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TOPIC 19: UNEMPLOYMENT II

I. Labor Force Participation Rate
   a. The *labor force participation rate* is the percent of the noninstitutionalized, civilian, adult population (adults for short) in the workforce.

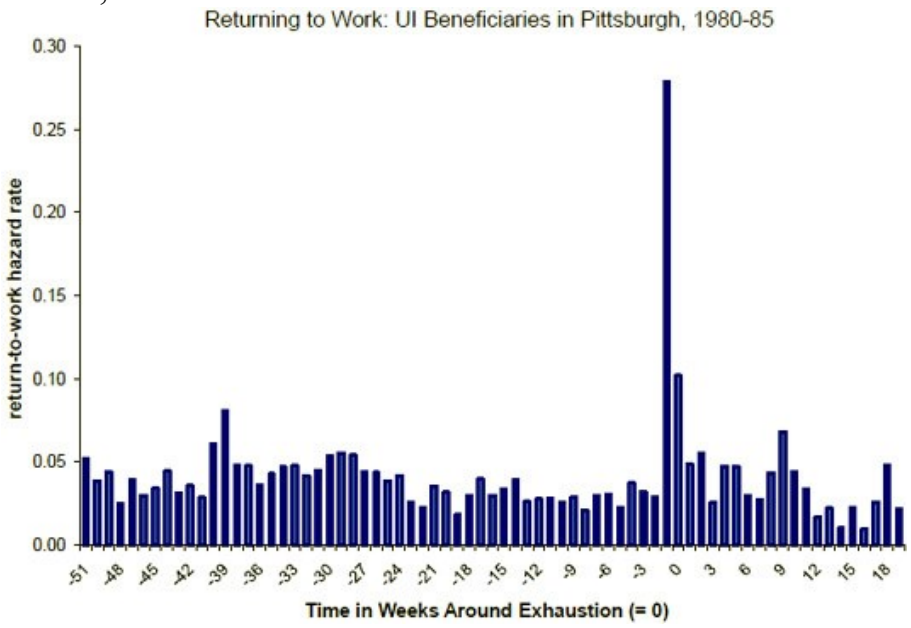
$$Labor\ force\ participation\ rate\ (\%) = \frac{Labor\ force}{Adult\ population}$$

   b. Determinants
      i. *Demographics*. Because certain groups are more likely to be interested in working than others, changing demographics change the participation rate. For example, as the baby boomer generation retires, the labor force participation rate falls.
      ii. *Incentives*. A host of incentives can change the calculation for if someone participates in the labor force. Some examples:
         1. Bigotry and culture. The rise of feminism contributed to the leap of women in the work force between the 1950s and the 1990s.
         2. Economic changes. But so did the changes in the economy, which emphasizes fewer jobs in manufacturing (a male dominated industry) and more jobs in professional industries, such as accounting and law (a female dominated industry).
         3. Technological changes. Economists Goldin and Katz argued the birth control pill lowered the costs to getting an advanced degree for women and *that* contributed to their increased participation.
         4. Taxes and benefits. In the United States, your Social Security are not reduced by your earnings[1] but many countries do not allow workers to also collect a government pension. Thus the labor force participation rate for men aged 55-64 (in 1998) was 68.1%. In countries like the Netherlands, Italy, France, and

[1] Between the ages of 62 and 65, there is a reduction of payments if you are working but starting at 65, your payments are increased by about the same amount so the overall work penalty is roughly zero.

Belgium it was 46.9%, 43.5%, 41.3%, and 33.9%, respectively.

c. Unemployment insurance
    i. This is a particularly hot topic on the incentives front. When a recession hits employment is typically slow to recover compared to, say, the stock market. That's because hiring someone is expensive for companies to do and carries a fair amount of risk of hiring the wrong person.
    ii. So many governments offer some form of unemployment insurance. As long as you're not working, the government gives you money based on your previous paychecks (assuming you didn't quit). That means the government's paying you to not work, which sounds like a terrible incentive structure:



    iii. Taking a long time to find a job could be a good thing. We don't just want people to have a job, we want a good match. If there's a lot of structural unemployment, maybe giving people the time they need is the right decision.
    iv. Moreover, unemployed people are most likely to spend money which goes back in the economy and could trigger growth. This is a big idea—something we'll talk more about later—but since it comes up a lot in these conversations about UI, I wanted to mention it here.

II. Other issues

a. JOLTS—the Job Openings and Labor Turnover Survey describes the amount of "churn" that goes on in the economy. It tracks job separations and job hires through randomized sample of employers.
    i. The media reports the net amount of jobs gained or lost each month. For example, in December 2013, the U.S. economy added, on net, 75,000[2] nonfarm jobs.[3]
    ii. But that hides the fact that in December there were about 4.437 *million* hires and about 4.370 *million* job separations.[4]
b. System of counting someone as unemployed is becoming irrelevant. People have jobs that are just a cobble of various projects. If you don't work for a month, that's not a big deal because it could be a month off.

[2] http://www.bls.gov/news.release/pdf/empsit.pdf
[3] The BLS excludes farm jobs because it did when it started keeping track of these numbers back in 1915 (when it would have been really costly to collect such data). They keep excluding to allow comparison across time periods. Since farming is a small part of the U.S. economy, it likely makes little difference.
[4] http://www.bls.gov/jlt/data.htm; note the difference between 4.44 million and 4.37 million is 67,000, not 75,000. This discrepancy is likely caused by slightly different methods of data collection and re-evaluations. Sometimes the JOLTS numbers suggest there is more net jobs added than the and sometime it suggests there is less.