

12

Unemployment

Goal: This unit provides information on unemployment ranging from measurements to policy debates.

A. Defining Unemployment.

Most people in the United States believe that every person willing to work should have access to a job. But this goal has yet to be achieved. Economists refer to the **natural rate of unemployment** as the lowest rate of unemployment that a healthy and stable economy can expect to achieve, given the inevitability of some frictional, cyclical, and/or structural unemployment. Between 1945 and 1975, for the most part considered good economic years, the natural rate of unemployment ranged from four to five percent.

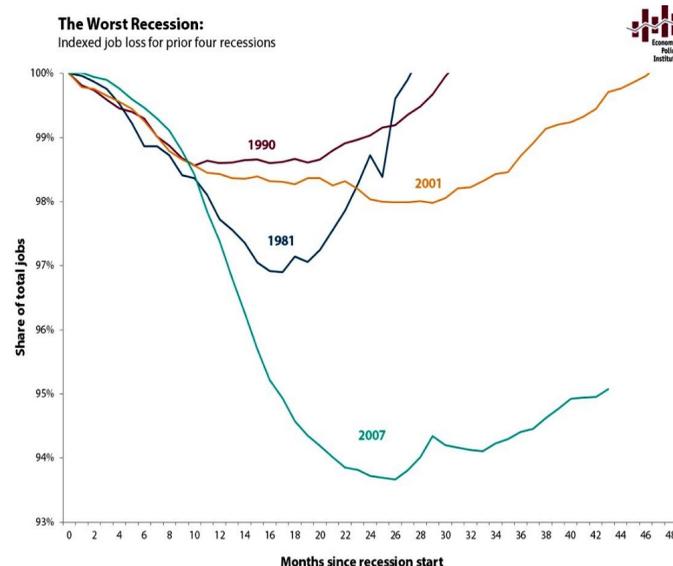


Fig 12.1 The Worst Recession¹

In the latest deep recession the economy stopped contracting in the middle of 2009. However, the hoped for economic growth did not materialize enough to create the jobs needed to keep pace with normal population growth. Nor was there enough job growth to employ the backlog of thousands of workers who lost their jobs during the economic downturn. Since then, the still high unemployment rates declined but not fast enough to absorb all those who lost their jobs during and after the recession. Economists refer to state of affairs as a “jobless recovery.”²



Fig. 12.2 No Work³

B. Types of Unemployment.

Economists distinguish between frictional, cyclical, and structural unemployment.

1. Frictional Unemployment is a temporary type of unemployment that results from normal labor market turnover such as the period of unemployment that people experience when they move between jobs.⁴ When it is based on personal decision like the choice to change a job, it is somewhat under one's control. During periods of low unemployment, much of the joblessness reflects frictional unemployment. This type of unemployment is less serious than cyclical or structural unemployment, which are largely due to factors beyond the control of individual workers.

2. Cyclical Unemployment is the temporary unemployment that results from economic downturns (i.e. recessions), which are part of the normal business cycle. It also reflects the ups and downs of the seasonal demand for goods and services that periodically reduce the need for production and therefore employed workers. Also known as “demand deficient” unemployment, this type of joblessness ends when the economy improves or a new season begins. Cyclical unemployment gets its name because it varies with the business or seasonal cycle and tends to produce rising unemployment rates. In the past, most unemployment stemmed from temporary layoffs (i.e. cyclical unemployment) after which workers would return to their jobs, or at the very least jobs within the same occupation.

3. Structural Unemployment. Economists say unemployment is “structural” when the skills of the unemployed workers are not well suited for the jobs available. Their training may be inadequate; their skills may have become outdated or may not be suited for the expanding industries. Structural unemployment also refers to unemployed workers who do not live where existing jobs are located. This is often called a mismatch between available workers and available jobs. The definition includes the loss of jobs that occurs when employers revamp their production processes, thereby eliminating the need for many of the types of workers or when economic disaster changes the need for certain workers. An example of the latter is the bursting of the housing bubble that led to the downsizing of the construction industry. The jobs lost to the slowdown in construction are not likely to return, leaving many workers in need of jobs in different industries.⁵

If the displaced workers are not qualified or cannot be quickly trained in new fields, they may remain out of work or underemployed for a long time, if not permanently. Structurally unemployed workers need more time to search for work and upgrade their skills and as a result the duration of unemployment and the accompanying hardship increases significantly. Some economists assert that more of today’s unemployment stems from structural changes in the economy.

