

MONETARY POLICY---

THE POSSIBLE AND THE IMPOSSIBLE

Address by

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to the

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It is a pleasure and an honor to participate in your program today. In running over in my mind the many possible topics I might try to tackle, I decided that perhaps I should say a few things about Federal Reserve monetary policy. Fed policy, of course, is much in the news these days. But aside from whatever immediate impact the System's actions may be having on conditions in the financial markets at the present moment, it seems to me that this is a good time to talk about monetary policy for a couple of reasons.

First, our country has been in a real economic quandary for some time now. To cite just a few bits of evidence, real GNP grew at a 4.2 percent annual rate in the 1960s, but it grew at only a 3.1 percent rate in the 1970s. Employment, in contrast, grew more rapidly in the 1970s than it did in the 1960s, which means that we experienced some decline in productivity in the 1970s. On top of this, economic activity fluctuated more widely in the 1970s than in the 1950s and the 1960s. We suffered three recessions in the 1970s, and the one that began in 1973 and ended in 1975 was the most severe recession since the 1930s. But the most pervasive and in my view the most dangerous problem we face currently is inflation. In the 1960s prices rose roughly 25 percent; in the 1970s prices rose almost 100 percent. Moreover, as you are all well aware, inflationary expectations have risen rapidly along with actual inflation. These expectations, in turn, have been incorporated into long-term interest rates and have helped propel these rates to unprecedented heights. Many economists believe that monetary policy can help the nation achieve a better economic performance in the 1980s.

The second reason that this is a good time to talk about monetary policy is that the Administration is trying to engineer a substantial shift in both emphasis and direction in the formulation of national economic policy. This shift has important implications for monetary policy.

Accordingly, I want to make four main points this morning, and I'll flag them so that you won't miss them. First, I'll touch lightly on what might be called the traditional post-war view of how monetary policy works. Second, I'll describe how I think this view is changing. Third, I'll share with you my personal view regarding the proper role of monetary policy, and, finally, I'll give you my assessment of the chances that the policies we are now following will contribute to an actual improvement in the nation's economic performance.

Let me move then to my first point: the traditional post-war view of monetary policy. As you all know, there are several competing views about how the Federal Reserve should conduct monetary policy. I think it is fair to say that over the post-war period as a whole, the majority view among those with an interest in public policy has been that the Fed should conduct monetary policy by trying to manage interest rates. Some people have even argued that the Fed should try to conduct monetary policy with the express purpose of keeping interest rates low in order to stimulate borrowing, investment, aggregate demand and economic growth. Others have held the somewhat more moderate view that the System should adjust interest rates up or down as necessary to smooth out swings in the business cycle. In any case, this traditional view of monetary policy has clearly been reflected in the actual conduct of policy over most of the last 25 years.

My second point has to do with recent changes in attitudes toward monetary policy. I think it is increasingly recognized both by professional economists and by the general public that the Federal Reserve cannot control interest rates for any extended period of time, especially in an environment with deeply embedded inflationary expectations such as we face now. If the Fed tries to control interest rates, it inevitably winds up trying to move them away from the levels determined by the natural forces of demand and supply in the financial markets. Attempts to do this, however, set off a chain of reactive forces in the markets that eventually drive rates back towards their original levels and beyond them. To illustrate, if the Fed tries to push rates below market levels, it has to supply additional reserves to the banking system. These added reserves cause the money supply to grow faster. Increased money supply growth, however, raises both actual and anticipated inflation, and this increase in expected inflation puts upward pressure on interest rates as both borrowers and lenders build this revised expectation into nominal rates. As a result, rates eventually move back toward their original levels and then beyond them. In short, efforts to manage interest rates are counterproductive. It seems to me that recent monetary history provides compelling evidence that this is the way the world really works.

Now for my third point. If the Fed cannot effectively manage interest rates with monetary policy, what then can it do? The answer to this question should surprise no one: We can and we should control the rate of growth in the money supply. I reach this conclusion by a fairly simple route. Most of the historical evidence economists have developed suggests that our nation's real output can grow by about 3 percent or so per year. It seems intuitively clear that the means of financing this physical growth should grow at about the same rate if we are to avoid the development of inflationary pressures or recessions. This logic leads me to conclude that the money supply should increase at about 3 percent or so per year over the long run, with an adjustment to reflect the trend rate of growth in the velocity of money.

As you know, the Federal Reserve is now committed to controlling the money supply. The System annually sets targets for the growth of the monetary aggregates in the year ahead in accordance with the Full Employment and Balanced Growth Act of 1978—the so-called Humphrey-Hawkins Act. The main dispute in this area these days is over the extent to which the Fed, in setting these objectives, should try

to anticipate relatively short-run fluctuations in economic activity and offset these anticipated fluctuations with discretionary changes in the rate of growth of the aggregates. I'm increasingly convinced that no one can forecast the business cycle with much confidence, and I don't think anyone understands very well the short-run impact of the growth of the money supply on economic activity. Therefore, I favor reasonably steady, nondiscretionary growth in the money supply in both the short run and the long run with appropriate adjustments for long-run trends in the velocity of money. Under such an approach money would serve as an automatic economic stabilizer, exerting a brake on inflationary pressures and serving as a cushion against recession. My own feeling is that what we now call M-1B (currency, coin, and transactions balances held by the public) is the best of the existing concepts of the money supply to use for this purpose, but the choice of a particular monetary aggregate is a secondary matter. The main thing is to choose one definition of the money supply and then stick to it.

Finally, with my preceding remarks as background, let me say a little about present and prospective policy. I'll divide this part of my discussion into two subparts. First, why have we at the Fed sometimes failed to achieve our policy objectives in recent years? Second, what efforts are we making to improve the techniques we use in conducting policy and what results can be expected from these efforts?

Why has our performance at the Fed fallen short of what we wanted to achieve? I think there are several reasons. First, it seems to me that some economists and some policymakers have been excessively pessimistic regarding the relative costs and benefits of reducing the long-run rate of growth in the money supply. There seems to be a relatively widespread belief in some circles that one cannot affect the rate of inflation significantly in a short period of time without inducing a severe recession. This view can be summed up in the rule of thumb, derived from conventional econometric models, that one must give up 10 percent of the potential growth in gross national product in any year in order to achieve a 1 percent reduction in the rate of inflation. Two of our economists at the Richmond Fed, Roy Webb and Tom Humphrey, applied that rule to the German hyperinflation of the early 1920s. They estimated that, according to this rule, it would have taken a 50 percent GNP gap maintained over 600 centuries to eliminate the 300,000 percent inflation rate witnessed in Germany from mid-1922 through

late 1923. Actually, as you know, the German inflation was virtually eliminated in early 1924 at an estimated loss of only 10 percent of potential GNP. Now this example is probably not entirely fair since by early 1924 the German public knew that the German government was serious about dealing with inflation, whereas the American public was never completely confident that policy was on an unambiguously anti-inflationary course during the period on which many of our econometric models are based. But the example does underline the truth that a serious commitment to monetary control can help reduce inflation in a short period of time without imposing unacceptable social costs in terms of lost output. Incidentally, I think that the precise speed with which we reduce the rate of expansion in the money supply is less important than removing all doubts about our ability to hit our monetary targets and our firm intention to do so.

A second and perhaps more important reason why I believe we have not achieved better results with monetary policy in recent years is what might be called bad engineering. There is absolutely no doubt in my mind that the System's policy objectives have been reasonable and attainable. Our execution of policy, however, has not been as effective as we in the Fed would have liked it to be. In particular, we have been hampered by some institutional flaws in the apparatus that we use to control the growth of the money supply. In addition, I think that some of our procedures have had some shortcomings.

Let me explain what I mean by engineering flaws. As many of you undoubtedly know, prior to October 6, 1979, the Fed tried to govern the rate of growth of the money supply by controlling the Federal funds rate. Specifically, we tried to determine the level of the Federal funds rate that was consistent with our objectives for the growth of the monetary aggregates, and then we supplied the quantity of reserves necessary to hit that level of the funds rate. But we were fooled repeatedly because we simply did not have the empirical information we needed to select a pattern of Federal funds rates that would produce the desired growth in the money supply consistently over time.

