

Research Department  
Federal Reserve  
Bank of  
San Francisco

December 10, 1976

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## Jobless Adults

Unemployment increased again in November, continuing the upward movement that has accompanied the summer and fall slowdown in the business recovery. The overall jobless rate rose over the month from 7.9 percent to 8.1 percent of the civilian labor force, with much of the increase centered among adult males, partly because of such reasons as layoffs at auto plants making unsellable small cars.

This development focuses the spotlight on unemployment among mature adults, an area of increasing interest in recent years. Admittedly, the jobless rate among men and women over 25, which has averaged about 5.7 percent since midyear, is only about one-half the level of young adults (aged 20-24) and less than one-third the rate for teenagers. But the adult category deserves special interest in itself, if for no other reason than the fact that people over 25 account for 54 percent of all the unemployed.

### **Different problems**

One reason for considering adult unemployment separately is the need to distinguish it from the intractable problem of unemployment among the young. Since midyear, the jobless rate among 16-19 year-olds has averaged about 18.7 percent. However, teenagers do grow up and become part of an adult population with much lower unemployment, so high teenaged unemployment in some respects

can be regarded as a transitory phenomenon for the individual. A person's association with the weak labor market faced by the young ends when he or she acquires the work skills associated with the adult market.

Another aspect of the adult-unemployment problem is the concentration of labor-force growth among groups with historically high unemployment, primarily adult women. Of course, the teenaged labor force has also grown, although at a slower pace than the total teenaged population, because young people now spend more time than they formerly did in school, and thus out of the labor force.

### **Standardized rate**

According to the Brookings' Institution's George Perry, if we "standardize" the labor force by assuming that its composition remains fixed over time, the lowest overall rate reached in the 1971-73 business expansion—4.8 percent—would be equivalent to the low of 4.0 percent reached in the 1954-56 expansion. This approach may be oversimplified, however, in view of an important distinction between the two groups of people who have accounted for the largest share of labor-force growth. Teenagers may simply not have time to acquire necessary job skills before they stop being teenagers, but the same generally cannot be said for adult women workers.

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The bulk of the adult female labor force normally would have long since acquired the minimum skills necessary to finding a job. Adult men and adult women could still have a different average level of job skills, but the result needn't be more unemployment for women but rather a difference in average wage levels for the two sexes. Consequently, because of the workings of natural market forces, both in skills acquisition and in wage levels, we cannot wholly trust any standardization based on this particular demographic division of the labor force.

## **Consistent behavior**

A different approach, comparing the jobless rate for mature adults (25 and over) with the overall jobless rate, reveals two different types of behavior over time. The overall unemployment rate has trended upward over time, but the mature-

adult rate has behaved in a generally consistent fashion in each business cycle. The rate rose to about 6 percent in each of the four deepest postwar recessions, and fell to about 2 percent in peak years. The mature-adult rate thus is unique in that, beyond a certain point, it does not respond either to severe recessionary pressures or to severe capacity shortages. Younger workers account for all the added unemployment in deep recessions and for all the added employment in strong expansions. Reflecting the difference in movement, the gap between the overall rate and the 25-and-over rate has risen from 0.5 percentage points at the peak of the 1950-53 expansion to 1.8 percentage points at the peak of the 1971-73 expansion.

In other words, labor-market behavior for people 25 and over has changed little if at all in either cyclical expansions or cyclical contractions. This suggests, as does Perry's analysis, that in comparing unemployment movements over time, we must standardize by some device for changes in labor-force participation of 16-to-24 year olds. In effect, the workers provided by this younger age group are not good substitutes for older workers in terms of skill and perhaps also in terms of the

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amount of wage differential allowed by law. But the stable cyclical response of the 25-and-over rate suggests—somewhat differently from Perry’s analysis—that we are witnessing a significant substitution between men and women workers.

### **Unemployment vs. growth**

As a check, we can estimate unemployment rates in various categories in accordance with Okun’s Law—an econometric rule-of-thumb which relates unemployment-rate changes negatively to the rate of growth of GNP. (For example, unemployment rises in a recession in response to declining GNP.) In this exercise, we estimate unemployment levels compatible with the 3.5-percent postwar trend rate of growth of real GNP.

The overall unemployment rate compatible with this trend is 5.3 percent, averaged over the entire postwar period, and that rate decreases by .42 percentage points for each one-percent annual rise in the GNP growth rate. But the average jobless rate for mature adults consistent with the GNP growth trend is only 3.8 percent, and that rate decreases by .35 percentage points for each one-percent annual rise in the GNP growth rate. This lower employment response—.35 against

.42—reflects the tendency of the 25-and-over rate to level off rather than to keep rising in deep recessions.

But at this stage, a year and half after the beginning of a cyclical expansion, the jobless rate for mature adults remains close to the 6-percent level reached at the bottom of the recession—contrary to what Okun’s Law tells us. One partial explanation might be the impact of inflation on labor-force participation rates. Many adult women today are being forced into the labor market to supplement family incomes that had been severely depleted by the decline in real wages induced by the recent inflation. This inflation may thus have accentuated the movement of unskilled adult women into the labor force and onto the jobless rolls, offsetting the decline in the adult jobless rate expected on the basis of a cyclical recovery in GNP growth.

**Larry Butler**

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 11/24/76	Change from 11/17/76	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	90,822	- 396	+ 3,958	+ 4.56
Loans (gross, adjusted)—total	69,073	- 185	+ 3,770	+ 5.77
Security loans	1,516	- 53	+ 104	+ 7.37
Commercial and industrial	22,600	+ 43	- 601	- 2.59
Real estate	21,200	+ 34	+ 1,576	+ 8.03
Consumer instalment	11,679	+ 39	+ 1,266	+ 12.16
U.S. Treasury securities	8,752	- 113	- 30	- 0.34
Other securities	12,997	- 98	+ 218	+ 1.71
Deposits (less cash items)—total*	89,427	- 346	+ 2,027	+ 2.32
Demand deposits (adjusted)	25,354	- 694	+ 1,594	+ 6.71
U.S. Government deposits	290	- 39	- 114	- 28.22
Time deposits—total*	62,038	+ 164	+ 581	+ 0.95
States and political subdivisions	4,741	+ 11	- 1,180	- 19.93
Savings deposits	28,131	+ 202	+ 7,306	+ 33.48
Other time deposits‡	26,160	+ 2	- 3,987	- 13.23
Large negotiable CD's	9,923	- 122	- 6,052	- 37.88
<b>Weekly Averages of Daily Figures</b>	<b>Week ended 11/24/76</b>	<b>Week ended 11/17/76</b>	<b>Comparable year-ago period</b>	
<b>Member Bank Reserve Position</b>				
Excess Reserves (+)/Deficiency (-)	- 3	+ 20	+ 39	
Borrowings	0	0	1	
Net free(+)/Net borrowed (-)	- 3	+ 20	+ 38	
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 643	+ 719	+ 1,384	
Transactions of U.S. security dealers				
Net loans (+)/Net borrowings (-)	- 10	+ 307	+ 544	

\*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Editorial comments may be addressed to the editor (William Burke) or to the author. . . .  
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