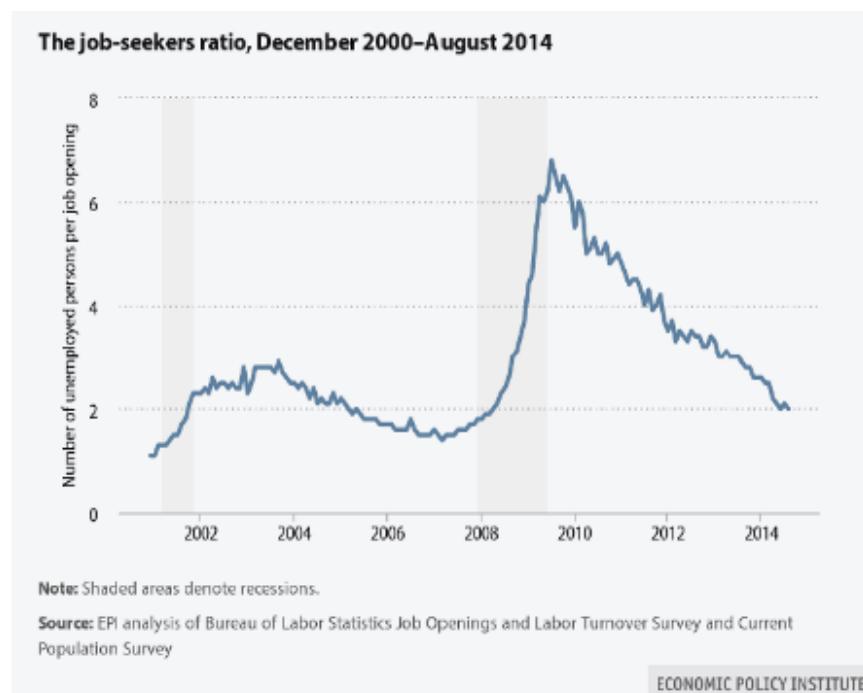


Fig 12.3 Not Enough Jobs For Too Many People ⁶

The job seekers ratio (the number of unemployed workers per every job opening)

C. Measuring Unemployment

1. The Unemployment Rate. The U.S. calculates the unemployment rate by dividing the number of people without a job by the total number of people in the labor force (i.e. employed or actively seeking work)⁷(See Labor Market unit.) The unemployment rate is further calculated for different population groups, such as youth, persons of color and women. The Department of Labor surveys of unemployment are not designed to determine the legal status of workers so that some do not capture undocumented workers.⁸

Other countries define the unemployed to be the total number of persons filing claims for or receiving Unemployment Insurance payments or the number of persons registered as available for work with a government employment office. This type of data is available in the United States, but is not used to measure total unemployment since several important groups such as self-employed workers, unpaid family workers, and workers in certain not-for-profit organizations are excluded from the calculations.⁹ Also, an unemployed person may not be eligible for unemployment insurance or may not qualify for some other reason.

2. Hidden Unemployment. The unemployment or underemployment of workers may not be reflected in official unemployment statistics because of the way these statistics are compiled. Only those who are not at work but who are actively looking for a job are counted as unemployed. Those who have given up looking, those who are working less time than they would like to work, and those who work at jobs in which their skills are underutilized are not officially counted among the unemployed. These groups constitute “hidden unemployment”.¹⁰ For example, a 2009 study found that the incidence of hidden unemployment problems was seven times higher among those in the bottom 10 percent of household income than among those in the top 10 percent. Potential workers in the lower income groups were the most likely to have either withdrawn from active labor force participation or had chosen not to enter the depressed labor market of late 2009 in search of paid work.¹¹

D. Who Benefits and Who Loses from Unemployment?

1. Who Benefits? Employers tend to benefit from unemployment because the number of people looking for work (the labor supply) is greater than the number of available jobs (the labor demand). The resulting competition for jobs allows employers to pay less, which leads to higher company profits. This is called a slack labor market. In contrast a tight labor market exists when there are more jobs available than workers seeking employment. In a tight labor market, employers lose because they have to pay more to attract workers so wages go

Latino: In October 2014, 1.7 million Latino persons were jobless. The Latino unemployment rates stood at 6.8 percent somewhat lower than in prior months. The rate seasonally unadjusted was 5.1% for men, 7.0 for women and 20.2% for youth age 16–18.¹⁷

Their rates for persons of are higher than the unemployment rate for whites. Almost 6 million white persons or 4.8 percent were unemployed in October 2014, lower than in many prior months. The rate was 4.2 percent for men, 4.6 percent for women and 16.3 percent for youth age 16–19.¹⁸ Figure 12.5 (below) illustrates sharp racial disparities in unemployment rates between 1973 and 2011.