Since that date we have been trying to control the money supply by controlling the supply of reserves—specifically, the supply of nonborrowed reserves. This procedural change was important and was, in my judgment, definitely a step in the right direction. As I indicated a moment ago, however, our execution hasn't always been as effective as might be hoped. I would make several observations in this

regard. First, the new procedure implied that we would have to allow more short-run movement in the Federal funds rate than in the past. Although we have certainly let the rate move more freely than in years past, it seems clear in retrospect that we have not allowed it to vary as flexibly as required to hold the growth of the money supply under control. Second, I do not think we have always adjusted our nonborrowed reserves targets as quickly and strongly as we should have. Third, the discount rate weapon has not been used as aggressively as it might have been to supplement the other tools for controlling money growth. Fourth, at times we have tended—often mistakenly as it has turned out—to assume that short-run movements of the money supply away from their target paths would be self-reversing. Last year, for example, we did not react very quickly to the weakening in the growth of M-1B in March, and we certainly did not respond nearly strongly enough to the upsurge of growth that began in June. Finally, our system of lagged reserve accounting creates technical difficulties under our new control procedures that were not present when we were trying to control the money supply using the Federal funds rate as the operating instrument.

Fortunately, there is a definite realization within the System that these engineering problems exist, and we are taking actions to correct them. In recent months we have loosened the constraint on movements in the Federal funds rate, and at some point in the future I hope that this constraint will be eliminated altogether. Further, we are currently adjusting our nonborrowed reserve instrument much more rapidly than earlier, and there is also a possibility that the discount rate will be used more actively in the future as a tool for monetary control. Finally, I think there is a good chance that we may soon move over to some form of contemporaneous reserve accounting. I recognize that there are some disadvantages to contemporaneous accounting both from your standpoint in the banking industry and from our standpoint operationally at the Fed. Nonetheless, it seems increasingly clear that some shift back toward contemporaneous accounting—with some modifications to the old pre-1968 system to make it more palatable to you—would reinforce our efforts to control monetary growth more effectively.

Taking all of these considerations into account, I am rather optimistic. I don't want to suggest that the conduct of monetary policy has been perfect so far in 1981, but on balance I think it represents an improvement over events in 1980. I've been either watching or participating in Federal Open Market

Committee meetings for a long time, and I've never seen the Committee more serious about hitting its long-run targets for money growth. So I think we are on the right road, and if we can hold to our course, I believe that most people will probably be surprised by the speed with which inflation can be brought under control. Since I consider inflation the root cause of most of our other economic problems, I believe that any progress we make on the

inflation front will yield lower unemployment, higher productivity and growth, a stronger balance of payments, and lower interest rates. The trick now will be to hold firm, even if we run into some stormy economic weather in the months immediately ahead. I can assure you that we in the Federal Reserve will hold firm, and I believe strongly that the nation will reap the benefits of these policies sooner than most people seem to expect.

INSTRUMENTS OF THE MONEY MARKET

The Federal Reserve Bank of Richmond is pleased to announce the publication of the fifth edition of *Instruments of the Money Market*. This book describes the major money market instruments and the institutional arrangements of the markets in which these instruments are traded. Domestic money market instruments discussed include Treasury bills, Federal agency securities, Federal funds, repurchase agreements, CDs, commercial paper, and bankers' acceptances. There are also chapters on Eurodollars, the Federal Reserve discount window, and the dealer market for U. S. government securities. In addition, there is a chapter on short-term investment pools, e.g., money market mutual funds, which purchase large amounts of money market instruments. The book begins with an introductory chapter on the money market. Virtually the entire fifth edition (1981) is new.

UNEMPLOYMENT AND ITS MEASUREMENT: IMPLICATIONS FROM A SURVEY OF LONG-TERM UNEMPLOYMENT IN BALTIMORE CITY*

The Survey of Unemployed and "Discouraged" Workers in Baltimore evolved from a proposal by James F. Tucker, Vice President of the Federal Reserve Bank of Richmond, that this Bank undertake a survey to collect information on discouraged workers in Baltimore and thereby to provide the general public with a better understanding of their unemployment problems.

Mr. Tucker then contacted Professor Moges Ayele of Morgan State University, and the Federal Reserve Bank of Richmond contracted with him to perform the survey.

Mr. Ayele and William E. Cullison, Research Officer of this Bank, developed the questionnaire.

Mr. Ayele and Ms. Yvette Armstead of Baltimore, led the team of field workers conducting the survey.

Ms. Donna Howell of Richmond compiled the results. Mr. Cullison wrote this article and bears sole responsibility for any errors or omissions in it.

Over the past thirty-five years, the one economic statistic most often chosen as a measure of economic welfare and capacity utilization has been the unemployment rate. Because of its wide publicity and its seemingly straightforward nature, unfavorable changes in that statistic can have serious repercussions for incumbent politicians and high-level bureaucrats. Despite its widespread use, however, many economists believe that the unemployment rate as currently computed is a relatively poor statistic for measuring either economic welfare or labor market capacity utilization.

Geoffrey Moore, former Commissioner of the Bureau of Labor Statistics and Director of the National Bureau for Economic Research, for example, has

argued for some time that the unemployment rate has been overemphasized as a target variable for economic policy.¹ He has suggested, instead, that an employment/population ratio might be a preferable economic indicator. Moore was critical of both the definitional concept of the unemployment rate² and the accuracy of the unemployment data, which are subject to relatively more sampling error than the comparable employment data. Moore criticized the definition of unemployment because of its subjectivity. Unemployment is defined as it is because one may be out of work voluntarily or involuntarily, and the concept of unemployment excludes those who are voluntarily unemployed. This subjective characteristic of the unemployment data caused Moore to conclude that they were "softer" statistics than the employment data.

* We wish to thank the members of our advisory committee, Pearl C. Brackett, Deputy Manager of the Baltimore Regional Chapter of the American Red Cross; Catherine P. Doehler, Director of Financial Development of the Baltimore Regional Chapter of the American Red Cross; Mary Garland, Coalition of Peninsula Organizations; Robert Hearn, Assistant Provost, The Johns Hopkins University; William Hoffman, Jr., Education and Career Specialist, Greater Homewood Manpower Center; Steve Horwitz, Director of Public Information, Maryland Motor Vehicle Administration; Lenwood Ivey, Executive Director, Urban Services Agency; Nat Jackson, Director, Greater Homewood Manpower Center; Michael Jans, Director, Northeast Community Organization; Dea Anderson Kline, Director of Community Affairs, The Johns Hopkins University; Larry Pencak, Director, Southeast Community Organization; Louis Schreiber, Executive Director of the Northwest Baltimore Corporation; and Marie Washington, Director, East Baltimore Community Corporation, for their assistance with this project. Special thanks are due the Northwest Baltimore Corporation for allowing the field workers to use its Northwest Pimlico Multipurpose Center as a base of operations.

¹ See Geoffrey Moore, "Employment, Unemployment and the Inflation-Recession Dilemma," in *Contemporary Economic Problems, 1976*, (Washington: American Enterprise Institute, 1976), pp. 163-82, for a sample exposition of those views.

² The unemployment rate is simply the percentage of unemployed persons in the civilian labor force. The latter is defined as the sum total of employed and unemployed persons. Persons are considered to be unemployed if (1) they did not work at all for pay during the survey week or if they worked less than 15 hours for no pay in a family enterprise, (2) they made at least one specific effort to find a job within the past four weeks, and (3) they were available for work and willing to work during the survey week. Persons are also considered to be unemployed if they are on temporary layoff awaiting recall. Employed persons are defined as persons who worked at least one hour for pay or at least 15 hours for no pay in a family enterprise during the survey week.

