highly unlikely that total benefit payments in the United States in the second 12 months of reconversion will approach the amount of contribution collections.

The perspectives for the third 12-month period are less clear. It is defensible to hope that the ex-servicemen returning from overseas will find the suitable jobs which have been promised to them. Serious dislocations, however, may develop in this period unless measures are taken in advance to cushion the transition.

Long-Range Perspectives

In terms of the chronology of World War I, it is not enough to avert the shock of the autumn of 1918. The real problems are: how to avoid the recession of 1920-21; how to bar the unhealthy speculation of the 1920's; and how to prevent the collapse of 1929.

The stage was set for recession in 1920-21 by runaway war inflation, which reached a new peak after the cessation of hostilities. Chart 3 illustrates the course of inflation during and after World War I, as compared with inflation during the Civil War. The chart shows indexes of wholesale prices as a percentage of those in the last prewar year—1860 for the Civil War and 1913 for War World I. It appears that we had not learned much between the two wars. Our price policy during the last war was as poor as during the Civil War—perhaps even worse.

In contrast to this experience, price stabilization during this war has been successful. Prices rose moderately

before Pearl Harbor, partly because the country was recovering from a long depression, partly under the impact of the defense program. But after the United States entered the war, the rise was kept under control. The official index of wholesale prices may be deceptive as far as finished products and quality of consumer goods are concerned, but it is fairly certain that we have avoided the runaway inflation which characterized the First World War.

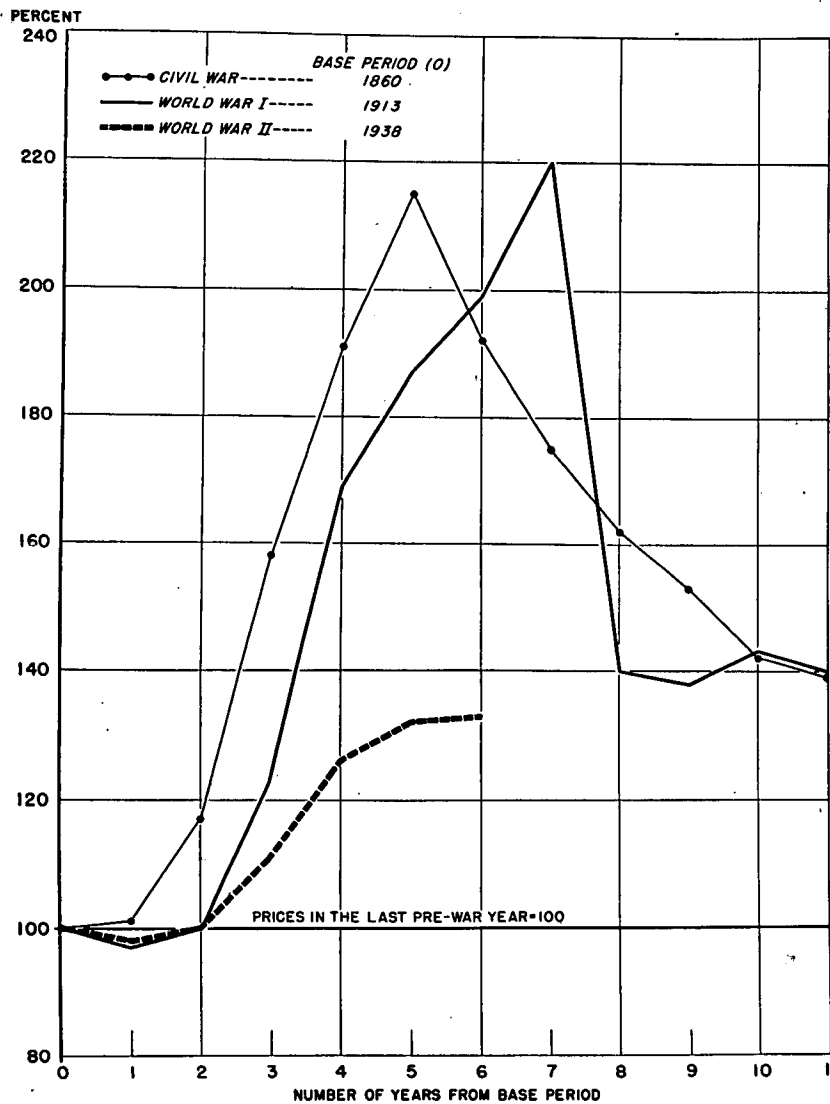
This is very important for appraisal of long-range perspectives. The collapse of 1920-21 became unavoidable after prices had been allowed to climb 120 percent above the prewar level. In this war, this fundamental dislocation has been prevented by continuing controls over prices, strategic materials, hours and wages, and the like. We may, therefore, avoid a postwar recession like that of 1920-21, related to liquidation of an inflationary economy. This statement, however, is conditioned: *If* controls are relaxed prematurely, postwar inflation might readily develop, and it is fairly probable that it would be followed by a collapse and mass unemployment. The danger is the greater this time because of the accumulation of savings during the war and the amount of money in circulation.