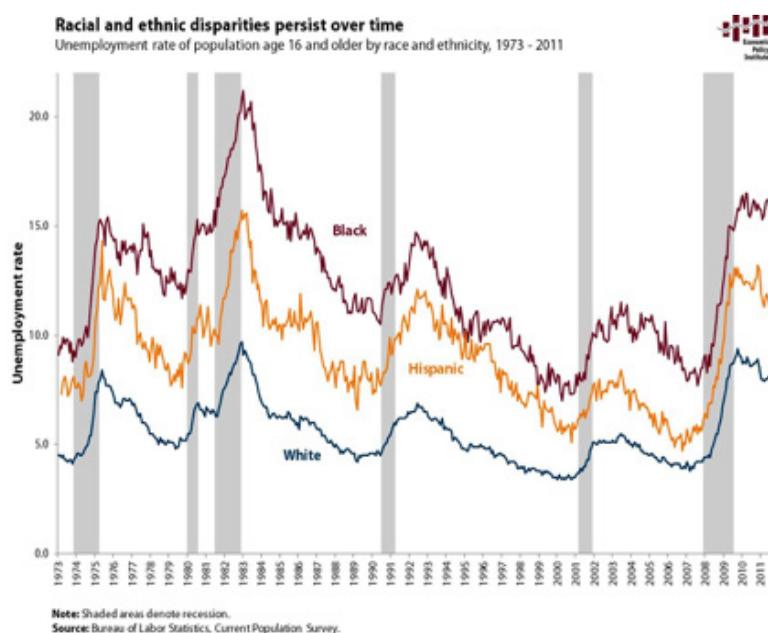


Fig. 12.5 Unemployment Rates by Race: 1973–2011¹⁹

Everyone Loses. Unemployment also hurts the economy as it wastes productive labor that could otherwise be put to good use. People who lose their jobs are forced to cut spending, which can further depress the economy as noted in the discussion of deflation. High rates of unemployment are also associated with health and social problems as well as social unrest.

E. Managing Unemployment

1. How Individuals Manage Unemployment. Unemployment is a reality in the lives of many workers. About 85 percent of experienced workers have had at least one spell of unemployment in their careers.²⁰ When individuals lose their job they may be eligible to collect Unemployment Insurance for a limited period of time while looking for a new job. Because it is both time limited and a limited wage replacement, Unemployment Insurance is not a long-term solution to the problem of unemployment. While receiving Unemployment Insurance, some people may return to school to upgrade their skills and human capital. If funds run out they dip into savings, borrow from friends or family, take out a loan, rely heavily on their credit card, participate in the underground economy, or apply for public benefits such as food stamps or public assistance. If people remain without a job for too long, their skills are eroded and they can become less employable when the economy picks up.



'Frankly if we weren't both working,
we couldn't make ends meet!'

Fig. 12.6 Work Shirker ²¹

2. How the Government Manages Unemployment. The federal government has various programs to help smooth out the hardships experienced by jobless workers and their families. These benefits enable workers to escape poverty temporarily.²² The four main types of programs are unemployment insurance, income support, job training, and job creation programs.

- **Unemployment Insurance (UI)** temporarily replaces part of lost wages, currently about one-third with an absolute weekly payment cap. Created in 1935, as part of the Social Security Act, the UI program tides eligible workers over temporarily until they find another job.²³ However, only about 38 percent of all workers qualify for unemployment insurance.²⁴ The permanent Extended Benefits (EB) program provides an additional 13 or 20 weeks of compensation to jobless workers who have exhausted their regular benefits in states where the unemployment situation has worsened dramatically.²⁵ During a deep recession — such as during the Recession of 2008 — states extended benefits to up to 99 weeks. Congress extended Unemployment Insurance again in December 2010 (after a long political battle) for 11 months. However, in 2014, Congress ended the program which had become entangled in legislative politics.

