This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Financial Adjustments to Unemployment

Volume Author/Editor: Klein, Philip A.

Volume Publisher: UMI

Volume ISBN: 0-87014-407-3

Volume URL: http://www.nber.org/books/klei65-1

Publication Date: 1965

Chapter Title: Front matter,FINANCIAL ADJUSTMENTS TO UNEMPLOYM

Chapter Author: Philip A. Klein

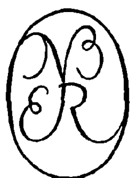
Chapter URL: http://www.nber.org/chapters/c1648

Chapter pages in book: (p. -12 - 0)

PHILIP A. KLEIN
THE PENNSYLVANIA STATE UNIVERSITY

FINANCIAL ADJUSTMENTS TO UNEMPLOYMENT

OCCASIONAL PAPER 93



NATIONAL BUREAU OF ECONOMIC RESEARCH
NEW YORK 1965

Distributed by COLUMBIA UNIVERSITY PRESS
LONDON AND NEW YORK

Copyright © 1965 by
National Bureau of Economic Research, Inc.
261 Madison Avenue, New York 16, N.Y.
All Rights Reserved
Library of Congress Catalog Card Number: 65-11220
Price $2.50
Printed in the United States of America

RELATION OF THE DIRECTORS TO THE WORK AND PUBLICATIONS OF THE NATIONAL BUREAU OF ECONOMIC RESEARCH

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.
2. To this end the Board of Directors shall appoint one or more Directors of Research.
3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption. all specific proposals concerning researches to be instituted.
4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions, and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau.
5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent to him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.
6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.
7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

(Resolution adopted October 25, 1926,
as revised February 6, 1933, and February 24, 1941)

NATIONAL BUREAU OF ECONOMIC RESEARCH

1965

OFFICERS

Frank W. Fetter, *Chairman*
Arthur F. Burns, *President*
Theodore O. Yntema, *Vice President*
Donald B. Woodward, *Treasurer*
Solomon Fabricant, *Director of Research*
Geoffrey H. Moore, *Associate Director of Research*
Hal B. Lary, *Associate Director of Research*
William J. Carson, *Executive Director*

DIRECTORS AT LARGE

Robert B. Anderson, *New York City*
Wallace J. Campbell, *Nationwide Insurance*
Erwin D. Canham, *Christian Science Monitor*
Solomon Fabricant, *New York University*
Marion B. Folsom, *Eastman Kodak Company*
Crawford H. Greenewalt, *E. I. du Pont de Nemours & Company*
Gabriel Hauge, *Manufacturers Hanover Trust Company*
A. J. Hayes, *International Association of Machinists*
Walter W. Heller, *University of Minnesota*
Albert J. Hettinger, Jr., *Lazard Frères and Company*
Nicholas Kelley, *Kelley Drye Newhall Maginnes & Warren*
H. W. Laidler, *League for Industrial Democracy*
Geoffrey H. Moore, *National Bureau of Economic Research*
Charles G. Mortimer, *General Foods Corporation*
J. Wilson Newman, *Dun & Bradstreet, Inc.*
George B. Roberts, *Larchmont, New York*
Harry Scherman, *Book-of-the-Month Club*
Boris Shishkin, *American Federation of Labor and Congress of Industrial Organizations*
George Soule, *South Kent, Connecticut*
Gus Tyler, *International Ladies' Garment Workers' Union*
Joseph H. Willits, *Langhorne, Pennsylvania*
Donald B. Woodward, *A. W. Jones and Company*

DIRECTORS BY UNIVERSITY APPOINTMENT

V. W. Bladen, *Toronto*
Francis M. Boddy, *Minnesota*
Arthur F. Burns, *Columbia*
Lester V. Chandler, *Princeton*
Melvin G. de Chazeau, *Cornell*
Frank W. Fetter, *Northwestern*
R. A. Gordon, *California*
Harold M. Groves, *Wisconsin*
Gottfried Haberler, *Harvard*
Maurice W. Lee, *North Carolina*
Lloyd G. Reynolds, *Yale*
Paul A. Samuelson, *Massachusetts Institute of Technology*
Theodore W. Schultz, *Chicago*
Willis J. Winn, *Pennsylvania*

