

CHAPTER 8

UNEMPLOYMENT

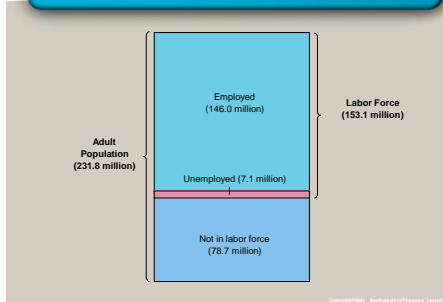
Labor Force Statistics

- Produced by Bureau of Labor Statistics (BLS), in the US Dept of Labor.
- Based on regular survey of 60,000 households.
- Based on "adult population".

Labor Force Statistics

- BLS divides population into 3 groups:
 - Employed:** paid employees, self-employed, and unpaid workers in a family business
 - Unemployed:** people not working who have looked for work during previous 4 weeks, those waiting to be recalled from which they had been laid off.
- The **labor force** is the total # of workers, including the employed and unemployed.
- Not in the labor force:** those who fit neither of the 1st two categories.

Figure 1 The Breakdown of the Population in 2007



- The *unemployment rate* is calculated as the percentage of the labor force that is unemployed.

$$\text{Unemployment rate} = \frac{\text{Number unemployed}}{\text{Labor force}} \times 100$$

- The *labor-force participation rate* is the percentage of the adult population that is in the labor force.

Labor force participation rate

$$= \frac{\text{Labor force}}{\text{Adult population}} \times 100$$

ACTIVE LEARNING 1

Calculate labor force statistics

- Compute the labor force, u-rate, adult population, and labor force participation rate using this data:

Adult population of the U.S. by group, June 2008	
# of employed	145.9 million
# of unemployed	8.5 million
Not in labor force	79.2 million

U-rate 5.5
 Labor force = 145.9+8.5
 Adult population = 145.9+8.5+79.2
 LBP rate = 66.1%

Labor Market Statistics for Different Groups

- The BLS publishes these statistics for demographic groups within the population.
- These data reveal widely different labor market experiences for different groups.

Labor Market Statistics for Whites& Blacks, June 2008

Adults (20yrs & older)		
	U-rate	LF part.rate
White, male	4.5%	76.1%
White, female	4.2	60.4
Black, male	9.3	71.5
Black, female	7.4	64.3

(Source: U.S. Current Population Survey, Bureau of Labor Statistics)

Labor Market Statistics by Education Level, June 2008

Adults (25 yrs & older)		
	U-rate	LF part.rate
Less than h.s	8.7%	45.9%
h.s diploma	5.1	62.8
Some college or assoc degree	4.2	71.9
Bachelor's degree or more	2.3	78.1

(Source: U.S. Current Population Survey, Bureau of Labor Statistics)

Labor Market Statistics for races, 2016

Adults (20yrs & older)		
	U- rate	LF part.rate
White	4.9	62.9
Black or African American	4.3	61.6
Asian	8.4	63.2
American Indian and Alaska Native	3.6	61.1
Native Hawaiian and Other Pacific Islander	8.9	68.7
Two or More Races	4.4	65
Hispanic or Latino	7.5	65.8

(Source: U.S. Current Population Survey, Bureau of Labor Statistics)

Labor Market Statistics by Education Level, 2016

Adults (25 yrs & older)		
	U-rate	LF part.rate
Less than h.s	7.4%	49.7%
h.s diploma	5.2	59.7
Some college or assoc degree	4.4	65.5
Bachelor's degree or more	2.5	74.7

(Source: U.S. Current Population Survey, Bureau of Labor Statistics)

ACTIVE LEARNING 2

Limitations of the u-rate

- In each of the following, what happens to the u-rate? Does the u-rate give an accurate impression of what's happening in the labor market?
- A. Sue lost her job and begins looking for a new one
- B. Jon, a steelworker who has been out of work since his mill closed last year, becomes discouraged and gives up looking for work.

ACTIVE LEARNING 2

Limitations of the u-rate

- C. Sam, the sole earner in his family of 5, just lost his \$80,000 job as a research scientist. Immediately, he takes a part-time job at McDonald's until he can find another job in his field.

What Does the U-Rate Really Measure?

- The u-rate is not a perfect indicator of joblessness or the health of the labor market:
 - It excludes discouraged workers.
 - It does not distinguish between full-time and part-time work, or people working part time because full-time jobs not available.
 - Some people misreport their status in the BLS survey.
- Despite these issues, the u-rate is still a very useful barometer of the labor market & economy.