- **Income Support Programs.** When workers exhaust their UI benefits, or if they do not qualify, they may turn to other income support programs, including public assistance (Temporary Aid to Needy Families), Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) or Medicaid that pays for health care. In addition to assisting individuals and families, these programs help to sustain the economy by providing a continuing stream of dollars that families spend on goods and services. Because these and the other income support programs kick in automatically when the economy sags, economists refer to them as “automatic stabilizers.” While cash benefits are not typically regarded as a benefit to busi-

ness and industry, by increasing purchasing power (i.e. consumption of goods and services) during economic downturns, cash assistance programs can be described as helping business and industry as well as individuals and families.

- **Job Training.** The federal government operates several dozen loosely coordinated programs that assist unemployed workers with job training or job placement. Most of these programs are located in three federal departments: the Department of Labor, the Department of Education, and the Department of Health and Human Services. These programs serve one or more of the following groups: welfare recipients, other poor adults and youth, and workers who have lost their jobs due to foreign trade practices. The most recent job training program is the Workforce Investment Act (WIA) of 1998. It consolidated a number of Labor Department job training programs and created One-Stop-Centers in each state, including New York State (as well as New York City) to help job seekers negotiate their way through what could be characterized at times as a bewildering system of federal job-training programs.²⁶

RESOURCE:

JOB Loss - "LOOK @ our
Unemployment Crisis Explode!!!"

<https://www.youtube.com/watch?v=tc976f-t45g&feature=related>

"The Decline: The Geography of a
Recession: Unemployment Rates by
County", by LaToya Egwuekwe

https://www.youtube.com/watch?v=hwWGzQ_FUtQ&feature=related

- **Job Creation.** The term job creation typically refers to the use of public funds to create wage-paying jobs at public or private non-profit agencies. These temporary jobs generally range from 6 to 24 months, with most set at a year or less. They tend to pay around the minimum wage, provide less than full-time work and are designed to motivate participants to move into the regular job market as quickly as possible. The jobs are usually available only to individuals who cannot otherwise find employment in the regular job market. Participants gain work experience, marketable job skills, an employment track record, and additional income to help support themselves and their families. Communities increase their stock of job-ready individuals. The work performed by participants in job creation programs typically addresses a broad range of community needs, provide valuable services (i.e. child care/after-school programs, community support, construction, education, environmental/conservation, food service, health services, office/clerical support, public safety, and social services). These jobs also improve the quality of life for the entire community.²⁷

Special Programs for Displaced/Dislocated Workers.

A variety of employment services are available to workers who have been laid off due to plant closings or downsizing, as well as to displaced homemakers. Core services include job-search and job-placement assistance; intensive services, including career counseling, a comprehensive assessment of an individual's employability, and the development of a personal employment plan for dislocated workers who are unable to find jobs through core services. Occupational training linked to local job opportunities and supportive services, such as transportation and needs-related payments, also may be available. These services—funded by grants awarded to states on the basis of need—are intended to help dislocated workers get new jobs with benefits and to develop a more secure future.²⁸

F. Scapegoating.

History includes too many examples of individuals who scapegoat others because they're searching for an explanation as to why they lost their jobs. This phenomenon, which increases in challenging economic times, tends to become part of political debate. During election cycles, politicians sometimes decide to scapegoat groups as a way to deflect blame from themselves or their political backers (whether individual, public or corporate entities).



"I just lost my job... Don't know why, but I think it's all your fault!..."

Fig. 12.7 The Intolerable Intolerance²⁹

G. Policy Debate: Wrong Skills or Scarce Jobs?

Is the current high unemployment rate due to the mismatch of skills and jobs or the lack of jobs? What has caused the high rate of joblessness and what is the best policy solution?

- **Wrong Skills.** One narrative suggests that unemployment difficulties reside in the workers who are unemployed. That is, millions of workers are jobless because of dramatic changes in work processes that have rendered them unqualified for work due to a mismatch between their skills and/or location and available jobs.