Without minimizing this danger, the experience of 1942-44 justifies some degree of optimism. There is no convincing reason why we should fail in controlling the postwar inflation after having achieved considerable success in controlling inflationary forces during the war.

Much more serious is the danger of an accumulation of maladjustments in a more advanced phase of the postwar economy, say after 1950. Even if we can foresee a fairly high level of economic activity and employment immediately after the war—in 1948 and the years immediately following—we cannot predict how long this spell of prosperity will last.

The war did not eliminate maladjustments in the economic system which have caused past business cycles and periodic recurring unemployment. It is logical to plan for reconversion in such a way as to increase the stability of our economic system and protect it against a new contraction. In this sense, legislative measures ensuring full employment are a necessary part of the reconversion policy. Discussion of such measures is not

Chart 3.—Variations in wholesale prices in the United States during and following three wars



within the scope of the present paper. I can only stress a few facts which favor lasting prosperity in postwar America and may help us to avoid in the 1950's the dislocations and turmoils which followed the First World War and culminated in the depression of the 1930's.

1. This time, reconversion and demobilization will be stretched over several years. The transition from war to peacetime conditions will be gradual.

2. Price inflation, which has been a major source of economic dislocation after previous wars, has been successfully avoided up to the present, and it may be hoped that it will be avoided in the period of reconversion.

3. Savings accumulated during this war not only will cushion the transi-

tion from war to peacetime economy but also will support a high level of production and consumption in the catching-up period after demobilization. If inflationary forces are kept under control, the accumulated reserves in purchasing power will not be spent in a few years but, rather, will underwrite a new improved standard of living in the Nation.

4. Likewise, the liquid reserves accumulated by business during the war will hardly be exhausted in the catching-up period. After the war they may enhance the financial security of business enterprises, increasing their independence of monopolistic influences.

5. Even if the most urgent demand for housing and durable goods is met during the short spell of the

catching-up economy, a lasting demand for improvement in living conditions will remain. Development of air transportation will require rezoning of cities. Farmers who have accumulated unprecedented wealth during the war will use it for the rebuilding and restocking of farms. Large projects of public works will be launched by the Federal and local authorities.

6. Economic dislocations after the First World War were due, to a large extent, to short-sighted policy in cancellation of war contracts and liquidation of Government-owned plants and surplus war materials. It seems likely that many of these mistakes will be avoided this time.

7. Social turmoil after the last war was kindled by the lack of public understanding of the problem of veterans. Very little was done to help servicemen in returning to civilian life. A feeling of bitterness and frustration developed in the generation which had fought to save the world for democracy. We are pledged to avoid this mistake after this war and we hope to succeed.

8. The shock of reconversion and subsequent occasional postwar setbacks will be cushioned this time by the system of social security, which did not exist after the last war.

9. The success of price stabilization during this war, as compared with the runaway inflation in the previous wars, shows that we now have more ability in handling economic questions. It may be expected that we will make use of this new skill when facing the problems of taxation, hours and wages, foreign trade, investments, and the like. Whether these problems are handled in the framework of full-employment legislation or otherwise, there is no evidence that we will repeat all the old mistakes and again find ourselves in the disastrous circumstances of the 1930's.

10. Business shows increasing willingness to recognize Government's responsibilities in the economic field, to work with the Government, and to iron out its differences with labor.

11. Organized labor shows an increasing inclination to play ball with management. The trend seems to be toward working agreement and arbitration rather than power policy and a show-down after the war.

12. The United States will emerge from this war as the most powerful

and prosperous Nation in the world, with vast interests and responsibilities abroad. It will play a leading role in the rehabilitation of countries ruined by the war and in industrialization of backward nations. Expansion of our foreign trade and investments abroad

will stimulate our production, enlarge our domestic market, open new frontiers to the industrial genius of this Nation.

Other favorable factors could be cited, but this list is enough to justify a reasonable and moderate amount

of optimism. It should not suggest, however, that lasting full employment is around the corner, whatever we do or fail to do. It suggests only that this goal is in our reach and that the struggle for durable prosperity can be won.

