

Closing Remarks

George Shultz

Without trying to summarize—I wouldn't try that task—let me make a couple of comments myself. First of all, I like the premise of this conference, which I take to be that the levels of unemployment in the Organization for Economic Cooperation and Development (OECD) countries as we see them measured are too high. They are undesirably high partly because unemployment represents lost output, partly because of the impact on individual people, and partly because of the undesirable social consequences when people are unemployed for too long and they do, in fact, change. So that is fundamentally the premise. And judging from the discussion, the basic proposition advanced is that a great deal of the explanation for the undesirably high levels of unemployment lies in what's identified as a rise in the natural rate of unemployment—that is, with various things that have happened in the way the labor markets work that cause that rate to rise.

Now there has been a certain reluctance—particularly expressed this morning—to accept that completely, a feeling that maybe it's a cop-out by those who are in charge of demand management. But nevertheless, it seems to me the power of the analysis that labor market problems are responsible for this undesirable characteristic has been put forward convincingly. So the question is, what to do about it?

Here it seems to me what we have been offered is modest, and perhaps appropriately so. To use a baseball analogy, perhaps this is one of those areas where you have to say there is no home-run ball. And the way you get your runner around the bases is through singles,

stolen bases, hit batsmen, and so on. It's that kind of a game where you look for incremental changes that move you in the right direction. That is **particularly** so since we are dealing with an area where the political-economic intersection is extremely sensitive. So you have to look for things that can pass **through** a fairly small eye of a needle.

In that sense, a subsidiary part of what I announced as Assar Lindbeck's law—that users of the system are smarter about how it works than people who design and administer it—is that a lot of the people who are unemployed and that we are worrying about are smart. They understand the system they are in, and they are spending an awful lot of their time figuring out how to work the system. So we look for those incremental changes that will cause these people to change the direction of their ingenuity, to say: How can I use this system to get into another one that's better? And we have been offered a few recommendations for such changes.

To a degree, it seems to me that we can be a little optimistic—at least in the sense that the start of solving one of these problems is always recognizing that you have one. And until you recognize that you have a problem, you're really not going to face up to doing something about it. In that sense, we can feel reasonably optimistic, and we can say that it's the job of people like those who are gathered here to be looking for those things that will be helpful so that they will be ready for that political moment when perhaps they can be adopted in the various countries involved.

I would like to say a word about a little different problem. It's an unemployment problem, yet it has been hardly noticed here, only hit on very gingerly once or twice. But it seems to me that our discussion has been largely about people who, though unemployed, are nevertheless within a system. We understand the parameters of that system, so we can argue about it and work to improve it. But there is another group of people that I feel is growing in the United States—I don't know about Europe—that are not really in this system. They are in a system of crime and drugs, of no family attachments, and of gang attachments. Just because they are not in school doesn't mean they aren't smart. Sometimes they are extremely ingenious. But they are in a different pattern, a different system. They are not in the system

that we were **talking** about. And it's a real problem. They are unemployed in one sense, but they are busy as all get out in another sense. And I think that we have to address those issues because they are difficult and they are extremely important. It is a threat to society if we don't do something about people in this alternative system.

Just to make the point, I would like to mention something totally outside the scope of what we have been talking about. I had a conversation a few months ago—maybe six or eight months ago—with the then-prime minister of Algeria. (He's not prime minister anymore.) I asked him what he could tell me about the threat that I read about all the time of Islamically motivated violence as a problem both in Algeria and elsewhere. And he said: "I would have to say that the government has done such a terrible job of managing the Algerian economy that the bulk—like two-thirds—of young people in Algeria are unemployed. They don't have a job, and they don't have any prospect of having a job. So what are they doing? They are just hanging around, and it's a very explosive situation. It's not truly a religiously based situation. It is instead a situation that derives from this economic hopelessness."

Now that would be way overdramatic as a characterization of the situation in the United States, but I think there are places in the United States which are **kind** of like Algeria. So this is a different kind of unemployment problem that was only touched on here. Perhaps the closest thing to something prescriptive about it was the comment of **Jim Heckman** that there are undoubtedly big payoffs to early action at very early ages, and for efforts to get at least the very young out of the cycle that leads an undesirably large and yet still growing group of people into this other pool.