The original documents are located in Box 18, folder "Unemployment" of the Robert T. Hartmann Files at the Gerald R. Ford Presidential Library.

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BEHIND THE AGGREGATE UNEMPLOYMENT RATE --

The Importance of Structure

It is important to recognize that the aggregate unemployment measure reflects not merely general developments in the society and economy, but also separate developments in individual groups and regions. In this regard, the structure of unemployment is more informative and useful for private and public policies than any single aggregate number. Moreover, the structure of unemployment tends to change over the course of cyclical economic activity as well as over the longer term of a decade or two.

In dealing with this subject, this memorandum is divided in three parts. The first presents an overview of cyclical and trend effects for demographic and geographical groupings. The second suggests the effect of selected policies on unemployment at the disaggregated level and points out that specific policies may be focused upon particular groups. The third part emphasizes the magnitude of flows in and out of the labor force.

I. Demographic and Geographic Changes in the Structure of Unemployment

Demographic Changes

Table 1 presents data on unemployment for various age, race and sex groups for selected years beginning in 1958 and ending with the seasonally adjusted figures for February 1975. (Many other cohorts or groupings could be selected.) The particular years chosen provide a perspective on the experience of past recessions and allow an analysis of longer-run structural trends.

The pattern of unemployment by demographic group is quite mixed. Adult males have experienced a lower unemployment rate in this recession relative to the entire population. Part of this change is due to a decline in the labor force participation

of those adult males whose unemployment rates have been among the highest. Adult female unemployment has risen relatively in this recession, especially among white women, whose labor force participation has increased appreciably over the years. (The participation rate of white women increased from 35.5 to 44.4 percent in the period 1958 to 1974. There was virtually no increase among women of other races.) Teenage unemployment, especially among blacks, has jumped rapidly.

Geographical Distribution

Table 2 lists some statistics on the distribution of unemployment across the 9 major regions defined by the Bureau of the Census. Column three indicates the coefficient of variation, a measure of the relative dispersion of unemployment; higher values of this statistic indicate greater dispersion. Historically, regional dispersion decreases during recession, and it is likely that data for 1975, when they become available, will show less dispersion than in 1973. Although a cyclical decline in dispersion is expected, there has also been a trend toward increased regional dispersion of unemployment over the last 15 years. A comparison of 1963 and 1973, two years when average unemployment rates were roughly equal, shows much greater dispersion in the latter year. Regions with high unemployment, especially New England, the Mid-Atlantic states and the Pacific Northwest, have borne an increasing share of the nation's unemployment since the early 1960's.

Thus, more attention properly could be focused on the structure of unemployment with a brief table identifying key groups or cohorts accompanying discussions of the aggregate level of unemployment. Table 3 is illustrative for February 1975 (seasonally adjusted) with comparisons made for earlier years.

II. The Effect of Some General Policies on the Structure of Unemployment

How can a disaggregated approach to the unemployment problem contribute to economic policy? The models used by

economic forecasters are capable of producing estimates of the likely impact of various tax and expenditure policies on the aggregate unemployment rate. Similarly, they can tell us what effect any particular monetary policy change may have on aggregate behavior. However, they do not ordinarily tell us how these changes will affect the various demographic groups and local labor forces that make up the total civilian labor force.

Personal Income Tax Reduction

As an example, consider a cut in personal income taxes of $10 billion. The best estimates suggest that this would create 600,000 new jobs within one year after its enactment; it means that the total unemployment rate would be lowered by 0.7 percentage points from what it otherwise would have been. Nevertheless, the forecast tells us nothing about the groups or regions that would benefit particularly from the job creation.

A tax reduction in one form may stimulate relatively more consumer durables and housing while in another form the influence may be greater on non-durables. Each of these patterns may influence employment differently in various occupations, industries and regions of the country.

