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Tighter Labor Markets?

For the seventh consecutive month, the unemployment rate in May remained in the 5.0-percent zone. Indeed, the rate's downward motion has proceeded in ratchet-like fashion ever since the beginning of the expansion in late 1970. Prior to reaching its present plateau last fall, the rate hovered around 5.5 percent for five consecutive months—and prior to that, it remained near 6.0 percent for 18 consecutive months.

Over the entire 2½-year-long expansion, the jobless rate has dropped only one percentage point, although it jumped two full percentage points in the preceding year-long recession. In contrast, real output of the national economy has grown at an annual rate of over 7 percent in the last six quarters, or about 3 percent higher than the estimated long-run full-employment growth path. The relatively small decline in the jobless rate, with its implication of sluggish labor markets, also stands out strikingly against the obvious shortages of machinery and materials now afflicting the economy. The situation thus calls for an explanation of the relatively high level of unemployment, and an analysis of other possible measures of labor-market tightness.

One obvious explanation takes into account the sharp increase in the potential supply of workers. Total employment has increased rapidly in step with the expanding econ-

omy, with 5.4 million jobs added since the recession trough. (By a small margin, women have obtained more of these new jobs than men have.) At the same time, the number of persons seeking new jobs (4.9 million) has also risen much faster than usual, keeping the jobless rolls high.

Structural reason?

A structural explanation of high jobless rates, which involves changes in labor-force composition, has gained much currency in recent years. This line of reasoning begins with adult males—the largest single group in the labor force, and also the group with the greatest skills and the greatest work experience. The decline in the unemployment rate for adult males has paralleled the drop in the rate for all workers, but at a much lower level; specifically, from 4.1 to 3.4 percent over the past year. The present low rate indicates the presence of labor bottlenecks, since experienced adult males generally cannot be replaced in the short run with workers of equal skill or experience.

The jobless rate for adult females is considerably higher than that of adult males, as it has been throughout the past decade or so. Even so, the rate for this category has dropped substantially over the past year, from 5.5 to 4.6 percent. The maintenance of a significant male-female differential reflects in part the increasingly important role which women now play in the labor

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force, with the number of women jobseekers growing in line with the number of jobs available.

The unemployment rate for teenagers has consistently been the highest of any major sector of the labor force. The rate dropped sharply between early 1972 and early 1973 but then began to rise, averaging 15.4 percent in the April-May period, or only slightly below the year-ago level. Those products of the post-World War II baby boom who entered the labor force in the late 1960s were quickly absorbed into a full-employment economy, but those who entered later were not so fortunate. When the 1969 recession hit, the teenager jobless rate jumped 5 percentage points in a single year, while the rates for adult males and females each jumped only two percentage points.

'56 vs. '72

Over the longer run, the relative importance of these three major categories has shifted markedly, thus causing a shift in the level of the aggregate unemployment rate within the past decade and a half. In 1956, the unemployment rate of 4.1 percent reflected mostly the 3.4-percent rate for the crucial adult-male category. In 1972, the aggregate rate of 5.6 percent again reflected the adult-male rate (4.0 per-

cent), but in addition, the much higher rates for the increasingly important categories of teenagers and (especially) adult women.

Over this time span, the adult-male proportion of the total labor force dropped from 64 to 56 percent, while both other categories substantially increased their representation. In fact, if the 1956 structure of the labor force were still existing today, with its stronger weighting for adult males, the unemployment rate in the first quarter of 1973 would have been about 4.4 percent instead of the actual 5.0 percent.

Older drop-outs

The shift in jobless rates over time has been caused by the differential growth patterns of different age-sex categories, but also by changes in labor-participation rates. (These rates equal the number in each category at work or seeking work, divided by the total number in each relevant population category.) Within the past quarter-century, participation rates for adult males have fallen precipitously at the older end of the age spectrum, dropping by half in the over-65 category. The basic reason has been the widespread adoption of early-retirement policies, aided by improved pensions and social-security payments.

In the case of teenagers—at least male teenagers—participation rates have also dropped because of the tendency to stay in school until later and later ages. However, this tendency has been more than offset by

the sharp rise in the total number of teenagers, leaving this group with a larger proportion of the labor force despite its reduced participation rate.

In contrast, participation rates for women of all ages have risen substantially over the years, reinforcing the impact of the sharp rise in the number of younger women. Interestingly, the sharpest rise in participation has occurred among married women with minor children. This suggests a conscious attempt by young families to attain higher living standards through dependence on double paychecks—not to mention the conscious attempt by women to seek greater fulfillment through work outside the home.

Other clues

In view of all the discussion of the weakness of the aggregate unemployment rate as a current measure of labor-market tightness, it is wise to examine other clues as well. One basic measure is the average work-week in manufacturing, along with the associated measure of overtime work. In April and May, the work-week averaged 40.9 hours and overtime averaged 4.0 hours—the highest levels since the very tight Vietnam period. Probably better than other labor-market measures, these indicators suggest that the current boom is demanding full utilization of human as well as material resources.

Another useful index is the average duration of unemployment, which is generally a lagging cyclical indi-

cator. This measure actually increased between the 1970 recession year and the 1972 expansion year, from 8.8 to 12.1 weeks, but it has dropped significantly in the last several quarters to 10.0 weeks in April-May 1973. Thus, idle time between jobs has been sharply reduced. Also, over the past year, manufacturers have increased their rate of hiring to the highest level since Vietnam war days—and have reduced their layoff rate to the lowest level since Korean war days.

Finally, another way of looking at the market is to check the number of jobs looking for people, as measured by the BLS measure of job vacancies in manufacturing and the Conference Board's help-wanted index. These measures began to rise strongly during the 1971 recovery year, and since then have really soared. Between first-quarter 1972 and first-quarter 1973, the number of help-wanted ads rose 33 percent and the number of factory job vacancies jumped 66 percent. Increases of that magnitude suggest the intensity of employers' present needs for many scarce labor skills. In sum, this and several other pieces of evidence indicate an increasing tightness in the labor market, despite the still relatively high level of the official unemployment rate.

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