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III

SPECIFIC ADJUSTMENTS TO UNEMPLOYMENT

THERE ARE A NUMBER of categories of expenditure adjustment for which reasonably reliable data are available. This section examines the relative importance of these adjustments as well as the importance of some specific asset and debt adjustments. In addition it examines the changing reliance of the unemployed upon these alternative adjustments as the period lengthens.¹

There are two ways of measuring relative importance. The first is by the dollar volume represented by a given adjustment, the second by the number of people who utilized the adjustment. Since frequency of use is undeniably the easiest measure to acquire, we possess such data for a much larger number of adjustments than those for which reasonably accurate dollar-volume estimates could be constructed. But the problem faced by the unemployed is ultimately a dollar problem. Income is lost by virtue of unemployment; the problem is to compensate for the dollar loss either by reducing dollar outlay or by acquiring dollars from some nonincome source. Analytically, therefore, there is much to be said for attempting to measure the importance of various adjustments in terms of dollar volume, and this has been done wherever possible.²

¹ The original questionnaires yielded a list of forty-seven variables representing changes in the household's financial position which could reflect possible adjustments to unemployment, but only a limited number actually showed significant relations to unemployment. In addition, as indicated in the text, information on some of the important adjustments was fragmentary or inadequate. The complete list appears in Appendix B. The list of adjustments analyzed here involves most, but not all, techniques used by at least 1 per cent of the sample.

² All other information on dollar adjustment has been computed in similar fashion to that of the total dollar-income loss, previously explained. Weekly

In comparing dollar-volume estimates analyzed here with those in the previous section, it must be borne in mind that the figures in Section II were all net, i.e., debt increase less debt decrease; whereas the present discussion revolves about the gross figures, i.e., the absolute amount of debt increase for those who increased debt.

*Relative Importance of Adjustive Techniques
Measured by Frequency of Use*

Frequency of use can be measured by relating the number of users of a given technique to the total number of households in the sample. Alternatively, the denominator can be restricted to the number of individuals who could have used the technique. In some cases these two alternatives yield the same result; all households in the sample had expenditures for food and so all could conceivably have reduced them. However, only smokers, for example, could have reduced tobacco expenditures and only renters could have permitted rents to become delinquent. Table 6 gives both sets of percentages. The percentage of possible users who utilized each technique (third column) seems the best standard of importance in terms of frequency, and for the most part this measure is used here.³

Table 6 represents those techniques of the forty-seven listed in Appendix B for which the data seemed sufficiently reliable and the importance sufficiently prominent to warrant analysis. The most striking feature of these data is the outstanding importance attached to reducing checking and savings accounts. More people by far adjusted to the budgetary constraints brought on by unemployment in this way than in any other—and by a substantial margin.

The importance of both borrowing money and reducing food expenditures is also noteworthy. We have previously indicated (Table 3) the kinds of debt adjustments included in borrowing money. It remains, therefore, to indicate, to the limited extent possible,

or monthly data on differences between preunemployment and during-unemployment expenditures have been weighted by the number of weeks or months of the survey year during which the interviewees were unemployed.

³In this respect the present discussion differs from the aggregate analysis above, where averages were based on the entire sample. But only those who possessed liquid assets could have utilized them. In a subsequent section, we shall take this into account by disaggregating the sample.

