

CHAPTER

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Jobs and Unemployment

Chapter Goals

- Distinguish some microeconomic categories of unemployment and explain how they relate to the unemployment debate.
- Explain Okun's rule of thumb and summarize the debate about the appropriate target rate of unemployment.
- Explain why unemployment is more than a technical concept but one that involves normative judgments.
- Discuss the advantages of, and problems with, a government-guaranteed minimum job program.

Jobs and Unemployment

- Unemployment means very different things to different people.
- Today the average person will have 10 to 11 jobs in his or her life, staying at each an average of four years.
- Even when the unemployment rate is constant, there are many changes in the labor market.
 - In May 2018 the unemployment rate was unchanged from previous month, but 3.5 million workers quit jobs, another 2 million left for other reasons and a total of 5.7 million started new jobs.

The Debate about the Nature and Measurement of Unemployment

There is an ongoing debate about whether or not unemployment is voluntary or involuntary.

Even in a recession, most educated people can either find a job or create one.

The problem is that the pay is far less and far less desirable than the jobs they want.

Entrepreneurship and Unemployment

Truly entrepreneurial people will never be unemployed; they will create jobs for themselves.

Most of us are not entrepreneurial, and the reality is that in today's economy high school dropouts, and increasingly college dropouts, are having a hard time finding a job.

Microeconomic concepts of unemployment, unemployment's relationship to total output, and the debate about what the target level of unemployment should be, will be discussed.

Microeconomic Categories of Unemployment

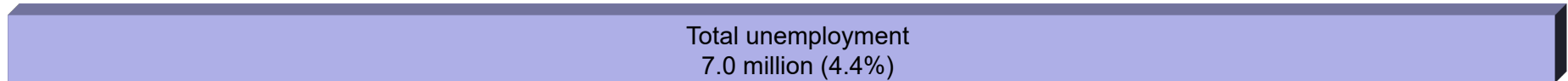
Some microeconomic categories of unemployment susceptible to different types of policies are:

- How people become unemployed.
- Demographic unemployment.
- Duration of unemployment.
- Unemployment by industry.

A structural unemployment problem is not highly susceptible to expansionary monetary and fiscal policy.