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Percival F. Brundage, *American Institute of Certified Public Accountants*
Nathaniel Goldfinger, *American Federation of Labor and Congress of Industrial Organizations*
Harold G. Halcrow, *American Farm Economic Association*
Murray Shields, *American Management Association*
Willard L. Thorp, *American Economic Association*
W. Allen Wallis, *American Statistical Association*
Harold F. Williamson, *Economic History Association*
Theodore O. Yntema, *Committee for Economic Development*

DIRECTORS EMERITI

Shepard Morgan, *Norfolk, Connecticut*
N. I. Stone, *New York City*
Jacob Viner, *Princeton, New Jersey*

RESEARCH STAFF

Moses Abramovitz
Gary S. Becker
William H. Brown, Jr.
Gerhard Bry
Arthur F. Burns
Phillip Cagan
Frank G. Dickinson
James S. Earley
Richard A. Easterlin
Solomon Fabricant
Albert Fishlow
Milton Friedman
Victor R. Fuchs
H. G. Georgiadis
Raymond W. Goldsmith
Jack M. Guttentag
Challis A. Hall, Jr.
Daniel M. Holland
Thor Hultgren
F. Thomas Juster
C. Harry Kahn
John W. Kendrick
Irving B. Kravis
Hal B. Lary
Robert E. Lipsey
Ruth P. Mack
Jacob Mincer
Ilse Mintz
Geoffrey H. Moore
Roger F. Murray
Ralph L. Nelson
G. Warren Nutter
Richard T. Selden
Lawrence H. Seltzer
Robert P. Shay
George J. Stigler
Norman B. Ture
Herbert B. Woolley
Victor Zarnowitz

CONTENTS

Acknowledgments ix

Foreword, by Robert P. Shay xi

Introduction and Summary of Findings 1
- Characteristics of the Sample 1
- Summary of Findings 2
  - Adjustments in the Aggregate 2
  - Relative Importance of Specific Types of Adjustment 5
  - Some Implications of the Findings 6

I. Characteristics of the Sample and Data 8
- Representativeness of the Sample 9

II. Aggregate Adjustments to Unemployment 13
- Empirical Estimates 15
- Limitations of Estimates 19
- Analysis of Aggregate Adjustments 20
- Impact of Duration of Unemployment 22
- Debt and Asset Adjustments 24

III. Specific Adjustments to Unemployment 29
- Relative Importance of Adjustive Techniques Measured by Frequency of Use 30
- Relative Importance of Adjustment Techniques Measured by Dollar Volume 33
- Effect of Duration of Unemployment on the Specific Pattern of Financial Adjustment 37

IV. Factors Affecting the Adjustments to Unemployment 42
- Presence or Absence of Liquid Assets at Beginning of Survey Year 42
  - Size of Assets 44

Influence of Prior Debt and Duration of Unemployment on the Role of Liquid Assets 46
Presence or Absence of Debt at Beginning of Survey Year 48
Size of Prior Debt 48
Interaction of Factors Affecting Adjustment to Unemployment 54
Dependent Variables 54
Independent Variables 54
Interactions 55
Impact of Beginning-Year Assets on the Pattern of Specific Adjustment 57
Impact of Recessions on the Pattern of Adjustment to Unemployment 58
Conclusions 60

Appendix A: Limitations of the Data 62

Appendix B: Dependent Variables (Adjustive Techniques) for Which Data Were Available 74

TABLES

1. Unemployment-Induced Changes in Income, Net Worth, and Consumption Expenditure of Unemployed Households 18
2. Unemployment-Induced Changes in Income, Expenditure, Debt, and Liquid Assets, by Duration of Unemployment 23
3. Unemployment-Induced Changes in Income, Total Debt, and Debt Components, by Duration of Unemployment 25
4. Unemployment-Induced Changes in Income, Total Liquid Assets, and Liquid-Asset Components, by Duration of Unemployment 26
5. Major Adjustments to Income Reduced by Unemployment 27
6. Principal Techniques of Adjustment to Unemployment 31
7. Total Dollar Amounts Involved in Thirteen Techniques of Adjustment to Unemployment 34
8. Change in Percentage of Unemployed Persons Using Selected Techniques of Adjustment, by Duration of Unemployment 38
9. Unemployment-Induced Changes in Income, Expenditure, Debt, and Liquid Assets Among Unemployed Persons, by Duration of Unemployment 43
10. Unemployment-Induced Changes in Income, Expenditures, Debt, and Liquid Assets Among 319 Unemployed Persons, by Duration of Unemployment 45
11. Ratio of Liquid-Asset Change to Beginning-Year Asset Level 47
12. Unemployment-Induced Changes in Income, Expenditures, Debt, and Liquid Assets, Unemployed Persons With and Without Debt, by Duration of Unemployment 49

