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THE MEASUREMENT
AND BEHAVIOR
OF UNEMPLOYMENT



INTRODUCTION

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COUNCIL OF ECONOMIC ADVISERS

ALTHOUGH the economic writings of recent decades have manifested deep concern over the problem of unemployment, that concern has not included a strong interest in its measurement and behavior. This is doubtless traceable to a belief that the remedy for unemployment lies basically in monetary and fiscal action, and thus requires no detailed knowledge of its behavior—only a general awareness that at any given date it is high or low. Such a belief was understandable, and even forgivable, in view of the dearth of reliable statistics of unemployment up to 1940. But in recent years a vast storehouse of information on the structure of unemployment has been opened up by the United States censuses of 1940 and 1950; a prompt monthly record of unemployment in the nation as a whole has been supplied by the Census Bureau in its sample labor force estimates; and a monthly, and even weekly, record of unemployment in the various states, industries, and labor market areas has been made available by the federal-state unemployment insurance system through its unemployment claims data.

This Conference was projected in the belief that a sound treatment of unemployment requires not a miracle drug but a deep understanding of its causes, and that the time has come for a full exploration of the available statistics. For this exploration, a Conference on the Measurement and Behavior of Unemployment—a theme suggested by Leo Wolman—was planned by a committee consisting of A. Ross Eckler, Richard A. Lester, Lloyd G. Reynolds, Charles D. Stewart, and Clarence D. Long (Chairman). In making these plans, the Committee benefited from the assistance of E. J. Eberling and Meredith B. Givens and from the counsel of Leo Wolman. The Conference, held in Princeton on September 17 and 18, 1954, was attended by about ninety experts, including representatives from twenty-eight universities, the Dominion Bureau of Statistics, the Bureau of the Census, the Agricultural and Marketing Service, the Budget Bureau, the Bureau of Employment Security, the Bureau of Labor Statistics, the Council of Economic Advisers, the Department of Defense, the Federal Reserve Board, the Library of Congress, the Office of Defense Mobilization, the National Bureau of Economic Research, the National Industrial Conference Board, the Congress of Industrial Organizations, and the American Federation of Labor. The Secretary of the Con-

Note: Mr. Long has since returned to The Johns Hopkins University.

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ference was Phillip Cagan. In preparing the material for publication, we had the help of the National Bureau's editorial staff. H. Irving Forman made the charts.

The papers and discussions that were put before this Conference do not, of course, solve the problem of unemployment; nor do they clear up all confusion about its definition. But they should serve to eliminate any notion that unemployment can be prevented or eliminated without close knowledge of what it is, where it is, and what it is like. Although investigators can never be made to observe rigid jurisdictional lines, it seemed feasible to divide the papers into two parts: Part I dealing with meaning and measurement, and Part II with behavior.

Part I consists of five papers. The first, by Albert Rees, deals not so much with unemployment as with full employment—the question of what is the minimum level of frictional unemployment.

Rees does not offer a measure of full employment, but he does show that the various criteria of full employment used in the past would not furnish a consistent guide to economic policy. He demonstrates from recent British statistics that Lord William Beveridge's famous "verbal" definition of full employment—more vacant jobs than unemployed persons—has not been very consistent with his numerical definition: that full employment exists when the number of unemployed is equal to or less than 3 per cent. He also believes that price behavior is not an adequate criterion of full employment and points to several instances in the United States when prices fell while employment was still rising; in the most recent, the turning point of prices led that of employment by nearly two and one-half years. He concludes with the wise observation that modern economies may be too complex to be guided by any single rule and that there may be no escape from reliance on judgment and discretion in counter-cyclical policy.

The other papers in Part I differ widely in their approaches to both definition and measurement. Gertrude Bancroft, who has had a great deal to do with the pioneering development of the census sample monthly unemployment estimate, is nevertheless quite candid in suggesting that the present concept has been largely based on pragmatic, not logical or analytical, considerations; that the census measure leaves out many groups with a better claim to the status of unemployed than some of the groups which it covers; and that the present concept does not yield a clear-cut measure of the effects of production cutbacks, frictions or dislocations in the economic system, wasted manpower, or need for income. In order to remedy these defects and thus to arrive at a concept more useful to current policy needs, Miss Bancroft offers a new arrangement, and suggests some notable inclusions and exclu-

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sions. In particular, she calls for the collection of "reasons for part-time employment" every month (as is now done in Canada) instead of every three months; for the shifting of "temporarily laid-off" workers from the "employed" to the "unemployed" category; for the setting up of a new category, "those who work less than full time for business reasons"; and, finally, for no longer counting as unemployed certain persons who say they did not look for work because they believed there was none available. This last proposal of Miss Bancroft is part of her search for more objective criteria of unemployment. It will nevertheless be challenged by many students who, like Miss Bancroft, favor a rigidly objective test of work seeking *in principle*, but who also feel that *in practice* the small modification involved in this change is not worth exposing the census series to the formal charge that the estimates of the future will no longer be comparable with the estimates of the past. Miss Bancroft, a Census Bureau official, absolves her agency from responsibility for these views; but Robert W. Burgess, Director of the Census, in commenting on her paper, states that Miss Bancroft's recommendations will be given serious consideration by the Census Bureau in planning future improvements in its concepts and measurements.