Moore's criticism was not the only one. The unemployment rate also came under suspicion from a number of quarters in the late sixties and seventies not only because it did not appear to measure capacity utilization in the economy in a manner consistent with other economic indicators but also because rather large increases in employment were having little effect upon reducing the unemployment rate. The latter reason for suspecting the data was directly related to the voluntary-involuntary nature of unemployment, as large numbers of females who had previously been voluntarily out-of-work were entering the labor market to look for jobs, and thus being counted among the unemployed. In addition, large numbers of young workers, who had never worked regularly before, were entering the labor market, thus changing from being voluntarily out of work to being involuntarily unemployed. A number of economists recognized the problem of interpreting changes in the unemployment rate over time and attempted to adjust it for the demographic changes.³

Other economists criticized the unemployment statistics in another way, arguing that unemployment was understated in the official statistics. These critics noted that part-time workers were considered to be employed even if they wanted full-time work and were only taking odd jobs to finance their search for a full-time job. Moreover, they argued that the once-a-month job search criterion was too restrictive, since it excluded a number of workers who wanted jobs but were too "discouraged" with their job prospects to search that often.

The relevance of conventional employment and unemployment data for macro policy has been debated for several decades. During the sixties, it was taken for granted that government policy could reduce unemployment at the cost of slightly higher rates of inflation. As actual events and economic analysis began to discredit the notion of a stable inflation-unemployment trade-off during the seventies, attention began to focus on other concepts, the "natural" and "noninflationary" rates of unemployment. The difference in terminology depends upon whether one accepts the hypothesis that there is a

natural rate of unemployment to which the economy gravitates. In terms of measuring labor market capacity utilization, however, the two terms have similar implications. Robert J. Gordon, for example, defines the natural rate as

. . . the economy's long-run equilibrium level of unemployment that occurs when output equals its long-run natural level and is a situation in which the actual inflation rate turns out to be exactly what people anticipate.⁴

Thus defined, the natural rate of unemployment is the rate at which inflation is stable and thus neither accelerates nor decelerates.

The natural rate concept focused attention on the meaning of particular *levels* of the unemployment rate rather than changes in the rate, for it became increasingly apparent that policies that lowered the unemployment rate below its natural level meant accelerating inflation. Empirical estimation of the natural rate, however, was made difficult because of its tendency to change over time. Robert J. Gordon has estimated it at 5.2 percent in 1964, 5.6 percent in 1972, and around 5.4 percent in the mid-1970s. Phillip Cagan has argued that the "noninflationary full employment" unemployment rate (which in his framework is the unemployment rate at which inflation is stable, i.e., the natural rate) rose from 4.7 percent in 1956 to between 5.9 percent and 6.3 percent in 1977.⁵ Cagan has noted a number of reasons for the change in the natural rate over time. His reasons included such structural changes as shifts in the composition of the labor force, extended unemployment insurance coverage, liberalized unemployment insurance benefits, increased minimum wage, increased work registration requirements, and other manpower programs.

George Perry, Michael Wachter, Robert Hall, and Franco Modigliani and Lucas Papademos estimated a related concept, the "noninflationary" unemployment rate. They seemed to reach a consensus that the rate had risen to around 5.5 percent in the mid-1970s compared to a 4.0 percent-4.5 percent level in the 1950s.

It will be the contention of this paper that the determination of the natural and/or the noninflationary rate of unemployment is made unnecessarily difficult because of a flawed definition of unemploy-

³ See, for example, George Perry, "Changing Labor Markets and Inflation," *Brookings Papers on Economic Activity*, 3:1970, pp. 411-41; Robert Hall, "The Process of Inflation in the Labor Markets," *Brookings Papers on Economic Activity*, 2:1974, pp. 342-93; Michael Wachter, "The Changing Cyclical Responsiveness of Wage Inflation," *Brookings Papers on Economic Activity*, 1:1976, pp. 115-59; and Modigliani and Papademos, "Monetary Policy for the Coming Quarters," *New England Economic Review*, Federal Reserve Bank of Boston, March/April 1976, pp. 2-35.

⁴ Robert Gordon, *Macroeconomics* (Boston: Little, Brown and Company, 1978), p. 212.

⁵ Phillip Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," in *Contemporary Economic Problems, 1977*, (Washington: American Enterprise Institute, 1977), p. 40.

ment. To develop a framework for subsequent analysis, assume that there exists a definition of unemployment that includes only those persons who (1) honestly want full-time work (i.e., would accept any kind of regular job), (2) have adequate job skills (a set of attributes that would make them desirable employees from the viewpoint of an employer), (3) are earnestly searching for full-time work, and (4) have a relatively low reservation wage (would work for any wage that would provide a net addition of household income). Unemployment so defined might be called, for want of a better term, hard unemployment. Assume further that accurate data could be collected on this type of unemployment. The level of hard unemployment would always be greater than zero because of the existence of frictional unemployment, but it would not normally be far above the frictional level. Hard unemployment would exclude a number of persons who are currently included in the unemployment statistics.

By contrast, assume that unemployment could also be defined to include everyone who is presently classified as unemployed plus "discouraged" workers⁶ and any others who would accept the offer of an appropriate job if they did not have to expend any effort in searching for it. This set of unemployment data might be labeled soft unemployment.

Now, full employment in the labor market has often been defined to be whatever the unemployment rate would be at its frictional level. By this definition it is clear that measures of full employment may differ markedly depending upon their corresponding concepts of unemployment. Hard unemployment, for example, might be maintained close to its frictional level without increasing inflation. Soft unemployment probably could not be reduced near its frictional level without exacerbating inflation.

The key difference between the two concepts is that hard unemployment excludes individuals who either do not have an intense desire to find a job or do not have job skills and personality characteristics that are attractive to employers. It is of course true that it would be difficult in practice to measure hard unemployment, but data could be published that are closer to the concept.

⁶ Discouraged workers are presently defined as workers who want work, but have not looked for work within the latest four weeks because: (1) they believe no work is available in their line of work or area; (2) they could not find work; (3) they lack the necessary skills, schooling, training or experience; (4) employers think they are too young or too old; or (5) they have other personal handicaps in finding work. Workers giving additional reasons, such as family responsibilities, school attendance, or ill health, are excluded.

The Bureau of Labor Statistics, for instance, might publish data on individuals who search for work frequently (at least twice per week) and intensely (take substantial overt actions, not just peruse the want ads in the newspaper). In addition, statistics could be provided on intense searchers who had been unemployed for more than, say, 5 or 6 weeks. The search criterion is crucial to the concept of hard unemployment because of an assumed connection between intensity of job search and a pronounced (or strong) desire to work. The length of time of unemployment is important to reduce frictional unemployment. In any event, this operational definition of hard unemployment should make the level of the natural rate easier to find (and close to zero) for (1) much of the frictional unemployment would be excluded and (2) workers with insufficient job skills would probably have stopped searching intensely.

Such a measure would not of course be useful as a measure of economic welfare (or social progress, etc.). To evaluate these broader social goals a broader measure would be called for. But if the assumption that intensity of job search is an important characteristic of all workers who are truly involuntarily unemployed is correct, the narrower measure should provide researchers with a better and more stable measure of the natural rate of unemployment.

This paper will investigate the claim that frequency and intensity of job search are crucial measures of the degree of an individual's attachment to the labor market using the results of a survey of long-term unemployed workers in Baltimore City.

I.

AN OVERVIEW OF THE SURVEY

The Federal Reserve Bank of Richmond contracted with Dr. Moges Ayele of Morgan State University in Baltimore, Maryland, to survey long-term unemployed and/or discouraged workers in order to determine: (1) general characteristics of long-term unemployed workers in Baltimore, (2) the nature of the economic distress faced by them and their families, (3) what alternative income was available to them and their families, and (4) the differences, if any, between unemployed and discouraged workers.

