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INTRODUCTION AND SUMMARY OF FINDINGS

THE HOUSEHOLD confronted with the drastic loss of weekly income that unemployment brings must generally choose between two alternatives: either continuing to spend at its current level by going into debt or using up what it has put aside (that is, allowing its net worth position to deteriorate), or reducing current expenditures and maintaining net worth. To what extent do unemployed persons use these alternatives, and what methods do they use?

This study analyzes the influence on financial adjustments to unemployment of such factors as duration of the out-of-work period, magnitude of weekly income loss during unemployment, asset and debt position of the household at the time unemployment strikes, and the effects of a variety of demographic and other factors on both aggregate and specific adjustments. Financial adjustments are defined as asset, debt, or expenditure adjustments.

CHARACTERISTICS OF THE SAMPLE

The basic data were gathered in six regional unemployment compensation surveys made under the auspices of the Bureau of Employment Security (BES) of the U.S. Department of Labor. Local organizations conducted the surveys in six states from 1954 to 1958. The survey sample consisted of 1,836 persons selected from those applying for unemployment compensation in a given week. The questions asked were retrospective and concerned living arrangements and finances during the year ending with the week of the interview (called the survey year). Interviews typically lasted from two to five hours and sometimes were split into two sessions. The interviewers were trained by the organization delegated by the BES to carry out the survey in each region.

The characteristics of the sample by age, marital status, and occupation groups are in general agreement with Bureau of Labor Statistics nationwide information for the insured unemployed.[1] In comparison with the labor force as a whole, there are relatively fewer very low or very high incomes and fewer very old or very young household heads. What is more significant, perhaps, is that the sample appears to have been more in debt before unemployment than the general population, and to have had smaller liquid assets within each income class. The sample's pattern of expenditure before unemployment was much the same as was that of the population at large. In general, it appears that the sample is sufficiently representative to permit application of the findings of the study to consumers generally, were they to undergo similar experiences.

Summary of Findings

ADJUSTMENTS IN THE AGGREGATE

Households in which a wage earner becomes unemployed have certain broad avenues of adjustment open to them. They can make debt adjustments, expend assets, and cut down expenditures. Or they can encourage other family members to find jobs so as to compensate for the reduced income caused by unemployment.[2]

Net household income of the entire sample decreased during the survey year by an estimated $1,409,000. Earned income dropped by more than that, but was partly offset by unemployment compensation of $648,000. Households adjusted to the decline partly by allowing a deterioration in their net worth, partly by reducing current consumption outlays.

[1] Chi-square analysis shows a significant divergence due largely to the underrepresentation of the two youngest age groups in the BES sample. It should also be noted, as Appendix Table A-2 indicates, that the BES sample has relatively more single persons than the BLS sample of the insured unemployed, and fewer widowed or divorced persons. However, the percentage of married persons in the two samples is almost identical.

[2] Labor force participation by household members other than the claimant apparently *decreased* during the period of claimant's unemployment. Earned weekly household income in the sample was less at the end of the survey year than the difference between it and the weekly income earned by the claimant at the beginning of the year. Possibly depressed local conditions resulted in less income-earning opportunities for members of the family other than the claimant.

Net worth adjustments involving debt came to approximately $158,000. Households either increased outstanding debt or postponed repayment of existing debt, and incurred increases of about $83,000 in money loans, $32,000 in unpaid bills, and $43,000 in delinquencies and repossessions on durable goods. Asset holdings were reduced by $322,000, most of it ($261,000) in checking and savings accounts. For the rest of the income loss, $930,000, the households could only reduce consumption expenditures.

The figures have more significance, however, if it is asked what unemployment meant to the individual household. The average net reduction in household income during the survey year amounted to $768—roughly 20 per cent of preunemployment income. Since the period of unemployment averaged just over eighteen weeks, this means the average household lost about $60 a week. Some of this weekly income loss was offset through unemployment compensation payments (about $19 a week). For the rest, the income loss during the survey year was offset by an average debt adjustment of $86 ($5 a week), an average net reduction in assets of $175 ($9 a week), and an average net decrease in expenditures (estimated as a residual) of $506 (or $27 a week). Averages do not tell the whole story because not everyone had assets to fall back on, and debt adjustments were not equally available to all unemployed persons—indeed, for some they were not available at all. In addition, of course, there are differences among households in their preferences for various adjustments.

Role of Debt. During the year in which unemployment occurred, more than one-fourth of the households borrowed money either from family, friends, or financial institutions. Many individuals made use of several kinds of debt in adjusting to unemployment—one could borrow money, run up unpaid bills, default on prior debt obligations, and so on. The ability or willingness to utilize debt tended to increase with both asset holdings and with the duration of unemployment.

Role of Liquid Assets. Liquid-asset holdings were the most important single factor in easing the impact of unemployment on current expenditures. For the sample as a whole, expenditure reduction averaged about two-thirds of the total net income reduction resulting from unemployment; but for those individuals without liquid assets, the reduction in total expenditures averaged about 90 per cent of the net income reduction on the average, compared to a bit over 50 per cent for those who had assets. The reduction in liquid assets held by subgroups of the sample was larger for older age groups up to age 55, and larger for married individuals than for single individuals; among occupational groups, it was largest for professional and managerial persons and smallest for agricultural workers. In all these cases the average change probably reflects the magnitude of liquid asset holdings prior to unemployment, although the data can corroborate this point for only about a fifth of the sample.