The paper by Herbert S. Parnes does not criticize the census concept of unemployment, but instead compares the census measure, as is, with the alternative measures of unemployment currently available in the United States, particularly those of the federal-state unemployment insurance system. He presents some interesting statistical comparisons, which demonstrate that, although concepts and coverages are quite different, and the ratio of insured to total unemployment has ranged widely, the two unemployment series have moved in the same direction for about two out of every three months between 1949 and 1954. Moreover, some adjustments can be made in each series, which do not reconcile them completely, but which do bring them closer together.

An analyst's concept of unemployment is apt to depend on the problems he faces in his daily work. Margaret J. Hagood and Louis J. Ducoff of the Department of Agriculture, who have long been concerned with the surplus of inadequately employed workers in nonindustrial rural areas, point to the results of two sample surveys of open-country households that were made in certain low-income rural areas of eastern Kentucky and southeastern Oklahoma in 1952. These surveys show that only two-thirds of males fourteen and older in those areas were employed even as many as 180 full-time days a year. Yet these males indicated only a low degree of availability for out-of-area

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employment, a finding that is in some conflict with the historical fact that large numbers of persons left these areas during the decade 1940-1950. The authors concede that it is difficult to test a person's availability for work without making him an actual job offer, but they also feel that the census-type test does not reveal this disguised unemployment. It has no way of eliciting the extent to which better training, improved labor mobility, and expanded work opportunities would persuade many people to seek work who are at present inactive because they feel unemployable or believe that the search for work is useless. The authors would thus measure unemployment by *developing*, rather than by *static*, standards.

This is what Richard C. Wilcock is also urging in a very different type of analysis when he asks that more attention be turned to discovering the characteristics and behavior of people attached only irregularly, inactively, or subjectively, to the labor force, a group he calls the secondary labor force. On the other hand, in the discussion of Wilcock's paper, Gladys L. Palmer, who has carried a major part of the burden of developing American labor force and unemployment measures, suggests that most faith be placed in what people do, rather than in what they say in answers to hypothetical questions. She proposes that queries designed to bring in people now classed outside the labor force be balanced by queries designed to identify a substantial number of persons who may have only a tenuous right to classification as unemployed or who may be on the brink of leaving the labor force.

The papers of Part II cannot escape some problems of measurement, but they deal primarily with unemployment behavior. Stanley Leber-gott presents his revised estimates of average annual labor force, employment, and unemployment from 1900 to 1954 and endeavors to make them comparable in concept with the sample survey estimates collected by the Works Progress Administration and the Census Bureau in the years since 1940. He has relied primarily on the decennial census for bench marks and has estimated unemployment in the intervening years by subtracting interpolated estimates of employment from interpolated estimates of labor force. Unemployment so estimated is subject to great potential miscalculation, since a relatively small error in the employment estimate and a relatively small error in the labor force estimate may combine to form a relatively large error in the unemployment estimate. His data—revisions of the long-established National Industrial Conference Board estimates—modify our knowledge of past unemployment behavior in the United States; they would, for example, make the 1929-1930 rise more severe than the 1937-1938 rise, rather

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than the reverse, as indicated by the N.I.C.B. But he points out that the broad picture shows no startling change in the way we are accustomed to consider this period. Such has been the paucity of information on unemployment that seldom have we been afforded an insight into the ancient question of whether unemployment has been increasing in recent generations. Lebergott thinks that the answer to this question must not be made without pondering whether workers may be more willing to admit being unemployed now than in 1900 or in 1930, and whether the practice of granting vacations, which has been growing, permits slack in the labor force to exist without a corresponding amount of unemployment. Nevertheless, he concludes that during 1900 to 1950, unemployment was 4 or 5 per cent as an annual average and that, on the whole, high-level employment has characterized the performance of the American economy in the past half-century.

Philip M. Hauser finds great differences in the amount of unemployment among persons of different age and sex, marital status, family responsibility, and industry and occupational group; but he also observes that these differences have been stable. One notable difference, for example, has been the consistently higher unemployment rate of women than of men, of young persons than of older persons, and of nonwhite than of white persons. On the other hand, these differences may be deceptive. Notably, the higher unemployment rate of women may be due to a greater tendency not necessarily to lose their jobs but rather to alter their desire to work, for in every month large numbers of women leave the labor force and large numbers of other women enter. Those entering take time to locate new jobs and in the meantime are unemployed. Thus Hauser finds that less than half of the female additions to unemployment originated in previous employment (in "disemployment") and one-half originated in a previous non-labor-force status; as thus measured by disemployment rates it would seem that women are less liable than men to unemployment. Hauser calls for more and better information on gross changes in the labor force by various types of characteristics, information which would enable us to compute disemployment rates cross-classified by age, sex, marital status, industry, and occupation, and thus to learn much more about the differential vulnerability of these classes to factors beyond their control. Such conclusions obviously have great significance for any policy aimed at remedying unemployment.