Two hundred and thirteen persons were surveyed during the summer of 1980. Persons eligible for the survey (1) were between the ages of 18 and 64, (2)

had not worked regularly for six months, (3) wanted a regular job at the time of the interview, and (4) either would have looked for work within the previous four weeks or would not have looked for one of the following reasons: (a) they thought that no jobs were available, (b) they lacked necessary schooling, training, skills, or experience, (c) experience indicated to them that employers thought they were too young or too old, or (d) there were personal reasons (such as a criminal record, perceived racial discrimination, etc.) leading them to think that they could not find a job. Potential respondents who did not want a job or whose home responsibilities, school attendance, or physical or mental disabilities prevented them from accepting a job were to be excluded from the survey.

Locating long-term unemployed persons proved unexpectedly difficult. The initial plan was to (a) locate areas of the city with high concentrations of unemployment, (b) identify community groups, churches, and social welfare organizations operating within these areas, and (c) work through these organizations to locate the specific persons to be interviewed. It was not difficult to identify the appropriate community groups, but enlisting their aid in locating candidates to be surveyed was not easy. Even so, a majority of the candidates were found through the community organizations.

The Baltimore Mayor's Office of Manpower Resources had a list of unemployed persons that was originally expected to be a primary source of candidates for interviews, but it turned out to be relatively useless. Out of 500 names taken from the list, only 30 qualified; most were no longer unemployed. A large list of names from which a sample could be selected in a statistically meaningful way, therefore, was not available. As a result, the survey results may not be representative of the unemployed worker in Baltimore. Budget limitations restricted the survey to 217 families, which is too small for many statistical procedures. Also, the study contains far fewer discouraged workers than was first planned, and therefore few meaningful inferences can be drawn from the comparisons between discouraged and unemployed workers. Given these limitations, the survey can best be interpreted as a pilot project, with the results suggesting further research.

The survey furnished 195 usable interviews; 24 respondents could be classified as workers discouraged for job market reasons, 4 could be classified as workers discouraged for other reasons, and 167 were classified as unemployed (without a job but actively seeking work). Appendix Table A-1 gives a detailed

breakdown of the responses to the survey. As noted above, the original intent of the study was to survey a larger proportion of discouraged workers, but the field crew found it difficult to find respondents who would admit to not having looked for a job within the past four weeks. According to the national statistics, the ratio of unemployed to discouraged workers was 7.6 to 1 during the summer of 1980. The ratio in this survey, 6.0 to 1, was in comparison weighted slightly toward discouraged workers.

II.

THE GENERAL CHARACTERISTICS OF 195 POTENTIAL WORKERS RESIDING IN BALTIMORE CITY

The respondents to the survey were predominately female, black, and young (57 percent were in the 18-24 age groups). A majority (52 percent) had earned a high school diploma, and only slightly more than one-fourth had some formal training over and above high school. About one-third of the respondents surveyed were household heads. The respondents generally were members of larger households, only 2 percent lived alone, and 57.3 percent lived in larger-than-four-person households.

Fifty-two percent of those surveyed had been out of work for more than a year. Almost 9 percent had never worked full-time. Most had held their last job for a relatively short interval, 54.1 percent for less than six months. Forty-seven percent left their job because they were laid-off, terminated, because the job was temporary, or because their employer went out of business. Almost the same number, 44.6 percent, left their last job for medical or personal reasons. A great majority of the respondents, 97.4 percent, had searched for a job within the past year, although only 86 percent had searched within the last four weeks.

When those respondents who were not looking for work were asked when they would resume their search, 47 percent responded that they expected to begin within the next several months. Several were waiting for school to reopen either because they thought more jobs would be available or because they would not need to make child-care arrangements.

The responses to one question were especially noteworthy. When asked whether they thought they could find a job if they sought one actively, 62.6 percent of the respondents thought either that they could find a job or that they would have a fair chance. Since the individuals were not employed, a "yes" or

“fair chance” response to the question implied that they were not “actively” seeking work. Many admitted that they were not seeking work as actively as possible because of the expense of job search, mainly for carfare and clothes. Others gave no such reason. Almost half (43.4 percent) of the respondents acknowledged that they would not accept some of the jobs available to them.

Although a number of the respondents (61.3 percent) were living at or below the poverty level, few (12.7 percent) were in danger of losing their homes or other property. Consistent with this finding, a majority of respondents (52.5 percent) indicated that they either had a reservation wage higher than the minimum wage or that there were jobs that they could get but would not want (reservation working conditions).

The questionnaire included the question, “What is the lowest pay that you would accept?” The responses to that question, however, were not very useful because the interviewers influenced the respondents’ answers. Respondents who did not have a reservation wage rate in mind were told that the minimum wage was \$3.10. Consequently the responses to the question had a floor of \$3.10 per hour.

The reservation wage data, however, is not totally useless. A test was performed to analyze how well the data conformed to *a priori* expectations, and the results were encouraging. *A priori*, one would have expected, (1) that respondents who thought jobs were available that they could get but would not want would have had the higher reservation wages, (2) that household heads, faced with more pressing needs to find jobs, would have had lower reservation wages, and (3) that females, who earn lower wages on average than males, would have had lower reservation wages. The statistical analysis confirmed the *a priori* expectations.⁷

The respondents received approximately 40 percent of all household income from income support programs. As might be expected, when the unemployed respondent was the head of household, the proportion of household income from support payments was higher, averaging 88.4 percent for the 39 families in which a female respondent was the house-

hold head. By comparison, an average of 39.2 percent of household income came from support payments for the 80 families in which the female respondent was not the household head. The corresponding percentages for male respondents were 41.6 percent for nine household heads and 15.4 percent for 54 who were not household heads.

The income data show that the respondents earned \$560 per month on average at their last job (in dollars of summer 1980 purchasing power), with a standard deviation of approximately \$300. Current household disposable income averaged \$862.11 per month, but it was often for support of large households. Per capita household income averaged \$165.56 with a standard deviation of \$122.37.

The potential workers surveyed had generally held low-skilled jobs in their previous employment. Only approximately one-fourth of them had held jobs that required skills or training. They were generally searching for jobs that were similar to those last held. A breakdown of jobs held last is shown in Appendix Table A-2.

III.

IMPLICATIONS OF SAMPLE RESULTS FOR INTERPRETING EMPLOYMENT, UNEMPLOYMENT, AND DISCOURAGED WORKER STATISTICS

As a result of Congressional concern about labor market data, Congress created a National Commission on Employment and Unemployment Statistics that published its final report on Labor Day 1979. Several issues recurred frequently in its deliberations: (1) the relationship of unemployment to economic hardship, (2) the usefulness of the unemployment rate as an indicator of labor market capacity utilization, (3) the advisability of including discouraged workers in the unemployment count, and (4) the desirability of instigating research on wages and working conditions sought by unemployed workers. These issues will be discussed in turn.

Unemployment and Economic Hardship—

When present concepts and definitions of unemployment were developed during the 1930’s, unemployment and severe economic hardship were closely related. The labor force was mostly made up of adult males and unmarried women. . . . With limited family savings and few government support programs, unemployment most often resulted in poverty. Subsequent developments [such as the change in age distribution of the labor force, the growth of income support programs, and the rising

⁷ RESWAGE = 35.97 + 22.35 · JBGT
 (3.35) (2.92)
 - 23.58 · SEX - 1.82 · HHD,
 (-2.96) (-1.82)

where RESWAGE is the reservation wage; JBGT is 1 if the respondent thought he could get a job, 0 if not; SEX equals 1 for female, 0 for male; and HHD is 1 if the respondent is a household head. The figures in parentheses are “t” statistics.

numbers of multi-earner families] however, have substantially weakened the links between unemployment and economic hardship.⁸

The survey of unemployed workers in Baltimore illustrates the link between unemployment and economic hardship. A majority of persons surveyed, 67.5 percent, received household incomes that fell below the poverty threshold.⁹ Those respondents who were household heads were worse off, as might be expected, and 84 percent of them had household incomes below the poverty level. The implication here is quite clear (and hardly surprising)—unemployment is more directly associated with hardship if it is the primary breadwinner who is unemployed. But the survey also included two questions designed to show acute economic distress, “Is there any danger of repossession or eviction (from your home), because of your being unemployed?” and “Have any possessions had to be sold or repossessed because of your being unemployed?” Only 13 percent of the respondents were in any such danger. There were 19 positive responses to the home eviction or repossession question out of 211, and 14 positive responses to the other repossession question.