13. Unemployment-Induced Changes in Income, Expenditure, Debt, and Liquid Assets, by Level of Beginning-Year Debt and Duration of Unemployment, Pittsburgh Sample of Unemployed Persons 50
14. Unemployment-Induced Changes in Income, Expenditure, Debt, and Liquid Assets of Unemployed Persons, by Presence or Absence of Beginning-Year Debt and Assets and by Duration of Unemployment 52
15. Summary of Regression Data, Pittsburgh Sample of 319 Unemployed Persons 56

A-1. Age Distribution of Civilian Labor Force, Unemployed Persons, BLS Survey of Insured Unemployed Persons, and BES Sample of Insured Unemployed Persons 65
A-2. Marital Status of U.S. Adult Population, BLS Survey of Insured Unemployed Persons, and BES Sample of Insured Unemployed Persons 66
A-3. Occupational Distribution of Experienced Civilian Labor Force, Unemployed Persons in Experienced Civilian Labor Force, BLS Survey of Insured Unemployed Persons, and BES Sample of Insured Unemployed Persons 67
A-4. Disposable-Income Distribution of U.S. Population and BES Sample of Insured Unemployed Persons 68
A-5. Percentage of Spending Units with No Personal Debt 68
A-6. Percentage of Spending Units with No Liquid Assets 69
A-7. Percentage Distribution of Household Expenditures Within Income Groups for All Households (1955–56) and for the BES Sample of Insured Unemployed Persons (1954–1958) 70
A-8. Rank Correlation Between Sample as a Whole and Indicated Subgroups, Nine Principal Techniques of Adjustment to Unemployment 71
A-9. Frequency of Use Related to Duration of Unemployment, Selected Adjustments 72

ACKNOWLEDGMENTS

I AM INDEBTED to Leo Orwicz and R. G. Wagenet of the Bureau of Employment Security, who helped make arrangements for me to obtain the state survey data. For help in acquiring the data themselves, I am grateful to Robert B. Beasley of the Florida Industrial Commission; John W. Bowyer of Washington University, St. Louis; Virlyn A. Boyd, Clemson College; David H. Cameron, Commissioner of the Oregon Department of Employment Security; Abram J. Jaffe of the Institute of Applied Social Research, Columbia University; Keith B. Johnson, Washington University, St. Louis; Helen Kylie, Duquesne University; John S. O'Hara, Florida Industrial Commission; Buford B. Ruhl, Pan-American Consulting Corporation, Miami, Florida; and Wesley E. Zellner, Oregon Unemployment Compensation Commission.

At the National Bureau I have had the advice and assistance of many individuals. Geoffrey H. Moore and Robert P. Shay read the manuscript in several versions and made many helpful suggestions. I am especially grateful to F. Thomas Juster, who not only read the manuscript and suggested improvements but also supervised computations that I was unable to undertake when away from the National Bureau. I am grateful, too, to Arthur F. Burns, Jacob Mincer, Zvi Griliches, Alan Spiro, Victor Zarnowitz, and H. C. Passer, all of whom contributed advice at one stage or another. James F. McRee, Jr., edited the manuscript. The NBER Directors who read this study, Wallace J. Campbell, Marion B. Folsom, and T. O. Yntema, made a number of perceptive and useful suggestions, and it is a pleasure to record my gratitude to them.

Georgette Welscher was my assistant at the Bureau and contributed substantially to the collection and analysis of the basic data. Others who provided valuable assistance include Julia Clones, Bette Fishbein, Susan Fromm, Florence Liang, Martha Jones,

Esther Reichner, and Dora M. Thompson. Muriel DeMar has my special thanks for facilitating my work at the National Bureau in countless ways.

