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Why So Many Jobless?

The outgoing members of the Council of Economic Advisors, who are now gaining some first-hand knowledge of the plight of the unemployed, had a great deal to say about that problem in the President's Economic Report released last week. In their analysis, they provided an estimate of the "full employment" jobless rate—it's much higher now than a decade or two ago—and suggested some reasons why there are so many unemployed in today's period of fast-rising employment.

In 1976, total employment increased by 2.7 million to 87.5 million people, but this strong gain was accompanied by a sharp increase of 2.2 million in the civilian labor force. Factors contributing to the labor-force growth included an increase in the working-age population, a long-term uptrend in labor-force participation rates, a continuing inflation which forced more people to seek work to make ends meet, and an expanding economy which encouraged persons to enter or remain in the labor force. With the labor force growing almost as fast as total employment, the number of unemployed declined only moderately (0.5 million) to 7.3 million persons. Thus, reported unemployment in 1976 averaged 7.7 percent of the civilian labor force—down from 1975's 8.5-percent average figure, but still far greater than normal.

Recalculation required

In this situation, the Council de-

ecided it was necessary to recalculate the "full employment" unemployment rate—the lowest rate of unemployment attainable under the existing institutional structure that will not result in accelerating inflation. Many previous observers had used as a standard the 4.1-percent rate which prevailed in the stable full-employment year of 1956. Yet in two later years of comparable cyclical strength, 1965 and 1973, the overall rate reached 4.5 percent and 4.9 percent respectively, despite the fact that jobless rates for each of several major working groups—adults, experienced workers, and long-term unemployed—remained unchanged in all three years. The Council thus argued that the overall "full employment" rate should be 4.9 percent (or even higher) today, because of the influence of such factors as a change in the composition of the labor force.

Teenagers and young adults have increased as a proportion of the labor force from 15 to 24 percent over the past two decades, reflecting the impact of the post-war baby boom and a rise in participation rates for those groups. Such individuals, students in particular, move in and out of the labor force in search of part-time work during the school year and part- or full-time work during each summer period. These people, first-entrants and re-entrants, generally become involved in a period of job search, at which time they are counted as unemployed in the labor-force statistics. For approximately the same

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basic conditions in the labor market, the measured unemployment rate thus will be higher to the extent that new job seekers make up a larger proportion of the labor force. Indeed, unemployment rates of job losers and job leavers have differed little among demographic groups—young or old—which means that the high rate of entry and re-entry has accounted for most of the relatively higher unemployment among young people.

Women's role

Women aged 20 and over have increased as a percentage of the civilian labor force from 28 percent to more than 35 percent over the past two decades, largely because of a gain, from 36 to 47 percent, in their labor-force participation rate. This important socio-economic phenomenon reflects a number of factors: the increase of potential earnings in the labor market, later marriages, declining birth rates, more efficient home management through improved durable and non-durable products, and of course all the factors that go under the name of the women's liberation movement. Last year, in addition, women's participation rates rose because of an expansion in employment opportunities caused by the business recovery, and because of the workings of a new supplemental unemployment-assistance program which encouraged teachers and others to remain in the labor market during the summer period.

Again, the measured unemployment rate of women apparently has

risen relative to that for adult men, although recent statistics don't permit an exact comparison. The apparent shift probably reflects an increase in the labor-force participation rate of married women. Many married women leave the labor force to bear children, and then seek jobs at different intervals in subsequent years. This proportionate increase in the component of the female labor force in which turnover is highest thus tends to raise the unemployment rate for adult females relative to that of adult males.

Unemployment pay

For all demographic groups, the full-employment unemployment rate may have risen over the past two decades because of such factors as the broader coverage of unemployment compensation, which tends to raise the rate of unemployment associated with a given degree of tightness in the labor market. In the past two years, coverage has been extended to 12 million additional wage and salary workers. Moreover, the financial burden of unemployment has lessened for many families because of a rise in the percentage of families with two adult earners and because of an increase in transfer programs for low-income persons. These factors, by weakening the tie between current consumption and current earnings, may have increased the level of unemployment consistent with a fully employed economy.

For all these reasons, the Council argued that a full-employment jobless rate equivalent to the 1956 fig-

ure of 4.1 percent would now be about 4.9 percent or even higher. But the group also noted that the full-employment rate does not remain constant over time. In fact, it may actually decline in future years as the population ages and as the young come to represent a smaller proportion of the labor force. "The overall unemployment rate that represents full employment can be expected to change with time as demographic, social and economic factors affect the rate at which workers move in and out of jobs and in and out of the work force."

What type of problem?

In searching for ways to reduce unemployment, the Council noted that the solution depends on the type of problem involved. "Frictional" unemployment is no problem because it arises from the normal operation of the labor market. "Cyclical" unemployment, the result of a recession-caused imperfect utilization of productive capacity, can be reduced through broad policy measures to stimulate aggregate demand. But more specific measures are needed to reduce "structural" unemployment—to overcome the rigidities which create imbalances between the skills possessed by the jobless and those demanded in the labor market—and an actual overhaul of policy might be needed to reduce the "induced" unemployment caused by government policy itself.

Some induced unemployment is attributable to the unemployment-compensation system, despite its obvious virtues as an automatic-

stabilization device during recession periods. Yet the weak "experience rating" involved in the employer-paid payroll tax tends to increase unemployment by subsidizing seasonal and cyclical industries at the expense of more stable employers, since for many employers a reduction in layoffs doesn't lower their tax liability. More and longer layoffs also occur because employers and employees tend to view unemployment-compensation benefits as a system for providing tax-free income to workers. Also, most studies find that the recent increase in coverage and longer duration of benefits tend to increase the unemployment rate and lengthen the duration of unemployment.

Finally, young workers incur substantial unemployment—even in a full-employment market for adults—because their productivity is not high enough to merit paying them the \$2.30-an-hour Federal minimum wage (and fringes). By some estimates, every 10-percent increase in the ratio of minimum to average wage reduces teenage employment by 100,000 to 150,000. Moreover, coverage under the Federal minimum-wage legislation has risen in the past decade from 65 to 87 percent of all private non-supervisory workers. Some jobs programs permit exemptions for teenagers, but for most unskilled workers in this age bracket, future job prospects may be impaired because they are unable to obtain entry-level positions and hence gain necessary on-the-job training.

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