Finally, if economic hardship were automatically associated with long-term unemployment, one might assume that a worker so affected would lower his expectations and take a job that he previously would not have taken. In the survey, however, 11.8 percent of the respondents indicated that they had de-

⁸ National Commission on Employment and Unemployment Statistics, *Counting the Labor Force* (Washington: U. S. Government Printing Office, 1979), p. 38.

⁹ In autumn 1979, the annual cost of living for a lower income family of four in the Baltimore, Maryland, SMSA was \$12,772 according to the U. S. Department of Labor, [News, USDL 80-278, April 30, 1980.] \$187 or 1.5 percent higher than the equivalent U. S. urban average budget. The poverty threshold in 1978 for an average U. S. nonfarm family of four (the latest data available) was \$6,662 according to the U. S. Bureau of Census, [U. S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, No. 124, *Characteristics of the Population Below the Poverty Level: 1978* (U. S. Government Printing Office, Washington, D. C., 1980), p. 208.] which was 67.4 percent of the 1978 U. S. nonfarm low income budget. Thus the poverty threshold for 1979 in Baltimore was estimated to be 67.4 percent of the 1979 low income budget figure, or \$8,608. Since the survey was taken in summer 1980, and prices in Baltimore rose 12.2 percent between autumn 1979 and summer 1980, the estimated poverty threshold for a family of four living in Baltimore in summer 1980 was adjusted to \$9,659. The Census published a breakdown of poverty level thresholds by family sizes for U. S. urban families in 1978, so the poverty level for families of different sizes was found by adjusting the figures in the Census's breakdown to the estimated Baltimore level. Accordingly, they were all increased 45 percent, the percent that \$9,659 is larger than \$6,662. The resulting estimated poverty levels are shown in Appendix Table A-3.

clined a job because of low pay, and 35 percent of the respondents thought that they could get a job but wouldn't want it because it either paid too little, was menial, was too demanding physically, or put more simply, that the respondent would not *like* the job. In answer to the question, “Do you think you will be successful in finding a job if you *actively* look for one?” 48.9 percent said yes and an additional 15.3 percent thought that they would have a fair chance.

Although this last finding may be somewhat ambiguous because of the use of the phrase “actively look for one,” the responses generally indicate that a number of unemployed workers could get some sort of job, yet they chose instead to remain unemployed. The link between unemployment and economic hardship indicated by our survey, therefore, seems to be rather loosely drawn.

The Unemployment Rate as an Indicator of Capacity Utilization in Labor Markets

The current definition [of unemployment] gives equal weight to both a family head looking for full-time work and a teenager looking for a Saturday afternoon job. Some observers feel that [the statistics thus] . . . overstate excess labor supply and understate labor market tightness. Others maintain that the unemployment figures understate the excess labor supply because the labor force definition excludes individuals . . . who would take a job if one were available but, at present, are not searching. [Furthermore,] . . . (m)any analysts [argue] that the unemployment rate is higher today than in the past . . . because there are more young persons . . . and more adult women in the labor force. It has [also] been suggested that [the extensions in duration and coverage of unemployment benefits during the 1970's] . . . may have [increased] . . . unemployment by subsidizing seasonal and casual workers. . . . Observers have suggested that [registration requirements for] . . . food stamps or aid to families with dependent children has increased the unemployment rate. . . . On the other hand, some analysts have suggested that the growth in [income support] programs might have reduced unemployment by providing income incentives for individuals to withdraw from the labor force. . . . Several analysts have [also] observed that the growth of . . . training programs may have lowered the unemployment rate. . . . other issues, not yet fully explored, are how the growth of multi-earner families affects unemployment, . . . and whether the presence of a second earner leads to longer job-seeking by other household members.¹⁰

The quote from the National Commission includes most of the major criticisms of the use of the unemployment rate as a policy target [their term] or an economic indicator. The criticisms revolve around

¹⁰ National Commission on Employment and Unemployment Statistics, *op. cit.*, pp. 36-37.

the issue of finding a natural rate of unemployment, which was discussed at the outset of the paper. Recall that at that time the concepts of hard and soft unemployment were developed to provide a framework for the search for a natural rate. The information from the survey on how closely currently defined unemployed and discouraged workers conform to hard unemployment is thus important to an analysis of the unemployment rate as a target for aggregate economic policy in the sense meant by the National Commission.

The survey questioned respondents about the frequency with which they looked for a job, the methods used in searching for a job, whether they had refused a job because of low pay; whether they thought that jobs were available that they could get but would not want; their reservation wage; their household income; and the sources of the household income. Statistical analysis indicated that search frequency waned as time passed since the respondent held his last job. Also, older workers tended to search less frequently and to be less optimistic about being able to land a job. In another vein, it was found that the more income earned on the last job and the higher the education level of the worker, the shorter was the duration of unemployment. Household income per capita, on the other hand, had no significant effect on either the frequency of job search or the length of unemployment. There was a significant relationship between per capita household income and the unemployed worker's expectations of landing a job—the higher the per capita household income, the greater the chance that the worker thought he could get a job if he searched actively.

These findings indicate that if the unemployment rate is to be used as a measure of capacity utilization, unemployment should have a search criterion associated with it, for search frequency indicates the degree of attachment to the labor force. In devising an ideal index of labor market capacity, therefore, more attention probably should be given to frequency of search and type of search. An individual, for example, who reads newspaper ads once a month certainly has a weaker attachment to the labor force than one who actively looks for a job.

In the survey, 60 persons were interviewed who reportedly (1) searched for jobs at least once every five days, (2) searched either through a public employment service, employment agencies, or through direct contact with employers, and (3) had searched within the survey week. These persons could be considered to have been searching relatively more intensely than the others interviewed.

These intense searchers were significantly different from the other respondents in only two ways: they were generally younger,¹¹ and less time had elapsed since their last job.¹² Compared to 107 *unemployed* workers who were not intense searchers, the same general pattern held. The intense searchers were younger,¹³ and less time had elapsed since their last job.¹⁴

Over half, 37 of 60, of the intense searchers had been out of work for 6-12 months. Almost one-third more, 18 of 60, had been out of work for 1-3 years. Only one (18 years old) had never held a job. The intense seekers also earned somewhat higher wages at their last job than did the other respondents. The sixty averaged \$603 per month (in dollars of the purchasing power of summer 1980) whereas the others earned only \$560 on average. The other 107 unemployed workers averaged earnings of \$555 on their last job. Neither of these average earnings was (statistically) significantly different from that of the intense searchers. These differences illustrate the potential importance of the search criterion, however, for they suggest that the searchers may possess greater job skills since they seem to have earned relatively higher wages in their previous employment. (A larger sample is necessary to come to any definite conclusion on this issue, however.)

Note, however, that the responses of the two groups did not differ appreciably on any other questions. Household incomes were not significantly different between the two groups, nor were the numbers of families in danger of repossession or eviction. These similarities of response indicate that if the search intensity criterion in the unemployment statistics were to be tightened, no particular income group would be systematically excluded from the study. Rather, the persons excluded would be those who had been out of work for long periods and were somewhat older. These types of persons probably should be excluded from the observed unemployed if one is searching for a measure of hard unemployment that is useful as an indicator of labor market capacity utilization.

Discouraged and Unemployed Workers Compared Discouraged workers are defined as work-

¹¹ $t = 2.75$ for the difference between sample means with 200 degrees of freedom.

¹² $t = 3.42$.

¹³ $t = 1.95$ for the difference between the sample means and 165 degrees of freedom.

¹⁴ $t = 2.22$.

ers who want a job, and who are available for a job, but who have not searched within the past month (and hence are not counted as unemployed). The search criterion thus is used as an indication of an individual's degree of commitment to the labor force. The National Commission studied the question of whether the definition of unemployment should be broadened to include discouraged workers, finally deciding against that course of action. Instead, they recommended publishing data on persons "marginally attached to the labor force,"¹⁵ that is, workers who had searched within six months and who meet other criteria discussed below.

