

Research Department
Federal Reserve
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Discouraged

The President this week unveiled the latest version of the Humphrey-Hawkins bill, setting the magic 4-percent jobless-rate figure as the goal to be reached within the next five years. This action seems certain to raise again the question of what level of unemployment is compatible with a regime of stable prices and full utilization of resources. Is it 4 percent, the figure reached in the mid-1950's era of full employment and stable prices? Or a shade below 5 percent, as the Ford Council of Economic Advisers claimed on the basis of all the changes in labor-force structure that have taken place over the past several decades? Or is it close to today's actual figure of 7 percent, as former CEA Chairman Herbert Stein recently claimed on the basis of the shortages that are now cropping up in certain job categories?

This array of figures suggests that the full-employment jobless rate can be a rather mushy concept. Indeed, any attempt to measure joblessness can be a complex and difficult task. To take an important case in point, consider the problem of "discouraged" workers—the large numbers of hidden unemployed who want work but don't actively look for a job because of a belief that their search would be in vain.

Some observers argue that the number of discouraged workers should be added to the recorded unemployed to provide a clearer picture of labor-

market conditions. About one million people are now considered to be in this category, so including them with the recorded jobless would raise the official unemployment rate from roughly 7 percent to about 8 percent of the labor force. Because that figure would indicate a substantial level of unused resources, many analysts argue the need for stimulative measures (such as a major tax cut) to raise the level of aggregate demand and thus create jobs for more workers, including jobs for those now too discouraged to look for work.

Offsetting factors

The procedure of adding the number of discouraged workers to the reported unemployed may dramatize the problem of unemployment, but how accurate a picture does it provide of the actual situation in the labor market? The picture becomes clouded because of different forces operating on the labor market, especially in periods of a worsening economy. There is of course the "discouraged worker" effect—the tendency for some workers not to enter (or re-enter) the market, and for others to leave the market, when job search appears too costly and difficult. But there is also the "added worker" effect—the tendency of some individuals to enter the labor market or to remain in it longer than they would prefer, often because of economic necessity when other family members become unemployed.

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In this situation, the observed labor force is affected by the net flow of workers — the added workers who temporarily enlarge the labor force and the discouraged workers who reduce its size. An argument thus could be made against adding the discouraged workers to the observed labor force without at the same time subtracting the “added workers.” Otherwise, the actual size of the labor force could be exaggerated, thus confusing the measurement of unemployment.

How many discouraged?

A separate question concerns the number of discouraged workers who would remain outside the labor force even under conditions of full employment. Some analysts argue that this problem of hidden unemployment could be eliminated or greatly reduced if measures were taken to stimulate aggregate demand. In this way, an adequate number of jobs could be created for those who wish to work but have sought vainly for jobs. According to this line of thought, the hidden unemployed represent a sizable reserve of unused resources, which a stimulative-demand policy could help eliminate without inciting undue inflationary pressures.

It should be noted, however, that large numbers of potential workers have remained discouraged even during periods of over-full employment, when inflationary pressures mounted amid substantial shortages of trained workers. In 1967-69, for example, there were 657,000 discouraged workers on the average, and the number was quite similar (679,000) in 1973, another year of labor-market tightness. In contrast, in the 1975 recession year, the number of discouraged workers increased to 1,082,000.

These numbers show that the discouraged-worker problem increases substantially during periods of weak labor markets. However, roughly two-thirds of such workers remain discouraged even under conditions of full employment, when any efforts to stimulate overall demand would be most likely to aggravate inflationary pressures. Even so, if the past is any indication of future behavior, the current number of discouraged workers could be reduced by about 300,000 if the economy were operating closer to the full-employment level.