Both liquid-asset reductions and debt increases represent a decline in net worth and postponement of reduction in expenditures, and both may be viewed as a way of limiting enforced expenditure reductions in time of unemployment. The data suggest that debt increases constitute a somewhat less important means of adjustment than using liquid assets. Debt adjustments offset 11 per cent of the income change for the entire sample, whereas asset reductions offset 23 per cent. Unemployment-induced debt adjustments tend to be larger for those with outstanding debt prior to the onset of unemployment, primarily because debt adjustments include the failure to repay existing debt as reflected by delinquency and repossession, which tend to be somewhat larger the higher the level of initial debt. Further, consumption expenditures are reduced less, relative to income, the larger the household's initial debt, partly because debt adjustments increase but mainly because liquid-asset reduction is positively correlated with the amount of beginning-year debt. In part, these findings reflect the fact that delinquencies on debt for durable goods are possible only if the household has some of this kind of debt to begin with; families with money loans before unemployment placed less reliance on debt adjustments. It may also be true that these findings reflect differences in preferences among households—those who choose to reduce liquid assets in order to maintain consumption may also be inclined to increase debt (or fail to reduce it as scheduled), relative to those who prefer to reduce consumption and maintain their liquid assets.

RELATIVE IMPORTANCE OF SPECIFIC TYPES OF ADJUSTMENT

Relative importance can be considered either in terms of the number of households that make a particular adjustment or by its dollar amount. By either measure, drawing upon saving and checking accounts is the most important type of adjustment, followed closely by borrowing money and reducing food expenditures. These three are far and away the most important of those considered. The ten other types of adjustment for which both use and dollar volume data were available are given in Table 7.

The findings concerning the importance of liquid-asset holdings in the discussion of aggregate adjustments are supplemented by a more detailed analysis, which indicates that those without liquid assets had less flexibility in adjusting to unemployment-reduced income than did the group with these assets: they were unable to borrow as much, hence reduced their average expenditures for most items to a greater degree. The pattern of relative importance of the specific adjustments is not much altered by the presence of liquid assets, however. Furthermore, it is remarkably pervasive when the sample is subdivided by a variety of demographic and other variables, such as age, occupation, earner status, degree of change in assets, percentage change in income, and location among the six geographical areas from which the samples were drawn. Because some of the six surveys were conducted during periods of recession and others during expansion, the latter finding suggests that the pattern of relative importance may be largely unaffected by the stage of the business cycle during which unemployment occurs.

For the sample as a whole, the data suggest that about one-third of the total income reduction was offset by various kinds of net worth reductions and the remainder by reduction in expenditures. For groups classified by duration of unemployment, the change in expenditure as a proportion of the total *net* change in income (i.e., income earned during unemployment adjusted to include the unemployment compensation payments received) shows that the marginal propensity to consume (MPC) rapidly approaches unity as unemployment continues. By the time people are unemployed for as long as twenty-four weeks, the MPC is more than .95 for those without liquid assets and .73 for those with liquid assets. That is to say, the first group reduced expenditures by 95 cents for every dollar reduction in income and the second by only 73 cents. The MPC is larger for the group without liquid assets unemployed under ten weeks (.79) than it is for the group which has such assets and is unemployed over twenty-four weeks (.73). The net reduction in expenditure is related both to the size of income and income change, as well as to unemployment duration and liquid asset holdings.

While the relative frequency with which alternative adjustments are used is much the same regardless of the period of unemployment, there are nevertheless some differences worth noting. Adjustments which tend to increase most rapidly in the first nineteen weeks of unemployment include delinquencies on rent, major home improvements, appliances, and hospital payments; repossession of appliances; sales of automobiles to raise funds; and decreases in automobile operating expenses. Those which seem to show significantly rapid increase only after twenty weeks of unemployment include delinquencies on mortgages and automobile payments, auto repossessions, and life insurance liquidations.

SOME IMPLICATIONS OF THE FINDINGS

There is evidence of the ability and desire of the unemployed consumer to maintain expenditures, especially for short periods of time, to the extent that liquid-asset holdings and ability to adjust debt make this possible. The findings of this study have implications for assessing the destabilizing consequences of unemployment, particularly unemployment of long duration. Reducing liquid assets and increasing indebtedness (which is more feasible for those with liquid-asset holdings) probably has a smaller destabilizing impact on the economy than does the reduction of consumption expenditures. The latter initiates a chain of consequences which may lead to cumulative contraction. Our estimates of the marginal propensity to consume indicate that the destabilizing influence of unemployment is increasingly serious the longer unemployment lasts, and that liquid-asset holdings contribute a powerful—though temporary—stabilizing influence. Debt adjustment, though quantitatively less important, also acts as a stabilizing (though equally temporary) influence on consumption. Such income supplements as unemployment compensation are quantitatively the most important stabilizing element, and have the added advantage of not being associated with a deterioration in the net worth position of the household. The average length of unemployment in this sample was slightly over eighteen weeks, and unemployment compensation payments at that time continued generally for twenty-six weeks (frequently not beginning for several weeks after the onset of unemployment). Again, it is well to bear in mind that the average period of unemployment is the result of unemployment occurring both during periods of expansion and contraction in the economy.

These findings, though tentative because of deficiencies in the basic data, are nonetheless highly suggestive of the factors that have helped to prevent serious recessions in the post-World War II period. Had income supplements not been as large,[3] had the level of liquid assets held by the public not been as high, and had the opportunities to utilize consumer credit not been as widespread as they were, some of the mild recessions experienced since 1946 might well have developed into more serious recessions or depressions.

[3] If the average period of unemployment had been eight weeks longer, the unemployment compensation component would usually have been used up.