

Opening Remarks

Alan Greenspan

I am pleased to open this symposium, which, once again, has brought together a group of experts and central bankers to exchange views on an important issue in the world economy. This year's topic—unemployment, what causes it, and how policy can address it—has been highlighted in various international fora over the past year, including the Organization for Economic Cooperation and Development (OECD) ministers meeting in June and the G-7 summit in July 1994. Clearly, policymakers around the world agree that the persistence of high levels of unemployment is costly and that we could raise output and living standards if more of our unemployed could be put to work. Thus, we are keenly interested in answers to the questions of what we can do to maximize sustainable employment growth and to reduce unemployment.

Those answers are likely to emerge, however, only as we develop a better understanding of the enormous complexity and dynamism of our labor markets. While any macroeconomic or aggregate measure, such as the unemployment rate, is a useful starting point for policy discussions, we must go beyond any one measure of economic slack and examine the interaction of public policies and market forces that affect the extent to which our resources are effectively employed. That is our agenda for the next two days.

The OECD study that John Martin will discuss this morning has contributed greatly to our understanding of recent aggregate unemployment statistics in terms of the characteristics of individuals that

are most vulnerable to jobless spells and underemployment. From this base, we can begin to trace how cyclical fluctuations and structural shifts in the patterns of demand across industries and occupations affect the demand for and supply of labor in our economies. We can, as well, assess the effects--either intentional or unintentional--of public policies on job creation and on the willingness to participate in the labor market.

Charles Bean raises some provocative issues in his interesting paper this morning, and I am sure that my colleague, Donald Brash, will focus on important central banking problems at lunch today. The papers by Dale Mortensen and Larry Katz for tomorrow's session should generate a quite moving discussion of intervention in the operation of labor markets. The large number of proposals and options for reducing disincentives or for providing incentives for job creation is perhaps a good measure of the complexity of the problem.

As Paul Krugman so aptly points out in his paper, even if the economic profession could speak with one voice on the sources of the problem, the choices that policymakers face in seeking to address unemployment would still be hard ones.

Krugman argues that the significant rise in structural unemployment in Europe reflects the endeavors on the part of governments to delimit the increasing degree of income inequality that market forces have recently been engendering. The latter appears to be emerging from significant increases in the application of new technologies in production. Where such market forces are allowed to play out more evidently, such as in the United States, the unemployment rate is lower and measured income inequality higher. The argument for this **tradeoff** is a persuasive one, and the discussion of this issue should be most interesting.

An important aspect of the structural change that has affected the demand for labor among the major advanced industrial countries is the extent to which the proportion of our real GDP has become increasingly conceptual as distinct from physical. A century ago the economic value added of physical brawn was much higher relative to intellectual pursuits than it is today. If ideas are becoming increasingly

valued at the margin in recent years, then more education, adjusted for supply, will tend to command an increasing premium over less education. This is seen in the rising incomes of intellectual professions relative to the average.

Larry Katz is encouraged by some of the evidence of the potential for government programs to enhance educational capabilities and hence to boost the value added of some of the disadvantaged segments of our societies. Clearly to the extent that such endeavors work, one can be hopeful, recognizing that the benefits will require some time to be realized.

Of concern to central bankers, nevertheless, is the fact that if the tradeoff that Krugman outlines is as stark as it appears, those endeavoring to address structural employment imbalances are occasionally bound to find themselves frustrated when confronted with so dissatisfying a choice. Any tendency to seek a bit of macro policy relief by pushing on the outer limits of monetary policy risks longer term financial instability. The lags of monetary policy are long and variable, and the temptation to presume that our forecast point estimates or reduced-form model simulations somehow adequately capture these risks is probably an illusion.

The job of analysts and policymakers, such as the group represented here, is to try to make the issues and tradeoffs clear to our elected representatives. For, at the end of the day, it is they who must make these very difficult choices. We, however, can play a major role by arraying the real alternatives.

I will conclude by thanking the staff of the Federal Reserve Bank of Kansas City for assembling such an excellent program. It promises a lively exchange of views, and I look forward to participating.