Cyclical Unemployment vs. the Natural Rate

- There's always some unemployment, though the u-rate fluctuates from year to year.
- **Natural rate of unemployment:** the normal rate of unemployment around which the actual unemployment rate fluctuates.

Cyclical Unemployment vs. the Natural Rate

- **Cyclical unemployment**
 - the deviation of unemployment from its natural rate
 - associated with business cycles.

Explaining the Natural Rate: An Overview

- Even when the economy is doing well, there is always some unemployment, including:
 - **Frictional unemployment**
 - occur when workers spend time searching for the jobs that best suit their tastes and skills.
 - **Structural unemployment**
 - occurs when the number of jobs available in some labor markets is insufficient to provide a job for everyone who wants one.

Job Search

- Workers have different tastes & skills and jobs have different requirements.
- **Job search** is the process of matching workers with appropriate jobs.
- **Sectoral shifts** are changes in the composition of demand across industries or regions of the country.
- Such shifts displace some workers, who must search for new jobs appropriate for their skills & tastes.

Public Policy and Job Search

- **Govt employment agencies** provide information about job vacancies to speed up the matching of workers with jobs.
- **Public training programs** aim to equip workers displaced from declining industries with the skills needed in growing industries

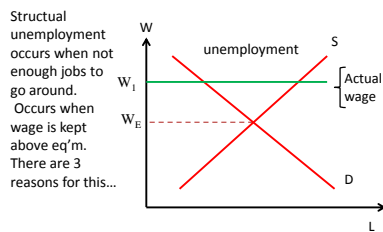
Unemployment Insurance

- **Unemployment insurance** (UI): a govt program that partially protects workers' incomes when they become unemployed
- UI increases frictional unemployment.
 - UI benefits end when a worker takes a job, so workers have less incentive to search or take jobs while eligible to receive benefits.

Unemployment Insurance

- **Benefits of UI:**
 - Reduces uncertainty over incomes
 - Gives the unemployed more time to search, resulting in better job matches and thus higher productivity.

Explaining Structural Unemployment



Minimum – Wage laws

- The min. wage may exceed the eq'm wage for the least skilled or experienced workers, causing structural unemployment.

Unions

- **Union:** a worker association that bargains with employers over wages, benefits, and working conditions.
- Unions exert their market power to negotiate higher wages for workers.

Unions

- When unions raise the wage above eq'm, quantity of labor demanded falls and unemployment results.
- "insiders" – workers who remain employed, they are better off
- Outsiders" – workers who lose their jobs, they are worse off

Unions

- Are unions good or bad? Economists disagree
 - **Critics:**
Unions are cartels. They raise wages above eq'm, which causes unemployment and/or depresses wages in non-union labor markets.
 - **Advocates:**
Unions counter the market power of large firms, make firms more responsive to workers' concerns

Efficiency Wages

- The theory of **efficiency wages**: Firms voluntarily pay above-equilibrium wages to boost worker productivity.
- Different versions of efficiency wage theory suggest different reasons why firms pay high wages.

Efficiency Wages

- 4 reasons why firms might pay efficiency wages:
 - 1. Worker health**
Paying higher wages allows workers to eat better, makes them healthier, more productive.
 - 2. Worker turnover**
Hiring & training new workers is costly. Paying high wages gives workers more incentive to stay, reduces turnover.

Efficiency Wages

- 3. Worker quality**
Offering higher wages attracts better job applicants, increases quality of the firm's workforce.

Efficiency Wages

4. Worker effort

- Workers can work hard or shirk. Shirkers are fired if caught. Is being fired a good deterrent?
- Depends on how hard it is to find another job. If market wage is above eq'm wage, there aren't enough jobs to go around => workers have more incentive to work not shirk.

Summary

- The unemployment rate is the percentage of those who would like to work but do not have jobs.
- Unemployment and labor force participation is the normal rate of unemployment around which the actual rate fluctuates. Cyclical unemployment is the deviation of unemployment from its natural rate and is connected to short term economic fluctuations.

Summary

- The natural rate includes frictional unemployment and structural unemployment.
- Frictional unemployment occurs when workers take time to search for the right jobs

Summary

- Structural unemployment occurs when above equilibrium wages result in a surplus of labor.
- 3 reasons for above-equilibrium wages include minimum wage laws, unions, and efficiency wages