I acknowledge gratefully the help given me by the Advisory Committee of the Consumer Finance Study, which reviewed the findings at several stages and provided a number of useful suggestions: Paul W. McCracken, University of Michigan, chairman; Frank Barsalou, Pacific Finance Corporation; Dorothy S. Brady, University of Pennsylvania; E. Douglas Campbell, Associates Investment Company; John M. Chapman, Columbia University; Mona Dingle, Division of Research and Statistics, Board of Governors of the Federal Reserve System; Bertrand Fox, Harvard University; Raymond W. Goldsmith, Yale University; Robert E. Lewis, First National City Bank of New York; Roger F. Murray, Columbia University; Roland I. Robinson, Michigan State University; Herbert Stein, Committee for Economic Development; Van Buren Thorne, Jr., General Motors Acceptance Corporation; and William L. Wilson, C.I.T. Financial Corporation. Former members of the Advisory Committee include Willcox B. Adsit, George Dimmler, the late George W. Omacht, Sidney E. Rolfe, and LeRoy A. Weller.

A grant to the National Bureau from the International Business Machines Corporation of electronic computer time was utilized for computing the regressions in this study.

This report is part of a broad study of consumer credit being conducted by the National Bureau, made possible by research grants from Associates Investment Company, C.I.T. Financial Corporation, General Motors Acceptance Corporation, and Pacific Finance Corporation. These firms, however, are not responsible for any of the statements made or views expressed in this report.

P. A. K.

FOREWORD

IN THE PLANNING stage of the Consumer Credit Study, some recurrent questions seemed to demand investigation. What happens to consumer debts among households hit by unemployment? Were those who became unemployed more heavily indebted than households in similar economic circumstances whose employment continued? Did the existence of indebtedness cause hardship among the unemployed? Finally, did consumer debt, through its effect upon unemployed households, accentuate business recessions and delay recovery, or did the availability of debt as a means of adjusting to recession offset its deflationary influences?

It was apparent that the relation between indebtedness and unemployment was complicated by other financial adjustments precipitated by changes in household income and expenditures. Hence, in order to analyze the behavior of consumer debt during periods of adversity, it was necessary to adopt a broad approach and study comparatively the expenditure patterns of households with varying amounts of income, debt, and liquid assets. Fortunately, an unusual body of data had become available through the efforts of the U.S. Department of Labor, which had made six regional studies of consumer expenditures of households between 1954 and 1958 in order to ascertain the adequacy of benefits under unemployment compensation systems. These surveys contained a wealth of information about the indebtedness of households experiencing unemployment.

Philip A. Klein's painstaking work on these data has resulted in findings of importance, not only to the objectives of the Consumer Credit Study, but to those interested in the economics of consumption and the impact of unemployment as well. Working closely with F. Thomas Juster, who is conducting a broader study of the effects of credit use upon consumer expenditures, Klein developed

empirical evidence to support his major finding that both liquid-asset holdings and consumer debt permit financial adjustments which enable unemployed households to maintain consumption expenditures. He shows that in addition to unemployment benefits, liquid assets primarily and consumer indebtedness to a lesser extent work as compensatory economic stabilizers against deflationary influences among unemployed households.

Klein's insights into debt adjustment patterns among the unemployed permit some further elaboration of the widely held view that cyclical fluctuations in instalment credit are destabilizing. Gottfried Haberler, in his 1942 National Bureau study *Consumer Instalment Credit and Economic Fluctuations,* reached this conclusion and it received further modification and support from Donald M. Humphrey in the Conference on Regulation held in 1956 by the National Bureau (proceedings published in 1957 by the Board of Governors of the Federal Reserve System in its report *Consumer Instalment Credit*). The relevant point made by Klein is that debt adjustments among families hit by unemployment exert a stabilizing influence by moderating the decline in their consumption expenditures. To the extent that this limited stabilizing influence occurs in the general population during recession, it would tend to moderate the general effects of income changes and associated destabilizing changes in the relation between credit extensions and repayments upon consumption expenditures.

Despite the customary difficulties of working with questionnaires designed for a purpose other than the objective of this study, Klein has uncovered many interesting aspects of the relation between unemployment, debt, and expenditures. His work on the debt adjustments undertaken by the unemployed represents, I believe, the first attempt of its kind. His findings, though tentative, are provocative. As a result of his work we have begun to progress beyond everyday notions of what happens to people in debt when they become unemployed.

ROBERT P. SHAY, *Director*
Consumer Credit Study