TABLE 6
PRINCIPAL TECHNIQUES OF ADJUSTMENT TO UNEMPLOYMENT

Adjustment Technique	Persons Using Technique (1)	Number of Users as Percentage of:		Rank of Column 3 (4)
		Total Sample (2)	Possible Users (3)	
Decrease savings and checking accounts	737	40.1	74.1 ^a	1
Decrease food expenditures	476	25.9	25.9 ^b	4.5
Borrow money (all sources)	476	25.9	25.9	4.5
Drop hospital plans ^c	433	23.6	32.5 ^d	2
Decrease amount spent on car operation	164	8.9	19.8 ^d	7
Permit delinquent rent	135	7.4	14.0	8
Permit delinquent payments on:				
Appliances purchased, survey year	131	7.1	22.4	6
Appliances purchased before survey	116	6.3	29.2	3
Liquidate life insurance ^e	115	6.3	9.5 ^f	11
Decrease liquor expenditures	95	5.2	11.0 ^f	9
Sell car	93	5.1	7.2	12
Permit delinquent hospital insurance	79	4.3	5.9 ^g	13
Decrease tobacco expenditures	51	2.8	3.7 ^g	16
Permit delinquent payments on car purchased, survey year	47	2.6	9.7	10
Permit repossession of car	46	2.5	5.6	14
Permit repossession of appliance	21	1.1	2.1	18
Renew or refinance mortgage	18	1.0	4.9	15
Permit delinquent payments on major home improvement	16	0.9	2.8	17

^a This figure is doubtless overstated. Only 994 of the 1,836 households in the sample clearly indicated that they had checking or savings accounts by reporting that they increased or decreased them. The questionnaires were ambiguous as to whether the remaining households had no checking or savings accounts, or had them but left them intact. A careful hand sampling of 100 cases from the Oregon sample indicated that 85 per cent of these respondents actually seemed to have either a checking or a savings account, instead of the 54 per cent implied by the above data. If so, the percentage of possible users who reduced checking and savings accounts would presumably be less than 74 per cent, although it is impossible to say how much less.

^b 13.1 per cent of all cases increased food expenditures.

^c The prominent position given to this type of adjustment must be interpreted with caution. Cf. the discussion in the text.

^d 7.5 per cent of all cases increased the amount spent on automobile operation.

^e This question was not asked in the Pittsburgh survey. If the 115 users are adjusted to include an estimate for the Pittsburgh sample, the number of users is increased by the ratio of Pittsburgh to non-Pittsburgh cases (319:1517), yielding a total of 139 users. This adjustment will not change the percentage of possible users, because both the numerator and denominator will be adjusted by this same factor. It will change the percentage of all cases (to just under 8 per cent). Inasmuch as the latter measure will not be utilized in the subsequent discussion, this adjustment is not included in the table.

^f 2.3 per cent of all cases increased liquor expenditures.

^g 1.2 per cent of all cases increased tobacco expenditures.

the nature of the reductions in food expenditures. Because these expenditures bulk large in every household budget, they are an obvious avenue through which to attempt to adjust the household budget to unemployment-reduced income. It is, however, not possible from the data available in this area to specify in detail what sort of expenditures were reduced. Much of it was probably a reduction in expenditures for quality foods, though how much may also have been a reduction in total food intake is impossible to say. Inasmuch as eating in restaurants may well have been viewed as a form of recreation, it may have been included in the recreation category rather than in food expenditures.

The apparent prominence given to dropping hospital plans is misleading. Of the 433 individuals who dropped them, only 54 had individually arranged plans. The rest represent a wide variety. Some were plans in which the costs were deducted from wages and salaries, some included payments made by employers, and so on. In many cases, therefore, there would have been a substantial increase in cost to the individual had he attempted to take over the entire burden of payments for himself. In the case of noncontributory company health plans, of course, becoming unemployed meant compulsory dropping of the health plan as well. (The adjustment involved in permitting delinquencies to develop on hospital insurance is far less important since it is restricted to individually arranged policies involving both relatively small amounts and relatively few people.) Nonetheless, these figures provide impressive evidence that one of the by-products of unemployment is to increase the vulnerability of the affected individuals to any medical expenses which may be incurred. This vulnerability is further affected by the loss of other fringe benefits (i.e., life insurance, free medical care, use of recreation facilities) which frequently accompany unemployment.