In other words, the firms have jobs but workers either do not have the right skills or are located in the wrong place for the currently available jobs.³⁰ If high unemployment is primarily structural (due to lack of proper skills) then macroeconomic tools such as fiscal policy (spending or tax cuts) or monetary policy (lowering interest rates or increasing the monetary supply) may not address the long-term unemployment situation as the actions might not lead to jobs that can utilize the skill pool of available workers. The more effective policy strategy would be to offer education and training to the unemployed to help them make a transition to new occupations and sectors as long as the training does not outpace changing labor market demands.

- **Scarce Jobs.** Another narrative suggests that high unemployment stems from the failure of the economy to produce the number of jobs needed to employ everyone who is willing and able to work. This explanation of scarce jobs focuses on the functioning of an economic institution and blames the faltering labor market rather than the skill set of individual workers. If unemployment stems from an underlying lack of jobs, then education and training, while inherently useful, will not solve the problem until the private and the public sectors create more jobs. Instead the solution requires less exportation of jobs abroad, fewer wage subsidies for employers, more public sector job-creation programs,³¹ and consideration of a right to work where the government would guarantee a job for anyone not able to find one in the private sector.

For Discussion:

The explanations as to why people become unemployed vary widely. The range of theories became evident in recent Congressional debates about whether or not to extend emergency unemployment benefits.

RESOURCE:

THE VALUE OF EXTENDING UNEMPLOYMENT BENEFITS

<http://www.npr.org/templates/story/story.php?storyId=128696646>

Conservatives tended to oppose the extension on the grounds that people without jobs could find work if they only looked longer and harder. Liberals favored the extension, pointing to the persistently high rate of unemployment and that even in good times the economy cannot produce enough jobs for all those willing and able to work.

1. What are your views on this Emergency Unemployment Benefits debate? Explain the reason for your views, citing examples.
2. Think about your caseload or that of your coworkers. Is the agency finding that more clients are coming in with question about financial assistance? Are more clients expressing more general concerns about money and their own economic security? How does your agency address this situation?
3. Have you or a close family member experienced job loss? Where there emotional and practical implications as a result?

NOTES

UNIT TWELVE

1. Economic Policy Institute. 2011. The Worst Recession, The State of Working America. Washington, D.C.: Economic Policy Institute. Retrieved 8/9/11 from <http://www.stateofworkingamerica.org/charts/view/4>
2. Zuckerman, Morton (2013, July 15). A Jobless Recovery is a Phony Recovery. Wall Street Journal Retrieved from <http://online.wsj.com/articles/SB10001424127887323740804578601472261953366>
3. Easterly, Derek (2009, September 18) No Work. Retrieved from http://www.toonpool.com/cartoons/n%20Work_57887
4. EconModel (n.d.) Frictional Unemployment. Retrieved from <http://www.econmodel.com/classic/terms/frictionalunemployment.htm>
5. National Employment Law Project (n.d.) Research on Unemployment. Retrieved from http://www.nelp.org/site/issues/category/research_on_unemployment
6. The State of Working America (2014, October 7) Job Seekers ratio: December 2000– August 2014. The Economic Policy Institute Retrieved from: <http://stateofworkingamerica.org/charts/jobseekers-ratio-total/>
7. U.S. Department of Labor (n.d.) Bureau of Labor Statistics. Labor Force Statistics. Unemployment. Retrieved from <http://www.bls.gov/cps/lfcharacteristics.htm#unemployment>
8. Rambell, Catherine (2009) Friday's Job's Report: FAS. Economix. Retrieved from <http://economix.blogs.nytimes.com/2009/04/02/fridays-jobs-report-faq/#unemployment>
9. U.S. Department of Labor, Bureau of Labor Statistics. What are the Basic Concepts of Employment and Unemployment ? Retrieved from http://www.bls.gov/cps/cps_htgm.htm#concepts
10. Yates, Michael D. (1994) Longer Hours, Fewer Jobs: Employment and Unemployment in the United States NY: Monthly Review Press.
11. Sum, Andrew & Ishwar Khatiwada (2010) Labor Underutilization Problems of U.S.