Public Service Employment

Job creation through expanded public service employment is another general policy whose direct effects on aggregate unemployment can be predicted by general models. Each $1 billion of additional spending on public service employment is estimated to fund slightly over 100,000 jobs. Moreover, a program that shares revenue nearly evenly among the many state and local government units would affect unemployment rates across regions more or less uniformly. Changes in unemployment by occupation and age-race-sex groups would not be so even, however.

Experience under the Emergency Employment Act of 1971 shows that the public service jobs created were filled disproportionately by more educated members of the unemployed

population. Public Service Employment is also likely to have a greater effect on adult unemployment than on the unemployment of youths. Moreover, to the extent public service employment is used to recall public employees recently laid off, it offsets favorable effects on other industries. Table 4 shows that public employees currently have the lowest unemployment rate of any major industrial group; additional spending on public service employment would to this extent tend to reduce unemployment in an industry where it is already relatively low.

Investment Tax Credit Increase

Increasing the investment tax credit is another general economic stimulus that will lower the aggregate unemployment rate. Here too, the direct effects will focus on certain industries, localities and age-race-sex groups. Employment in capital goods industries, directly increased by this policy, is centered among adult males and in the North Central and Mid-Atlantic regions. The direct effects of the increase in capital goods spending generated by the higher investment tax credit will not aid those workers, teenagers and some adult women, whose employment is concentrated more in the service industries than in the goods producing industries. Their employment will eventually benefit from the multiplier effects of spending generated by this policy, but with a substantial lag.

Summary

As these three examples show, general macroeconomic measures have different effects on unemployment by region, demographic group and industry, and these effects vary further with the specific policy followed. There is no question that all the policies discussed can reduce the total unemployment rate, but attention needs to be directed to their impacts on the structure of unemployment as well.

Further, in some instances it may be appropriate to direct particular economic or social policies to particular groups of the unemployed. Thus, the problems of youth unemployment may be approached by special summer youth programs or by more long-term measures designed to improve the transition between school and work. The unemployment problems of this group may be as much a function of the educational system as the labor market.

III Flows in the Labor Force

Table 5 presents recent data in which the non-institutional population is subdivided into its component parts: the armed forces, the civilian employed and unemployed (the civilian labor force), and those outside the labor force. The Table shows that changes in employment and unemployment need not be made up of equal and opposite movements. Thus, comparing October 1973 to the average of 1974, unemployment rose by 1,313,000 while employment stayed essentially unchanged.

The third row from the bottom in Table 5 shows the net changes in the components of the population by employment status. These net changes represent only a tiny fraction of each component, and result from gross flows of people into and out of the labor force, between employment and unemployment. The last two rows present some estimates of the magnitude of these flows. (Because the flow data are not calculated on a regular basis, these are only estimates, but they do reflect the size of current flows that would have occurred in a typical one-month period, based on the average experience between 1967 and 1972.) The net change in the labor force between January and February was a decrease of 236,000; an estimated 4,673,000 people left the labor force, while 4,437,000 entered. Table 5 shows that substantial numbers of people enter or leave the labor force each month, even though only a small net change in the size of the labor force results.

TABLE 1

Civilian Unemployment Rates, Total and by Age, Race and Sex

		White			Negro and Other Races		
Year	ALL	Men20+	Women20+	Teenagers	Men20+	Women20+	Teenagers
1958	6.8	5.5	5.6	14.4	12.7	9.5	27.4
1961	6.7	5.1	5.7	15.3	11.7	10.6	27.7
1965	4.5	2.9	4.0	13.4	6.0	7.5	26.5
1969	3.5	1.9	3.4	10.7	3.7	5.8	24.1
1972	5.6	3.6	4.9	14.2	6.8	8.8	33.5
1973	4.9	2.9	4.3	12.6	5.7	8.2	30.2
1974	5.6	3.5	5.0	14.0	6.8	8.4	32.9
1975	8.2	5.6	7.6	17.5	11.1	10.9	36.7
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Source: Bureau of Labor Statistics