It will be noted that mortgage refinancing was infrequently utilized. The reason undoubtedly lies in the fact that many mortgages, especially FHA mortgages, do not permit refinancing, and so what would otherwise appear to be a promising avenue of adjustment to reduced incomes is blocked. To some extent, households that managed to borrow money through mortgage refinancing may have been included in the "borrow money (all sources)" category.

A final point has to do with the universality of the pattern of relative importance indicated by the above data. We disaggregated the sample by such characteristics as age, occupation, earner status,⁴ the dollar change in liquid assets during the survey year, the percentage change in annual income resulting from unemployment, and the geographical location (state) where the interview was obtained. The results suggest that the pattern of relative importance is remarkably pervasive. (See Table A-8, below). In almost all cases the Spearman rank correlation coefficient between the pattern for the individual group and that for the entire sample was above .90. In a few more it was in the high .80's. Only in one case was the pattern of relative importance significantly divergent. For those whose liquid assets during the survey year increased by more than \$1,000—surely an atypical group of unemployed persons—the rank correlation coefficient was in the .50's. There were other discrepancies: the professional and managerial group had a rank correlation coefficient in the .70's, no doubt reflecting their tendency to have larger liquid-asset holdings as well as higher incomes; Pennsylvania had a lower correlation coefficient, owing perhaps to its position as an area of chronic unemployment. In general, the evidence indicated that all unemployed persons, regardless of demographic or other differences, utilized these adjustments with roughly the same relative frequency. The differences which show up usually reflect either differences in liquid-asset holdings or in ability to incur new debt, to both of which attention will be directed shortly.

*Relative Importance of Adjustive Techniques
Measured by Dollar Volume*

Table 7 indicates the dollar volume of gross adjustment made in thirteen areas for which reasonably accurate information was available or could be estimated. The pattern of relative importance can be seen in terms of dollar volume and relative frequency. The most striking feature of the table is the dominant importance of the net worth adjustments, measured either by dollar amount or relative

⁴ The three categories utilized here included single earners, married earners who were the primary earner in the family, and married earners who were secondary earners (i.e., not head of the household).

TABLE 7
TOTAL DOLLAR AMOUNTS INVOLVED IN THIRTEEN TECHNIQUES
OF ADJUSTMENT TO UNEMPLOYMENT

Adjustment Technique	Estimated Gross Dollar Amount ^a	Percentage of Possible Users
1. Decrease savings and checking accounts	349,990	74.1
2. Borrow money (all sources)	196,995	25.9
3. Decrease food expenditures	62,400	25.9
4. Cash in savings bonds	30,000 ^b	n.a.
5. Permit delinquent payments on appliances purchased	27,000 ^c	26.0
6. Sell car	25,000 ^d	7.2
7. Liquidate life insurance	21,000 ^e	9.5
8. Savings through repossessions (all items)	9,500 ^f	4.0
9. Permit delinquent rent	9,455	14.0
10. Decrease amount spent on car operation	8,723	19.8
11. Permit delinquent payments on car purchased	6,420	9.7
12. Decrease liquor expenditures	6,044	11.0
13. Decrease tobacco expenditures	1,297	3.7
Total	753,824	

NOTE: Net worth adjustments = \$675,360 (89.6 per cent); expenditure adjustments = \$78,464 (10.4 per cent).

^a This column shows gross estimates of the adjustments for which presumably accurate totals were available, and also those for which reasonably accurate estimates were possible. See the following notes.

^b Information on savings bonds was not obtained in Pittsburgh, although there is reason to believe that the bulk of the "other asset" category there was largely bonds. Total sales of bonds by the 1,517 cases in other localities in the sample came to \$25,449. Inasmuch as Pittsburgh's 319 cases comprise 17.4 per cent of the entire sample, the bond figure was adjusted to give an estimated figure of \$30,000. The reader is again reminded that these figures are all gross.

^c An estimate of delinquencies on autos is subtracted from the known total delinquency figure (\$33,352) to get the total appliance delinquency estimate of \$26,932; the latter has been rounded in the table.