Unemployment by Microeconomic Subcategories, 2017

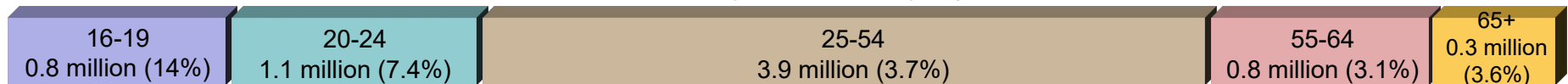
Total unemployment rate



Unemployment rate by sex



Unemployment rate by age



Unemployment rate by race



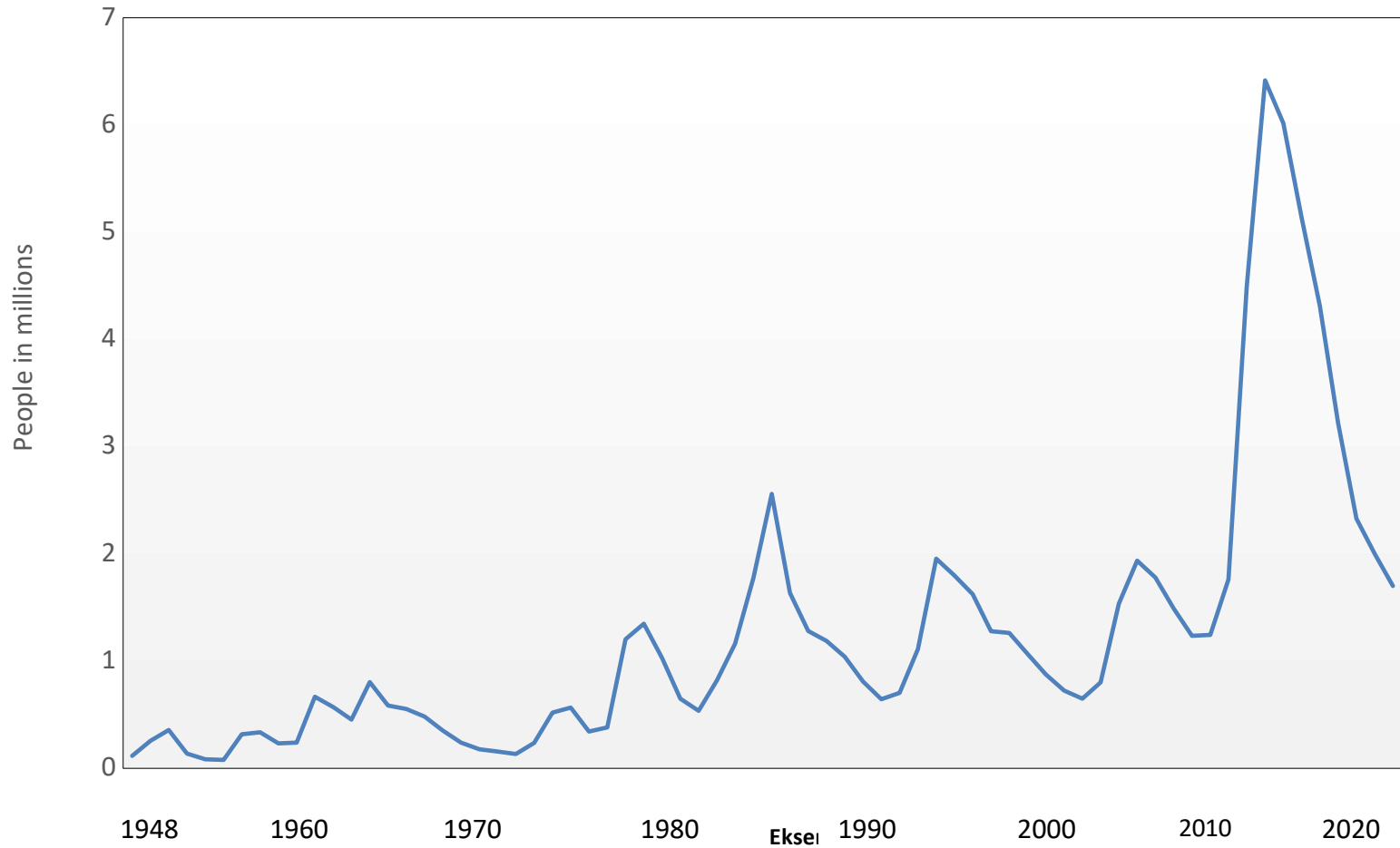
Duration of unemployment



Reason for unemployment



Number of People Unemployed for More than 27 Weeks



Unemployment and Potential Output

The unemployment rate provides an indication of how much labor is available to firms to increase production.

This provides employers with a sense of what is the level of potential income.

Okun's rule of thumb states that a 1 percentage point rise in the unemployment rate will be associated with a 2 percent fall in output from its trend and vice versa.

What makes estimating this relationship difficult is that increases in productivity and increases in the number of people choosing to work fluctuate.

Is Unemployment Structural or Cyclical?

Okun's rule explains **cyclical unemployment**, which is temporary unemployment that can be expected to end as the economy recovers and can be resolved by macro policies.

Structural unemployment is long-term unemployment that occurs because of changes in the structure of the economy and cannot be resolved by macro policies.

Most of the policy discussions of unemployment in conventional macroeconomics have been about cyclical unemployment, not structural unemployment.

Is Unemployment Structural or Cyclical?

One important determinant of whether someone takes a job is their:

- **Reservation wage** is the wage a person requires before accepting a job. The higher the reservation wage is, the more likely one is to be unemployed.
- Another aspect that keeps reservation wages in the United States high are the costs associated with taking a job and the availability of income-support programs.

Another aspect of structural unemployment is geographic. Some areas of the country have jobs while others do not.

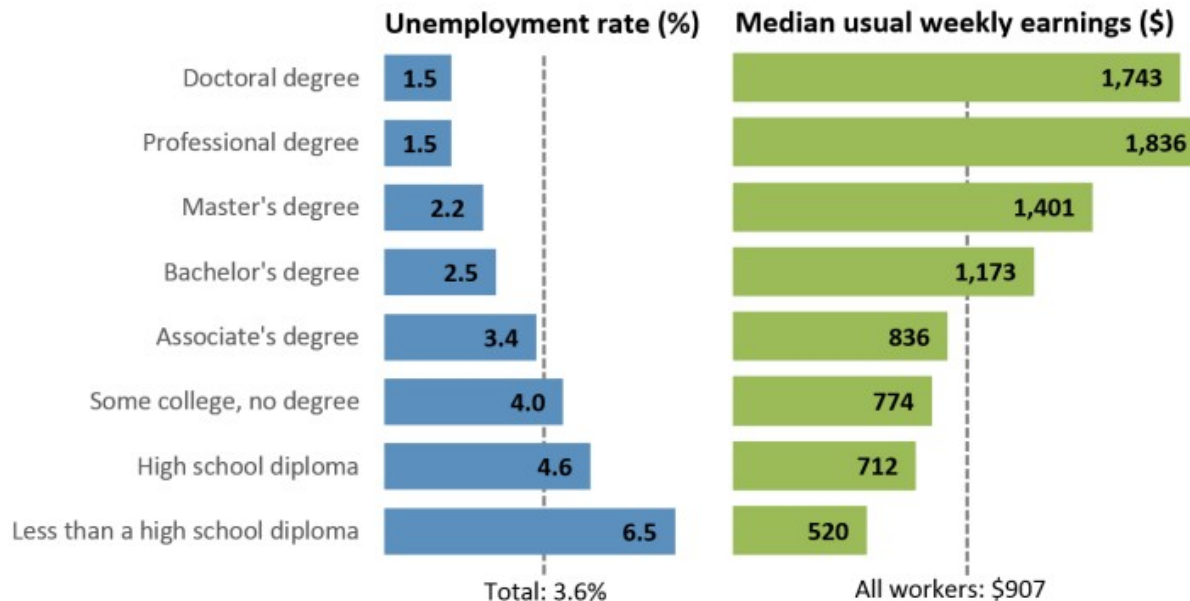
Why Has the Target Rate of Unemployment Changed over Time?