TABLE 2

Dispersion of Unemployment Across 9 Regions of the United States, 1961-1973

Year	Mean Unemployment Rate (1)	Standard deviation of Employment rates (2)	Coefficient of variation (1)-(2)
1961 ...	6.34	.981	.155
1962 ...	5.33	.894	.168
1963 ...	5.64	.872	.154
1964 ...	5.21	.769	.148
1965 ...	4.65	1.015	.218
1966 ...	3.89	.831	.214
1967 ...	3.89	.953	.245
1968 ...	3.64	.823	.226
1969 ...	3.54	.772	.218
1970 ...	5.00	1.065	.213
1971 ...	5.88	1.341	.228
1972 ...	5.53	1.192	.215
1973 ...	4.93	1.041	.211

Source: Monthly Labor Review, March 1975, p. 5.

TABLE 3

Civilian Unemployment Rates

	1958	'61	'65	'69	'72	'73	'74	Oct. 1973	Feb. 1975
Aggregate Unemployment Rate	6.8	6.7	4.5	3.5	5.6	4.9	5.6	4.6	8.2
Adult Men 20+	6.2	5.7	3.2	2.1	4.0	3.2	3.8	3.0	6.2
Adult Women 20+	6.1	6.3	4.5	3.7	5.4	4.8	5.5	4.5	8.1
Teenagers	15.9	16.8	14.8	12.2	16.2	14.5	16.0	14.1	19.9
Household Heads	NC	NC	2.8	1.8	3.3	2.9	3.3	2.7	5.4
Full Time Workers	NC	NC	4.2	3.1	5.1	4.3	5.1	4.1	7.5
White Workers	6.1	6.0	4.1	3.1	5.0	4.3	5.0	4.1	7.4
Black Workers	12.6	12.4	8.1	6.4	10.0	8.9	9.9	8.4	13.5
Average Duration in Weeks	13.9	15.6	11.8	7.9	12.0	10.0	9.7	10.1	11.7
Insured Unemployment Rate	6.4	5.6	3.0	2.1	3.5	2.7	3.6	2.7	5.9

NC denotes that the series was not collected in that year.

TABLE 4

Unemployment Rates by Industry

Industry / Year	Mining	Construction	Manufacturing	Transportation and Public Utilities	Wholesale and Retail Trade	Finance and Services	Government
1958	11.0	15.3	9.3	6.1	6.8	5.1	2.5
1961	11.1	15.7	7.8	5.3	7.3	5.5	2.5
1965	5.4	10.1	4.0	2.9	5.0	4.1	1.9
1969	2.9	6.0	3.3	2.2	4.1	3.2	1.9
1972	3.2	10.3	5.6	3.5	6.4	4.8	2.9
1973	2.9	8.8	4.3	3.0	5.6	4.3	2.7
1974	2.9	10.6	5.7	3.2	6.4	4.6	3.0
1975	4.8	15.9	11.0	5.2	8.0	6.5	3.6

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Source: Bureau of Labor Statistics

TABLE 5

Labor Force Components (in thousands)

	Non-Institutional Population (16 years and over)	= Armed Forces	+ Employed	+ Unemployed (Civilian Labor Force)	+ Outside Labor Force
Oct. 1973	149,000	= 2,289	+ 85,994	+ 3,763 (4.6%)[a]	+ 56,955
1974	150,827	= 2,228	+ 85,936	+ 5,076 (5.6%)	+ 57,587
Jan. 1975	152,230	= 2,193	+ 82,969	+ 8,180 (8.2%)	+ 58,888
Feb. 1975	152,445	= 2,199	+ 82,604	+ 8,309 (8.2%)	+ 59,333
Net change (Jan. to Feb.)	215	= - 6	- 365	+ 129	+ 445
Gross flows (Jan. to Feb.)[b]					
Into labor force				+4,437	
Out of labor force				-4,673	

a. All unemployment rates are seasonally adjusted.

b. Estimated from R. Smith, "The Discouraged Worker in a Full Employment Economy," Urban Institute Working Paper 350-62; and Bureau of Labor Statistics, various publications.