^d Of the 93 known cases here, dollar amounts were available for 67, totaling \$17,642. On the assumption that average price received was the same for the 26 missing amount cases as for the 67 cases with known amounts, \$24,487 is the estimated total. This figure has been rounded.

^e The life insurance figure has been adjusted to include the Pittsburgh figures, using the same procedure as in note b, and to reflect the fact that some households did not report dollar amounts but simply liquidation.

^f Average monthly repayments during the survey year, plus the month in which repossession occurred, enable estimation of the saving through repossession. The figure represents forgone payments each month, which eases the family budget by ceasing to constitute a claim against the now reduced family income.

frequency of use. The decrease in liquid assets (almost \$350,000) represented a far larger amount than that for any other adjustment. In the absence of liquid-asset holdings the expenditure reductions would perforce have been much greater. (Whether they would also have been different is the subject of the next section, in which adjustments for households with no liquid assets holdings prior to unemployment are examined.)

Almost a quarter of the sample borrowed money—close to \$200,000—from financial institutions, relatives, or friends during the survey year. Of course, the ability of individuals to adjust to unemployment through borrowing is an indirect reflection of the importance of liquid assets. The ability of family and friends to lend to unemployed persons is obviously a function of their own liquid-asset holdings, and loans from financial institutions are more readily obtainable if the borrower has some liquid assets. Thus these two major adjustive techniques ultimately reinforce one another.

Measured in terms of dollar volume and frequency, reduction in food expenditures was the most important measurable expenditure adjustment. The dollar estimate of the gross reduction in food expenditures is almost 80 per cent of the total expenditure adjustments shown. For the 476 households that utilized this technique, the average weekly reduction in food expenditure was over \$7. Forgone durable goods expenditures, either in anticipation or as a result of unemployment, may have been large, but their importance could not be ascertained. The reduced expenditures included in Table 7 account for less than 10 per cent of what the reduction in total expenditures must have been, and it is obvious that respondents were completely unable to account for the actual reductions that must have taken place. Table 7 indicates that the sum of all expenditure adjustments that could be measured came to less than \$80,000, and Table 1 suggests that the total expenditure adjustment must have been more than \$900,000. Unemployment-induced changes in expenditures for major durable goods, vacations, recreation, house furnishings, clothing, medical expenses—in short, for any class of items where expenditures are not continuous—could not be inferred from the basic data because there would not nec-

essarily be any marked decline during the survey year that could be attributed to the onset of unemployment. On the other hand, many respondents indicated that they were spending less for food at the end of the survey year (when one of the family was receiving unemployment compensation) than at the beginning, and the difference could be attributed to the onset of unemployment.

Though net worth adjustments dominate the adjustment pattern, the three most important techniques, both by dollar volume and by relative frequency, include a debt adjustment, a liquid-asset adjustment, and an expenditure adjustment. Among the less important adjustive techniques, liquidation of life insurance, though used relatively rarely, could constitute a substantial offset to lost income. To many who are concerned with future security this may constitute an undesirable method of adjustment, especially when a less drastic adjustment is available. Rather than cash in or cancel their life insurance, individuals can usually borrow on its cash surrender value, thus keeping the policy intact. The borrower has the usual obligation of repaying the loan (or having the loan plus interest charged against the future cash surrender value). To the extent that the unemployed utilized life insurance in this way, they have been included in the "borrow money (all sources)" category.

It is perhaps a measure of the growing importance of the automobile to the American family that delinquencies on rent were more important than on automobiles. It may also be an indication, however, of consumers' knowledge that delinquency on automobile payments will lead to repossession more rapidly than rent delinquency will lead to eviction.

There is evidence that many American consumers view tobacco or alcohol as necessities. Reductions in these items were small in the over-all adjustment, and indeed some of the sample increased their expenditures during the period of unemployment.