Workers Across Household Income Groups at the End of the Great Recession: A Truly Great Depression Among the Nation's Low Income Workers Amidst Full Employment Among the Most Affluent. Retrieved from http://www.clms.neu.edu/publication/documents/Labor_Underutilization_Problems_of_U.pdf

12. Gallup Poll (2010, January) Worry, Sadness, Stress Increase With Length of Unemployment. Retrieved from http://www.gallup.com/poll/139604/Worry-Sadness-Stress-IncreaseLengthUnemployment.aspx?utm_source=alert&utm_medium=email&utm_campaign=syndication&utm_content=morelink&utm_term=Wellbeing

13. Blustein, David L (2009) Unpacking Psychological Costs of Unemployment. Psychology Today, Blogs 21 century. Retrieved from <http://www.psychologytoday.com/blog/the-21st-centuryworkforce/200912/unpacking-the-psychological-costs-unemployment>

14. Simpson, Carole (2009) Middle Class Aspirations. Retrieved from http://www.toonpool.com/cartoons/Middle%20Class%20Aspirations_47244

15. U.S. Department of Labor, Bureau of Labor Statistics (2014, Nov 7) Household Data Table A-1. Employment Status of The Civilian Population By Race, Sex, and Age Retrieved from: <http://www.bls.gov/news.release/empsit.t01.htm>

16. U.S. Department of Labor, Bureau of Labor Statistics (2014, November 7). Table A-2; Household Data. Employment Status of Civilian Population by Race Sex Age. Retrieved from: <http://www.bls.gov/news.release/empsit.t02.htm>

17. U.S. Department of Labor, Bureau of Labor Statistics (2014 November 7). Table A-3 Household Data. Employment Status of Hispanic or Latino population by sex and age.. Retrieved from : <http://www.bls.gov/news.release/empsit.t03.htm>

18. U.S. Department of Labor, Bureau of Labor Statistics (2014, November 7). Table A-2 Household Date. Employment Status Civilian Population by Race Population by Race, Sex and Age. Retrieved from http://www.bls.gov/news.release/archives/empsit_08052011.htm

19. Economic Policy Institute (n.d.) Racial and Economic Disparities Persist Over Time: Unemployment rate of population age 16 and older by race and ethnicity, 1973 – 2011. Retrieved from: <http://www.stateofworkingamerica.org/files/images/orig/racial%20and%20ethnic%20disparities.png>

20. National Employment Law Office (n.d.) Filling the Gaps in the Unemployment Safety Net. Retrieved from http://www.nelp.org/index.php/site/issues/category/Filling_the_Gaps_in_the_Unemployment_Safety_Net/

21. Easterly, Derek (2008, November 3) Work Shirker. Retrieved from http://www.toonpool.com/cartoons/WORK%20SHIRKER_27740
22. National Employment Law Office (n.d.) Filling the Gaps in the Unemployment Safety Net. Retrieved from http://www.nelp.org/index.php/site/issues/category/Filling_the_Gaps_in_the_Unemployment_Safety_Net/
23. U.S. Department of Labor (n.d.) Unemployment Insurance. Retrieved from: <http://www.dol.gov/dol/topic/unemployment-insurance/>
24. U.S. Department of Labor (n.d.) Employment and Training Administration. Financial Handbook Data, Unemployment Insurance Data Summary. Retrieved from http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum10/Data-Sum_2010_1.pdf
25. U.S. Department of Labor (n.d) Unemployment Insurance Extended Benefits. Retrieved from: <http://www.oui.doleta.gov/unemploy/extenben.asp>
27. Johnson, Clifford M. (1998, December 3) Frequently Asked Questions About Public Job Creation Programs. Center on Budget and Policy Priorities. Retrieved from <http://www.cbpp.org/cms/index.cfm?fa=archivePage&id=pjc-faq.htm>
28. U.S. Department of Labor, Employment and Training Administration (n.d.) Dislocated Workers Programs. Retrieved from: <http://www.doleta.gov/programs/factsht/pdf/dislocated.pdf>
29. Rodrigo (2009) The Intolerable Intolerance. Retrieved from http://www.toonpool.com/cartoons/The%20intolerable%20intolerance_37281
30. Mishel, Lawrence, Heidi Shierholz and Kathryn Anne Edwards (2010, September 22) Reasons for Skepticism about Structural Unemployment. Retrieved from: <http://www.epi.org/publications/entry/bp279/>
31. Allegretto Sylvia & Andrew Stettner (2009, May 6) The Severe Crisis of Job Loss and theAccompanying Surge in Long Term Unemployment. National Employment Law Project and theInstitute for Research on Labor and Employment. Retrieved from: <http://www.nelp.org/page/-/UI/LTU2009.pdf?nocdn=1>