David L. Kaplan, studying the attachment of the unemployed person to three major United States industries—manufacturing, construction, and trade—finds that many unemployed and employed persons change their industry of attachment even in intervals as short as a month. He

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indicates that each industry may have a well-established labor force with which it plays a steady game of "put-and-take," but that the industry-attachment of the unemployed does not have the same importance as the age, sex, race, and occupational characteristics.

The remaining paper on the behavior of unemployment in the United States, by Louis Levine, deals with the wide differences in unemployment that may exist at any given time between one local labor market area and another. A local labor market is an area within which a worker can change jobs without changing residence. Unfortunately, there are no current counts, or even sample surveys, of total unemployment in each of the various areas. Estimates are currently made by the state employment security agencies, under general instructions from the United States Bureau of Employment Security. However, these agencies have little data upon which to base their estimates of unemployed persons who have just entered or re-entered the labor market, who are moving from one area to another, or who have exhausted their benefit rights; and there is no way to check the accuracy of such data except from the single comparison with the 1950 census, the only one to collect complete information on unemployment in local labor market areas as now defined. Levine feels that such a comparison is not very helpful, because even the complete census estimates are themselves subject to criticism. One may well question whether such estimates of local unemployment could be regarded as superior to the data which the Census Bureau gathers by visiting every house. But in any case, Levine's study brings out a clear need for better-founded estimates of unemployment in local areas. The urgency of the need is highlighted by the wide differences he finds in economic condition among different localities at any given time. For example, the 1949 unemployment rate in Bridgeport, Connecticut was more than 12 per cent, and in South Bend, Indiana was 20 per cent, whereas in 1954 the picture was almost the reverse.

The studies of Warren W. Eason, on the one hand, and Walter Galenson and Arnold Zellner, on the other, illuminate for us the behavior of unemployment abroad. Eason has not been able to say how much unemployment there is in the Soviet Union, because officially there is no unemployment in that nation and because the labor-force information that would enable us to hunt for hidden unemployment has been largely suppressed since 1929 (when about 18 per cent of the then small number of wage and salary workers were unemployed). He does tell us, however, some things about Soviet planning that are of significance to the question of unemployment—such as the fact that there was a change of labor force almost overnight from one largely

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self-employed to one entirely under control of state and cooperative organizations, and that we must look for unemployment in the actual dislocations in the national economy, in seasonal fluctuations, in time lags of workers going from one job to another, and in workers seeking work for the first time. In addition to these insights into Russian unemployment offered by Eason, we have those of the late Eugene M. Kulischer, whose death on April 2, 1956 the members of this Conference deeply regret. He suggested that the great overpopulation and underemployment that always existed in Soviet agriculture before 1939, but were wiped out by the great manpower losses in World War II, have since recurred because the rapid development of agricultural technology cut the need for labor.

Finally, we have Galenson's and Zellner's valuable appraisal of unemployment in nine Western nations (excluding this country). The authors—recognizing that any comparison for a given year would provide results that could be expected to be at the mercy of the particular economic conditions—have taken on the formidable task of tracing the course of unemployment in each of the countries over a long-time period. In most of the countries the data begin before World War I, and in four countries (Denmark, Germany, Norway, and the United Kingdom) they begin in 1904 or earlier. The authors recognize that unemployment is not defined in precisely the same way in any two countries. But they feel that the statistics are more uniform than the list of differences in concept and coverage would suggest. For in most Western countries, the unemployment statistics were compiled by trade unions under the so-called Ghent system. These unions usually gathered the data as part of the administration of payments for out-of-work benefits or of waiver of dues during unemployment. They used simple techniques in order to save processing time and tended to copy each other's methods, thus leading to a certain uniformity. Moreover, the trade union officials were in a position to know the unemployment of their members in a way that is not ordinarily open to government officials or house-to-house canvassers. The statistics are not, of course, without deficiencies. On the one hand, skilled workers, who are, other things equal, less likely to be unemployed, tend to be represented disproportionately, thus giving the data a downward bias. On the other hand, building construction and mining industries, which are rather unstable industries, tend to be disproportionately represented; and agriculture, government, and rail transport, which are typically stable industries, are ordinarily excluded. Moreover, the number of unions reporting varies from one country to another and from one time to another. Despite these defects, the authors feel that the data offer a

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reasonable basis for comparison between different countries and provide a fairly accurate gauge of trend, if not of absolute level. Their conclusions from these elaborate endeavors are modest but important. They show that unemployment has not followed a simple trend, but that it was low before the start of World War I (except in Denmark, where they feel unemployment was overstated) and that it has been low since the end of World War II. The great wave of unemployment that has left such an impress on modern thinking seems to have been a phenomenon confined to the period between the end of World War I and the beginning of World War II, and especially to the decade of the 1930's. What were the circumstances and the policies that could have produced such a phenomenon? This is not the least of the provocative questions arising out of this conference volume to which future economic investigation might do well to turn attention.