Finally, the pervasiveness of the pattern of relative importance, when the sample is diagggregated by a variety of demographic and related variables, is clearly evidenced by the rank correlation analysis in Table A-8.

*Effect of Duration of Unemployment
on the Specific Pattern
of Financial Adjustment*

It has been demonstrated that the longer the period of unemployment, the smaller the relative importance of debt and liquid assets as offsets to income reduction. And by inference, the relative importance of expenditure reductions must have been larger.

Ideally, one would like to know how many weeks after unemployment each individual resorted to the various possible adjustments, since thereby one could measure the priority accorded to them. This adjustment pattern cannot be measured precisely because it is not known how many weeks after unemployment each technique was used initially by each case. However, the sample can be classified by the length of the unemployment period, and the change in the percentage who utilized each technique as the period of unemployment lengthened can be calculated. Evidence of this sort gives some insight into the priority given by the unemployed to each of the techniques under consideration.⁵

The change in the percentage of possible users who utilized selected techniques of adjustment as unemployment lengthens is shown in Table 8. Several difficulties are immediately apparent. The percentages should always increase; no one can be unemployed ten to fourteen weeks without first being unemployed one to nine weeks, and thus the proportion using any given technique should grow unless adjustments are "reversed," which is unlikely. Table 8 indicates that some adjustments are used with reduced frequency as unemployment lengthens. There are two possible explanations: first, the results may be caused by sampling errors, since the number of cases in each cell is small; second, memory error, previously considered, may be responsible.

We have noted that, to the extent a given adjustment affects individual net worth, it is likely to be less destabilizing in the short run than if it leaves net worth intact and changes the stream of expenditures. Probably, therefore, personal loans and life insurance

⁵ The evidence is summarized in Table A-9.

TABLE 8
CHANGE IN PERCENTAGE OF UNEMPLOYED PERSONS USING SELECTED
TECHNIQUES OF ADJUSTMENT, BY DURATION OF UNEMPLOYMENT

Method of Adjustment	Percentage Using Technique During Initial Period of Unemployment, 1-9 Weeks	Change in Percentage Using Technique When Duration of Unemployment Increases to:			Percentage of Total Cases
		10-14 Weeks	15-19 Weeks	20-24 Weeks	
<u>Delinquency</u>					
Rent	10.3	+3.1	+3.9	-2.0	13.9
Mortgage	18.8	+1	-6.0	+18.6	19.2
Major house improvements	3.9	-2.8	+2.4	-.4	2.9
Appliances					
Purchased during survey year	15.9	+7.3	+8.4	-8.6	24.4
Purchased before survey year	13.6	+16.8	+9.9	-8.0	30.4
Total	16.7	+10.9	+6.3	-9.1	26.8
Hospital payment	3.9	+3.0	+6	-1.7	5.9
Auto payment	12.6	-6.0	-.3	+7.1	6.9
<u>Repossession</u>					
On auto	4.2	+1.7	-.3	+8.7	6.7
On appliances	0	+2.6	+2.2	+8	3.1
<u>Acquisition of Funds</u>					
Decreasing savings and checking accounts	73.3	-1.4	+2.0	+5.2	73.8
Life insurance loan	1.3	-.3	+9	+1.4	1.9
Personal loan	23.6	+1.1	-1.4	+1.6	24.6
Sale of auto	4.5	-.2	+5.4	-1.0	7.2

(continued)