The Baltimore survey allowed a loose comparison of discouraged and unemployed workers in order to determine the nature of their respective unemployment experiences. The results should be interpreted with caution, however, because the sample of discouraged workers may not have been representative: 26 of the 28 discouraged workers surveyed were female, compared to 97 of the 167 unemployed. Some of the survey responses that are ostensibly characteristic of discouraged workers, therefore, may simply represent responses characteristic of females. However, 70 percent of the national discouraged worker count is female, so sex differences may be an integral part of the data. Another important difference in the respondents that might impart bias to the survey results was the difference in household status between the respondents of the two groups. Only 31 percent of the unemployed respondents were household heads compared to 58 percent of the discouraged respondents.

The discouraged workers surveyed had usually been out of work longer than the unemployed workers. Fifty-two percent of the unemployed workers had been out of work for 12 or fewer months, but only 27 percent of the discouraged workers. Consistently, one-third of the discouraged workers had been out of work for five or more years, but only 9 percent of the unemployed workers.

Only 50 percent of the discouraged workers had held their last job longer than three months, compared to 63 percent of the unemployed workers. The two groups also differed in their reasons for leaving their last job. Thirty-three percent of the unemployed but only 20 percent of the discouraged workers left their last job because of factors related to the labor markets, i.e., being laid-off or terminated. Comparatively, half of the discouraged workers but

only 40 percent of the unemployed workers quit their last jobs for medical or personal reasons.

In answering the question related to resuming their job searches, 53 percent of the discouraged workers indicated that they had no plans to resume their search. Fourteen percent indicated that they would resume their search when their personal situation changed (e.g., after school reopened and the children entered school, when the person's health improved, etc.). The remaining 32 percent indicated that they would resume their job search within several months.

The two groups of respondents had roughly similar assessments of their job prospects. When they were asked whether they thought they could find a job if they actively sought one, 65 percent of the discouraged workers and 62 percent of the unemployed thought that they would have at least a fair chance. Somewhat inconsistently, only 55 percent of the discouraged workers and 41 percent of the unemployed thought that jobs were available that they could get but would not want.

In spite of the fact that the respondents had all been unemployed for six months or longer, few were in danger of being evicted from their home or having their mortgage foreclosed. Only one discouraged worker and 17 unemployed workers (3 percent and 10 percent respectively) were in such distress. Also, only one discouraged worker and 13 unemployed workers were in danger of having other property repossessed.

The discouraged worker households seemed to rely more heavily upon support payments (58 percent of household income) than did the households of unemployed workers (39.2 percent of household income), but this difference was a matter of sex and household status rather than a distinguishable characteristic of the discouraged worker. Respondents who were female unemployed household heads, for example, averaged 92.2 percent of household income from support payments, compared to an average of 78.9 percent for respondents who were female discouraged household heads.

The unemployed workers surveyed were better trained than the discouraged workers. Only 13.8 percent of the discouraged workers had training, either technical or general, above the high school diploma level, but 27.5 percent of the unemployed workers had training in addition to high school. Consistently, unemployed workers seemed to have held better jobs, on average, than the discouraged workers. The last job held by 27 percent of the unemployed workers required skills or training whereas only 7.4 percent of the discouraged workers

¹⁵ See National Commission on Employment and Unemployment Statistics, *op. cit.*, p. 3.

previously held skilled jobs. The majority (56.7 percent) of discouraged workers had held jobs as laborers, cleaning and food service workers, and health and school aides; 13 percent had held sales and clerical jobs; and 10 percent had never held a regular job. Considerably fewer, 38.5 percent, of the unemployed workers had last worked as a laborer, cleaning or food service worker. More, however, (25 percent) had previously held relatively unskilled sales and clerical (and stock and shipping clerks) jobs. As noted earlier, a detailed breakdown of last jobs held is shown in Appendix Table A-2. The types of jobs sought by the unemployed workers also generally required more skill. Eighteen percent of the unemployed workers were searching for skilled jobs.¹⁶

The income data also differed between the two groups. The difference, however, showed up in the variances rather than the means of the data. Adjusted into dollars of constant purchasing power (summer 1980 consumer prices) the monthly income earned at the last job held for discouraged workers averaged \$550, whereas income last earned by unemployed workers averaged \$567. The standard deviations were \$264.52 and \$329.29 for the discouraged and unemployed workers, respectively. This relation also showed up in the household incomes of unemployed and discouraged workers. Household income per person averaged \$168.80 for discouraged workers' households, \$175.30 for unemployed workers' households. The standard deviations, however, were \$88.70 for the discouraged workers and \$127.60 for unemployed workers. Using the standard statistical F test for analysis of variance to analyze the differences in the standard deviations, the probability is less than 0.025 that the two samples were drawn from the same population. In essence, this means that the unemployed group was drawn from a larger cross-section of income classes than the discouraged group.

To analyze the responses to the question, "If you seek actively, will you be successful?" in more depth, a dummy variable taking values of 1 for yes, 0 for fair chance, and -1 for no was created. A regression equation estimated with the search success dummy as the dependent variable and time elapsed since last job and age as the two independent variables showed that both age and time elapsed since last job were significant at the 10 percent level ($t = -2.18$ and $t = -1.8$, respectively) for unemployed workers,

¹⁶ Twenty-nine percent of the unemployed workers failed to respond to this question. Of those who responded to the question, 25 percent were seeking skilled jobs.

but only time elapsed was significant in the case of discouraged workers ($t = -4.5$). The negative signs indicated that the older the respondent and the longer it had been since he had held a job, the less likely he was to think that he could find a job if he searched harder.

The survey results for reservation wages were disappointing as noted earlier, which may account for the insignificance of the differences in reservation wages of discouraged and unemployed workers. Only 22 percent of the discouraged workers and 20 percent of the unemployed group said that they would require a higher wage than the minimum wage. The results of various simple regressions between characteristics of unemployed versus discouraged workers are shown in Appendix Table A-4.

As noted earlier, the National Commission concluded that discouraged workers should not be defined as unemployed and recommended that the Labor Department should begin publishing a data series on workers with a marginal attachment to the labor force. The new statistic would encompass persons who were not presently in the labor force, who were currently available for work, who had actively sought work within the last six months, and who wanted a job at the time of the survey. The reasons for seeking work that would have excluded workers from the discouraged worker ranks, e.g., child care and home responsibilities would not be used in defining whether a person was marginally attached to the labor force.

Almost 31 percent of the discouraged workers in our survey would have been excluded from the marginally attached labor force—they had not searched within the past six months. On the other hand, over half of the unusable interviews (unusable because personal reasons surfaced) in the survey were of persons who would have been defined as marginally attached workers. A comparison of those responses to the responses of the group of discouraged workers that would have been excluded by the six-month limit lends support to the National Commission's recommendation.

None of the discouraged-but-not-marginally-attached workers was in economic distress as measured by danger of eviction or property repossession, and generally those discouraged workers (who had not searched for a job in over six months) seemed to demonstrate a modest (at best) desire for employment. The persons interviewed who were disqualified as discouraged workers for citing personal reasons for not seeking work but who had looked for work within six months, i.e., were marginally at-

tached, seemed to have a relatively stronger attachment to the labor force. The number of such persons interviewed was quite small, however, because those who cited reasons for not seeking work that would have excluded them from the Labor Department's discouraged worker rolls were not supposed to have been interviewed. Of the 18 that were inadvertently interviewed, nine had looked for work within six months. Six of the nine marginally attached workers needed day care for their children and thought that they could not earn high enough wages to justify paying a baby sitter. Three of these respondents and two others, however, planned to resume their job search in September after the children went to school. They gave two reasons for this. First, they thought that jobs would open up as students left the labor market and second, that school would relieve them of their day-care needs. Another of the respondents wanted a job but had a disabled child (heart disease) for whom she had to care. That respondent was in economic distress and was in danger of having her furniture repossessed, although her attachment to the labor force was relatively weak.