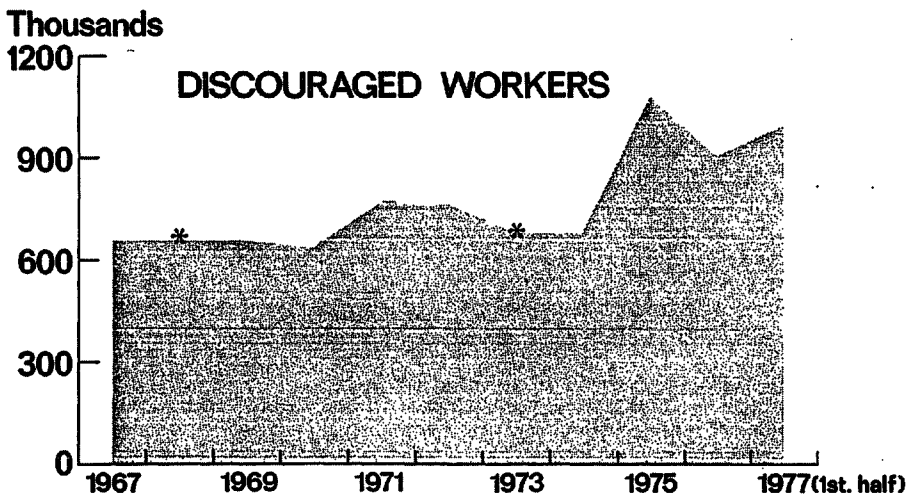
What type of policy?

The bulk of the hidden unemployed appear to be unaffected by cyclical

changes in aggregate demand. Some are unemployed for seasonal or "frictional" reasons — but their short-term spells of joblessness are not generally matters of policy concern. Many of these workers enter or re-enter the labor force at will, and find jobs within reasonable periods of time. Indeed, the survey responses made to the Bureau of Labor Statistics indicate that most such workers intend to enter the job market within a short period of time.

At the same time, a significant portion of the hidden unemployed are jobless for structural reasons — for example, individuals who were formerly employed in declining industries or in declining areas of the country. These people may not be helped to any extent by broad policy measures designed to expand the total number of jobs in the economy. Instead, specific tailor-made programs may be needed to create productive jobs for such structurally-unemployed individuals.

Rose McElhattan



* Full-employment periods.

Source: Bureau of Labor Statistics

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities	Amount Outstanding 11/2/77	Change from 10/26/77	Change from year ago	
			Dollar	Percent
Large Commercial Banks				
Loans (gross, adjusted) and investments*	103,322	+ 1,660	+ 12,571	+ 13.85
Loans (gross, adjusted)—total	80,432	+ 1,114	+ 11,022	+ 15.88
Security loans	1,957	+ 12	+ 349	+ 21.70
Commercial and industrial	24,470	+ 416	+ 1,921	+ 8.52
Real estate	26,288	+ 76	+ 5,242	+ 24.91
Consumer instalment	13,895	+ 66	+ 2,001	+ 16.82
U.S. Treasury securities	8,251	+ 455	- 512	- 5.84
Other securities	14,639	+ 91	+ 2,061	+ 16.39
Deposits (less cash items)—total*	99,000	+ 220	+ 8,924	+ 9.91
Demand deposits (adjusted)	28,796	+ 29	+ 3,416	+ 13.46
U.S. Government deposits	235	- 50	- 254	- 51.94
Time deposits—total*	68,075	+ 230	+ 5,871	+ 9.44
States and political subdivisions	5,281	- 52	+ 407	+ 8.35
Savings deposits	31,667	- 62	+ 2,963	+ 10.32
Other time deposits‡	29,082	+ 296	+ 2,613	+ 9.87
Large negotiable CD's	10,913	+ 276	+ 545	+ 5.26
Weekly Averages of Daily Figures	Week ended 11/2/77	Week ended 10/26/77	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves(+)/Deficiency (-)	0	+ 26	+ 57	
Borrowings	228	9	0	
Net free(+)/Net borrowed (-)	- 228	+ 17	- 57	
Federal Funds—Seven Large Banks				
Interbank Federal fund transactions				
Net purchases (+)/Net sales(-)	+ 1,430	+ 1,315	- 309	
Transactions with U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 280	+ 416	+ 81	

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

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Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.