Method of Adjustment	Percentage Using Technique During Initial Period of Unemployment, 1-9 Weeks	Change in Percentage Using Technique When Duration of Unemployment Increases to:			Percentage of Total Cases ^a
		10-14 Weeks	15-19 Weeks	20-24 Weeks	
Expenditures					
Food					
Increase	12.7	+9	-4	-3.5	13.1
Decrease	28.1	-2.7	+1.5	+2	25.9
No change	59.2	+1.8	-1.1	+3.3	61.0
Tobacco					
Increase	2.1	-8	+4	-1	1.6
Decrease	5.0	-1.4	+2	+1.1	3.7
No change	92.9	+2.1	-1.5	-1.1	95.0
Liquor					
Increase	8.5	-6.6	+6.6	-5.5	4.8
Decrease	9.8	+1.2	+2.1	-3.6	10.8
No change	81.7	+5.4	-8.7	+9.2	84.4
Movies and recreation					
Decrease	3.8	-1.8	+1.1	+9	3.1
Newspapers, etc.					
Decrease	2.1	-6	+1	+3	1.6
Auto operations					
Increase	8.6	+4.0	-1.3	-1.3	10.7
Decrease	12.2	-1.0	+4.8	-5	12.8
No change	79.2	-3.0	-1.0	+1.9	76.6

SOURCE: Derived from Table A-9.

NOTE: Figures are changes in percentage of possible users, not total sample.

^a Data include those unemployed for more than twenty-six

weeks. Since these cases must have experienced more than one period of unemployment during the survey year, they are not analyzed in the table.

loans would interfere less with both effective demand and investment plans than other adjustments. One might argue that delinquency on instalment obligations might adversely affect lender confidence, though when and to what extent is not known.

The clues to the priority pattern in Table 8 involve consideration of those techniques that show an increase in frequency as unemployment continues, i.e., those techniques which show plus signs in the middle three columns. On the basis of the available evidence, it appears that two of the three most important techniques (decreasing food expenditures and obtaining personal loans) are both resorted to promptly—indeed, most individuals who use them at all use them in the first weeks of unemployment. Beyond this, it seems that adjustments used with increasing frequency up to a period of twenty weeks of unemployment include delinquencies and repossessions on appliances, delinquencies on hospital payments, and decreases in automobile expenditures. Techniques which show an increase only after unemployment has continued for twenty weeks or more include permitting delinquent mortgage payments and repossession of automobiles. Selling automobiles rises somewhat earlier, in the fifteen- to nineteen-week interval. Other possible offsets to reduced income show no tendency to be used more frequently as the period of unemployment lengthens. It is noteworthy that of the three techniques which have previously been shown to be most important quantitatively, only one—reducing savings and checking accounts—shows a modest tendency to be used with increased frequency as the period of unemployment lengthens. This may be because of the predisposition of a few individuals to maintain their net worth position as long as possible.

While the dollar volume represented by each adjustment is not indicated, it is clear from the frequency distribution that household adjustments are a combination of necessity and choice, with the latter being gradually diminished in importance as unemployment duration lengthens. Under these circumstances, the unemployed have increasingly less flexibility and adjustments become less and less matters of choice. Mortgage delinquencies are a case in point. After twenty weeks many can no longer avoid this method of limiting the drain on reduced resources, and the risk of fore-

closure becomes unavoidable.⁶ The rise in automobile repossessions among those unemployed for a long time reflects an earlier rise in the delinquency rate.

Interestingly, the general pattern of relative importance pervades all duration classes. That is to say, if one asks which techniques unemployed individuals favor, the answer does not change materially with the length of their unemployment—only with the degree to which alternative adjustments are utilized. A rank correlation analysis for the eighteen adjustments previously considered showed that the ordering within each unemployment duration class is remarkably similar.⁷ If the relative importance is measured as the dollar volume represented by each adjustment, the conclusion is unchanged.⁸

⁶ Mortgage delinquencies, as has been noted, may be a calculated risk. Lenders may be willing to permit such delinquencies for short periods of unemployment, knowing that payments are likely to be resumed shortly, and borrowers may anticipate that lenders are reluctant to resort to foreclosure.

⁷ The rank correlation coefficients relating to duration of unemployment in Table A-8 are all well over .90 except the 30-weeks-and-over group, which, as previously explained, is largely made up of individuals unemployed more than once during the survey year.

⁸ See Table A-8 for the rank correlation coefficients relating frequency of use and dollar volume to duration of unemployment.