Of the three remaining marginally-attached-but-not-discouraged workers, one was quite particular about the type of job that he would accept and was apparently not very eager to have a job at present. Another had an attachment to the labor force, but was waiting until September, when she was to enter a social services job training program. After that she indicated that she would resume her job search.

In sum, the survey results suggest that the "marginally attached" concept might convey more information than the "discouraged" worker concept. This is particularly true if the example of persons dropping out of the labor force during the summer because of day-care needs is not capricious. If such behavior is representative of a large group of workers, as logically it might seem to be, the seasonal variation of the sum of the labor force and marginally attached workers should be less than the seasonal variation in the labor force alone. This reduction in seasonality would lessen the difficulties that are often encountered in interpreting June and September employment and labor force data.

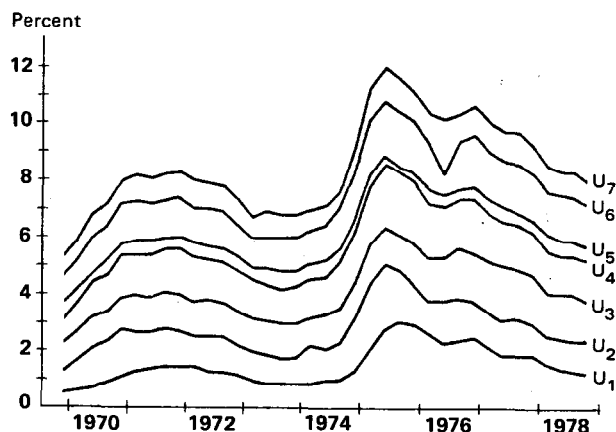
Unemployment Measures as Indicators of Labor Market Capacity Utilization The various unemployment rate measures published by the Bureau of Labor Statistics, U_1 through U_7 , are charted in the figure for the 1970-1978 time period. As the chart shows, they have similar cyclical fluctuations and differ mostly with respect to the levels. U_1 , which

includes persons unemployed 15 weeks or longer, maintains the lowest average level. The long-term nature of U_1 removes unemployment of a frictional nature along with that of individuals who have relatively little difficulty in finding jobs. It therefore resembles hard unemployment, mentioned earlier, most closely but it treats full-time and part-time job seekers equally. A better measure of labor market capacity utilization might include only relatively intense seekers of full-time jobs who had been unemployed for several weeks. Five to six weeks would probably be sufficient to remove the frictionally unemployed.

As a broader measure, the "marginally attached" data appear preferable to the discouraged worker statistics. According to the admittedly small sample, workers who had not searched for work in more than six months were not as eager to find a job as those who had. In addition, the workers who planned to resume their job search in September seemed to deserve some mention in the labor statistics.

Figure

Range of Unemployment Measures,* 1969-78
(Seasonally adjusted quarterly averages)



- U_1 Persons unemployed 15 weeks or longer as a percent of civilian labor force
- U_2 Job losers as a percent of civilian labor force
- U_3 Unemployed persons 25 years and over as a percent of civilian labor force 25 years and over
- U_4 Unemployed full-time jobseekers as a percent of full-time labor force
- U_5 Official unemployment rate—persons 16 years and over as a percent of civilian labor force 16 years and over
- U_6 Full-time jobseekers plus $\frac{1}{2}$ part-time jobseekers plus $\frac{1}{2}$ total on part-time for economic reasons as a percent of civilian labor force less $\frac{1}{2}$ of part-time labor force
- U_7 Numerator of U_6 plus discouraged workers' as a percent of denominator of U_6 plus discouraged workers

Source: U. S. Department of Labor Statistics. Reprinted in National Commission on Employment and Unemployment Statistics, *Counting the Labor Force*.

APPENDIX

Table A-1

RESPONSES TO THE SURVEY OF UNEMPLOYED WORKERS, DISCOURAGED WORKERS, AND OTHERS

	Not Seeking Work, Personal Reasons				Not Seeking Work, Personal Reasons		
	Discouraged Workers	Unemployed Workers	Personal Reasons		Discouraged Workers	Unemployed Workers	Personal Reasons
AGE				DURATION OF LAST JOB			
18-20	2	41	3	No Response	0	1	0
21-24	12	57	4	Less than 3 mo.	12	49	2
25-30	3	32	3	3-6 mo.	1	39	2
31-40	7	24	3	6-12 mo.	5	23	2
41-50	2	9	2	1-5 years	5	33	6
51-55	1	4	3	5-10 years	1	8	2
56-60	1	0	0	Over 10 years	1	2	1
				Never worked full-time	3	12	3
SEX				STATUS OF LAST JOB			
Male	2	70	3	No Response	1	1	2
Female	26	97	15	Full-time	16	135	15
				Part-time	6	28	0
				Never held a job	1	1	2
MARITAL STATUS				REASON FOR LEAVING			
Married	3	16	4	No Response	2	13	3
Wid./Sep./Div.	8	25	6	Temporary/Seasonal	4	29	1
Never Married	17	125	8	Laid-off	2	28	0
				Terminated	3	17	1
				Low Pay	3	9	0
				Medical	2	13	3
				Seek Better Job	0	2	1
				Employer went out of business	1	6	0
				Pregnancy	2	9	5
				Personal or other	9	41	4
EDUCATION				PRESENTLY SEEKING WORK			
Elementary School or Less	2	3	1	Yes	0	167	0
High School 1-3 years	11	71	10	No	28	0	18
High School Diploma or Equivalent	10	41	5				
1-3 High School and Technical	0	6	1				
High School Graduate and Technical	0	8	0				
College 1-3 years	4	34	1				
College Graduate	0	4	0				
No Response	1	0	0				
NUMBER IN HOUSEHOLD				MOST RECENT ATTEMPT			
1	1	3	1	No Response	1	0	1
2	3	11	0	Within current week	0	74	0
3	8	22	3	Within past 1-4 weeks	0	92	0
4	5	34	1	Over 4 weeks	8	1	0
5	2	24	6	Within 2-6 mo.	14	0	9
6	5	29	6	Within 6 mo.-1 year	0	0	3
7	3	21	0	Over 1 year	5	0	5
8	0	5	1				
9	1	6	1				
10 or more	12				
NUMBER EMPLOYED IN HOUSEHOLD				FREQUENCY OF SEARCH			
0	14	54	9	Daily	0	37	0
1	9	61	7	2-5 days	2	89	1
2	4	36	2	Weekly	0	20	0
3	1	11	0	Biweekly	0	9	0
4	0	2	0	Monthly	1	4	0
5	0	2	0	Bimonthly	0	1	0
6	0	1	0	Other	1	1	1
				No Response	24	6	16
HEAD OF HOUSEHOLD				METHOD OF SEARCH			
No Response	0	11	0	Employment agencies	1	13	1
Yes	9	37	10	Newspaper ads	4	8	2
No	19	119	8	Direct contact with employer	11	78	8
				Personal contacts	2	5	3
				Public employment service	10	60	2
				Community organization	0	1	0
				Other	0	2	2
TIME ELAPSED SINCE LAST JOB							
6 mo.-12 mo.	8	87	3				
1-3 years	6	53	6				
3-5 years	4	12	1				
5-10 years	7	8	3				
Over 10 years	1	2	2				
Never worked full-time	2	5	3				

Table A-1 (continued)