1. Demographics: Different age groups have different unemployment rates.
2. Our economy's changing social and institutional structure.
3. Changes in government institutions.
4. Technological change: automation, artificial intelligence dee-learning apps and other advancements.
5. Globalization and technological change require structural change.
 - The lower the level of education, the lower the pay.

Unemployment Rates and Earnings and Educational Attainment 2017

The lower the level of education the lower the pay and the more likely one is to be unemployed

Unemployment rates and earnings by educational attainment, 2017



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.

Source: U.S. Bureau of Labor Statistics, Current Population Survey.

(www.bls.gov/emp/ep_chart_001.htm).

Globalization, Immigration, and Jobs

The jobs experience of U.S. workers depends on the sectors where the jobs are:

- **Tradable sector**, such as manufacturing, where production can easily be shifted to a foreign country.
- **Nontradable sector**, such as education, where it can't easily be shifted to a foreign country.
- **Immigration sector**, production that can be undertaken by non-U.S., largely unskilled immigrants.

Globalization lowered wages and raised unemployment in both the tradable and immigrant sectors, with very little changes in the nontradable sector.

Framing the Debate about Voluntary and Involuntary Unemployment

Individual responsibility framework: unemployment is impossible if people are willing to work at any job for any pay.

Social responsibility framework: society owes people jobs commensurate with their training and job experience at a respectable wage.

- “Individual Responsibility” measure = closer to 1 million
- “Social responsibility” measure = closer to 30 million

A Guaranteed-Job Proposal: Government as Employer of Last Resort

- With a guaranteed-jobs program, the government provides a minimum job for every eligible citizen who truly want to work and cannot find a job, and primarily benefits the least well off.
- There is a reason most existing government programs are designed differently—to help the middle class in addition to the least well off.
- Much of the current debate about unemployment is not about providing a minimum job; rather it is about providing people with a level of job that they expect.

A Guaranteed-Job Proposal: Government as Employer of Last Resort

Whether or not the guaranteed-jobs program solves the unemployment problem depends on your viewpoint.

- If you believe it does, you define employment as have a minimally acceptable job, and are following an individualist normative view.
- If you believe that it does not, and it is the government's responsibility to provide a job commensurate with people's training and past jobs, you are following a more social responsibility normative frame.

Paying for the Program and Discussion

Even a limited program will not be cheap.

Cost of one job: \$10 an hour $\times$ 40 hours = over \$20,000 per year. Add to that \$5,000 for administration and monitoring = \$25,000 per job.

The program could cost as much as \$88 billion for a bare-bones program.

There is a reason most existing government programs are designed as they are—to help both the middle class and the least well off.

Much of the current debate about unemployment is not about providing a minimum job; rather it is about providing people with a level of job that they expect.

Chapter Summary (1 of 2)

The microeconomic approach to unemployment divides unemployment into categories.

Okun's rule of thumb states that a 1 percentage point change in the unemployment rate will tend to be associated with a 2 percent deviation in output from its trend in the opposite direction.

Cyclical unemployment is the result of temporary declines in economic output, whereas structural unemployment requires structural changes in the economy.

The target rate of unemployment has risen because the workforce is younger, more women have entered the workforce, government has expanded income-support programs, and globalization.

Chapter Summary (2 of 2)

Those who believe that employment is a responsibility of the individual believe there is virtually no unemployment. Those who believe it is a social responsibility believe that government ought to provide everyone a job commensurate with his or her skills. A solution to the unemployment problem requires a compromise between the two.

One proposal that “solves” the unemployment problem is for government to provide a minimum job for every eligible citizen.

The benefit of a government guaranteed jobs program is that everyone who wants to work is employed; the problem is that such a program costs money.