Experience-Rating Operations in 1944*

CONTRIBUTIONS DUE THE unemployment trust fund on 1944 wages were slightly below the amount paid on the preceding year's wages—the first such decrease in the program's history. While taxable pay rolls in employment covered by State unemployment compensation laws continued to rise, the States' experience-rating provisions reduced the average tax rate (combined employer-employee contribution) from 2.18 percent in 1943 to about 1.9 percent in 1944.¹

Of the total of \$1.2 billion payable for 1944, employer contributions amounted to about \$1.1 billion and employee contributions to \$85 million. Employees were taxed in only four States—Alabama, California, New Jersey, and Rhode Island—at an average rate of 0.9 percent.

Alabama was the only State in which employee rates varied along with employer rates, falling to an average of 0.3 percent from the State's 1.0-percent standard employee rate; in California and New Jersey all employees were taxed at a 1.0-

percent rate despite reductions in employer rates; and in Rhode Island, which has no experience-rating plan, all employees contributed at the required 0.5-percent rate.

1.2 percent. Since Pennsylvania accounted for about 9 percent of the Nation's 1944 taxable wages, this drop affected the national average significantly.

Experience rating was in effect in 42 States during 1944.² Employers in these States accounted for about 81

Table 1.—Average employer and employee contribution rates, 1941-44

Year	Average contribution rate (percent)					
	All States			Experience-rating States		
	Combined employer-employee	Employer	Employee ¹	Combined employer-employee	Employer	Employee ¹
1941.....	2.72	2.58	1.0	2.50	2.17	1.0
1942.....	2.32	2.17	1.0	2.04	1.81	1.0
1943 ¹	2.18	2.04	.9	1.97	1.77	.9
1944 ^{1,2}	1.9	1.8	.9	1.7	1.6	.9

¹ Average rates for States with employee contributions.

² Excludes effects of war-risk contribution provisions.

³ Preliminary.

For employers, the average rate for the country as a whole is estimated at 1.8 percent, compared with 2.04 percent in 1943. While rate declines were fairly general, the introduction of rate modifications in Pennsylvania and Tennessee contributed considerably to the decrease in the national average. Rate reductions were particularly sharp in Pennsylvania, where the benefit-wage-ratio type of experience-rating plan reduced the average rate from 2.7 to

percent of the country's taxable pay rolls and were taxed at an estimated average rate of 1.6 percent. Their contributions are estimated to have fallen \$569 million or 42 percent below the amount collectible at the

² For significant experience-rating provisions of State unemployment compensation laws, see the *Bulletin*, September 1944, pp. 12-13; for discussion of fund protection provisions in State unemployment compensation laws, see this *Bulletin*, pp. 35-38.

*Prepared in Program Division, Bureau of Employment Security.

This article does not take account of the additional revenue collectible on 1944 taxable wages under war-risk contribution provisions, since sufficient data are not available at this time. Ten States (Alabama, Florida, Illinois, Iowa, Maryland, Minnesota, Missouri, Ohio, Oklahoma, Wisconsin) now provide for increased or additional contributions by employers with abnormally increased wartime pay rolls. In addition to war-risk contributions, Wisconsin also requires a contribution of 0.5 percent from all employers for a special "postwar reserve" fund.

For previous years' data on the operation of experience rating, see the *Bulletin*, October 1941, pp. 25-28; June 1942, pp. 12-24; February 1943, pp. 9-21; September 1944, pp. 11-19, 48.

¹ These and following figures, unless otherwise indicated, exclude the effects of the special war-risk provisions and voluntary contributions paid by employers during 1944 in an effort to earn reduced rates for the succeeding year.

Table 2.—Effect of experience rating¹ on employer contributions in States with experience rating, 1941-44

Year	States with experience rating						All States	
	Number	Average employer contribution rate (percent)	Employer contributions (in millions)		Reduction in revenue			Reduction in revenue as percent of contributions at standard rate
			At average rate	At standard rate	Amount (in millions)	As percent of contributions at standard rate		
1941.....	17	2.17	\$220	\$274	\$54	20	5	
1942.....	34	1.81	528	797	269	34	20	
1943 ²	40	1.77	748	1,154	406	35	25	
1944 ³	42	1.6	776	1,345	569	42	35	

¹ Reflects only effect of ordinary experience-rating provisions; does not include effect of special war-risk provisions or of 0.5-percent "postwar reserve" contributions in Wisconsin.

² Includes preliminary estimate for Michigan; actual data not available.

³ Data for 1944 estimated.