	Discouraged Workers	Unemployed Workers	Not Seeking Work, Personal Reasons		Discouraged Workers	Unemployed Workers	Not Seeking Work, Personal Reasons
NOT SEEKING WORK PRESENTLY				WOULD RELOCATION IMPROVE CHANCES			
No job available in line of work	4	0	0	Yes	9	93	6
Could not find work	20	0	0	No	18	71	11
Lack of school, training, skills and experience	2	0	0	Maybe	1	3	1
Have personal problems in finding a job	2	0	0	CONSIDERED MOVING			
Have home responsibilities, child care, etc.	0	0	8	No Response	7	12	1
Other	0	9	0	Yes	2	71	7
Is seeking	0	167	0	No	19	84	10
WHEN WILL SEARCH RESUME				IF NO, WHY NOT			
No Response	15	167	4	No Response	9	32	4
Next day	0	0	0	Family obligations	1	10	0
Next week	1	0	1	Established at present location	4	12	2
Next several weeks	3	0	2	Cannot afford to	3	8	1
Next month	1	0	1	Never thought about it	1	5	3
Next several months	4	0	0	Rent Subsidized	0	1	0
After school reopens	3	0	2	Children-require stability	1	2	0
When children enter school	1	0	2	Unemployment is everywhere	6	27	2
If taken off welfare	0	0	2	RELOCATED WITHIN PAST 5 YEARS			
When health improves	0	0	4	No Response	1	1	1
SEEKING FULL-TIME WORK				COULD GET CERTAIN JOB BUT WOULD NOT WANT — REASON			
No Response	2	2	2	No Response	1	5	0
Yes	23	157	12	No	12	96	9
Part-time only	3	8	4	Low pay	5	21	2
IF YOU SEEK WORK ACTIVELY, WILL YOU BE SUCCESSFUL				DECLINED A JOB BECAUSE OF PAY			
No Response	1	6	0	No Response	1	6	0
Yes	11	80	7	Yes	2	17	5
Fair chance	6	23	2	No	25	144	13
No, because of age or racial discrimination	2	9	3	RESIDENCE STATUS			
No, because of inadequate exp., edu., skills	2	15	2	No Response	0	2	0
No, because of criminal record	1	1	0	Own	4	39	1
No, because active search has not been successful	1	8	1	Rent	24	126	17
Tight job market	1	16	0	ACCEPT JOB OFFER IF QUALIFIED			
No, because of transportation problem	1	2	1	No Response	0	1	0
Other	2	7	2	Yes	27	164	16
TRIED TO IMPROVE SKILLS				POSSIBLE REPOSSESSION OR EVICTION			
YES — WHEN				No Response	0	2	0
6 mo. ago or less	2	32	3	Yes	1	17	1
6 mo.-1 year ago	2	15	1	No	27	148	17
1-5 years ago	3	25	0	REPOSSESSION OF OTHER PROPERTY			
Over 5 years ago	0	7	1	No Response	1	1	0
NO — BECAUSE				REPOSSESSION OF OTHER PROPERTY			
No Response	3	19	0	No Response	1	1	0
Cannot afford to	0	11	1	Yes	1	13	0
No time	1	3	2	No	26	153	18
No reason/incentive	4	16	2	NOT SEEKING WORK PRESENTLY			
Not necessary	0	4	1	No job available in line of work	4	0	0
No reason given	13	35	7	Could not find work	20	0	0
YES FOR HOW LONG				Lack of school, training, skills and experience			
No Response	3	25	1	Have personal problems in finding a job	2	0	0
1 mo. or less	1	10	2	Have home responsibilities, child care, etc.	0	0	8
1-6 mos.	4	34	2	Other	0	9	0
6 mo.-1 year	0	11	0	Is seeking	0	167	0
1-4 years	2	10	0	WHEN WILL SEARCH RESUME			
Over 4 years	0	0	0	No Response	15	167	4
No to previous question	18	77	13	Next day	0	0	0

Table A-1 (continued)

Common Remarks by Respondents	Percent of all Respondents
1. Personal ability to compete for jobs is constrained by:	
— inadequate education or skills	2.6
— insufficient job experience	18.0
— high costs of searching	5.1
2. Encountered discrimination in job search because of:	
— race	9.2
— age	6.7
3. Experienced transportation problems	10.3
4. Federal and local aid programs are either ineffective or inadequate	10.8
5. Students return to school in the fall should improve chances in finding a job	5.6
6. Feels depressed/frustrated/helpless	16.9

Table A-2

LAST JOB HELD BY RESPONDENTS

Job Category	Number of Unemployed	Number of Discouraged
Dancer	1	
Research Worker	1	
Teacher		1
Sales Worker	8	2
Typist	2	1
Receptionist	9	0
Miscellaneous Clerical	20	
Shipping Clerk	2	
Stock Clerk	2	
Bill Collector		1
Teacher Aide	2	0
Registered Nurse	2	0
Baker	1	0
Brick Mason	1	0
Mechanic or Repairman	9	0
Plumber Apprentice	1	0
Pressman Apprentice	1	0
Sheet Metal Worker	1	0
Upholsterer	1	0
Craft Apprentice, Misc.	1	0
Craftsman, Misc.	2	0
Former Serviceman	1	0
Assembler	3	0
Ironer or Presser	1	0
Laundry Worker	1	0
Packer or Wrapper	3	0
Printer, Mfg.	1	0
Stitcher or Sewer	2	0
Welder	2	0
Misc. Operative	4	2
Deliveryman	1	
Fork Lift or Tow Truck Operator	4	
Truck Driver	2	
Laborer	12	4
Cleaning Service Worker	13	2
Food Service Worker	12	3
Health Service; Dental Assistant, Health Aide, or Nurse's Aide	17	2
Personel Services:		
Child Care Worker	4	1
Housekeeper	1	3
School Monitor	1	1
Usher	2	
Protective Service Worker - Guard	1	
Private Household Worker	1	

Table A-3

ESTIMATED MONTHLY INCOME AT THE POVERTY THRESHOLD FOR BALTIMORE, SUMMER 1980

Family Size Male Head	Children Under 18						
	0	1	2	3	4	5	6+
1 (under 65)	\$425						
2 (under 65)	531	\$595					
3	618	638	\$675				
4	815	827	799	\$839			
5	984	996	964	939	\$960		
6	1128	1132	1108	1084	1052	\$1068	
7+	1421	1433	1405	1381	1349	1301	\$1289
<hr/>							
Family Size Female Head							
1 (under 65)	\$393						
2 (under 65)	491	\$536					
3	598	570	\$630				
4	783	811	807	\$798			
5	939	968	964	956	\$923		
6	1096	1116	1108	1100	1064	\$1032	
7+	1377	1397	1393	1381	1345	1317	\$1253

Sources: Derived from data published by U. S. Bureau of the Census and U. S. Department of Labor.

Table A-4

REGRESSION RESULTS COMPARING CHARACTERISTICS OF UNEMPLOYED TO THOSE OF DISCOURAGED WORKERS

Dependent	Independent	Discouraged Worker	Unemployed Worker
		"t" Statistics	"t" Statistics
TIMGON	AGE	1.85	1.59
DUMSK	AGE	-.94	-2.44
DJBGT	AGE	.04	1.11
TIMGON	ED	-.67	-2.89
DUMSK	ED	.67	1.06
DJBGT	ED	.45	.98
DUMSK	TIMGON	-4.57	-2.19
SRHFRQ	TIMGON		1.40
TIMGON	Last Y	-.70	-1.78
TIMGON	JOBDUR	.73	-1.15
DUMSK	JOBDUR	.44	-.89
RESWGE	Last Y	-.28	
SRHFRQ	Last Y		-1.09
SRHFRQ	YPC	-1.11	.81
DUMSK	YPC	-.72	1.74
DJBGT	YPC	.69	-.47
TIMGON	YPC	.00	-.48
RESWGE	YPC	.37	.99

Note: TIMGON is the time elapsed since the respondent held his last job; 1 = 6-12 months; 5 = over 10 years. Those who had never held a job excluded. DUMSK equals 1 if respondent thought he could find a job if he sought one actively, 0 if he thought he had a fair chance, and -1 if he thought he could not. DJBGT equals 1 if individual thought he could get a job but would not want it; 0 otherwise. ED equals educational level; 1 is the lowest level (elementary school or less), 6 is the highest level (college graduate). SRHFRQ is search frequency; 1 equals daily search; 7 equals less frequently than bimonthly. Last Y is income earned on last job converted to summer 1980 purchasing power. JOBDUR is duration of last job; 1 = 3 months or less; 6 = 10 years or more. RESWGE equals reservation wage in cents per hour, and YPC equals household income per capita.