

Reading Essentials and Study Guide

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Chapter 13: Economic Instability

Lesson 3 Unemployment

ESSENTIAL QUESTION

What are the causes and consequences of instability in the economy?

Reading HELPDESK

Academic Vocabulary

confined kept within

fundamental basic; an essential part

unfounded not based on fact

Content Vocabulary

civilian labor force noninstitutionalized part of the population, aged sixteen and over, either working or looking for a job

unemployed state of working for less than one hour per week for pay or profit in a non-family-owned business, while being available and having made an effort to find a job during the past month

unemployment rate ratio of unemployed individuals divided by total number of persons in the civilian labor force, expressed as a percentage

long-term unemployed workers who have been unemployed for twenty-seven weeks or more

frictional unemployment unemployment caused by workers changing jobs or waiting to go to new ones

structural unemployment unemployment caused by a fundamental change in the economy that reduces the demand for some workers

outsourcing hiring outside firms to perform non-core operations to lower operating costs

technological unemployment unemployment caused by technological developments or automation that make some workers' skills obsolete

cyclical unemployment unemployment directly related to swings in the business cycle

seasonal unemployment unemployment caused by annual changes in the weather or other conditions that prevail at certain times of the year

GDP gap difference between what the economy can and does produce; annual opportunity cost of unemployed resources

misery index unofficial statistic that is the sum of monthly inflation and the unemployment rate

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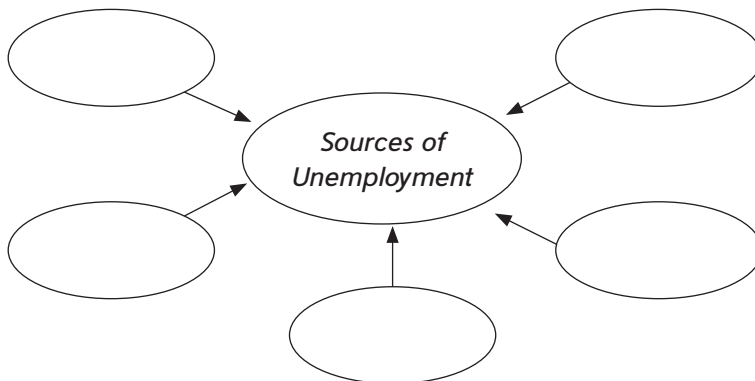
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Lesson 3 Unemployment, Continued

TAKING NOTES: *Key Ideas and Details*

Use a graphic organizer like the one below to identify the sources of unemployment.



Measuring Unemployment

Guiding Question *Who is not included in the labor force?*

Most Americans identify strongly with their work. If you ask someone to describe themselves, most likely they will tell you their occupation, such as a chef, a teacher, or a sales person. About half the people in the United States belong to the labor force, and at any given time millions are without jobs. Sometimes this is because they choose not to work. For example, they have quit one job to look for another. In most cases, however, people are out of work for reasons largely out of their control.

To understand the severity of joblessness, we need to know how it is measured. We also need to know what is overlooked. The measure of joblessness is the unemployment rate. It is one of the most closely watched and politically charged statistics in the economy.

Civilian Labor Force

*The Bureau of Labor Statistics defines the **civilian labor force** as the all persons age sixteen and above who are employed or are actively looking for work. This measure excludes members of the military, those persons who are **confined** in jail, or who reside in mental-health facilities.*

Unemployed Persons

*The process of deciding if someone is able to work, willing to work, or even at work is more complicated than most people think. In the middle of any given month, about 1,500 specialists from the U.S. Census Bureau begin a monthly survey of about 60,000 households in nearly 2,000 counties, in all 50 states. Census workers are looking for the **unemployed**. These are people who can work who made a effort to find a job during the past month. They have also worked less than one hour for pay or profit in a week. People are also classified as unemployed if they worked in a family business without pay for fewer than 15 hours a week.*

The Census then give their data to the Bureau of Labor Statistics for analysis and publication. The data, which include the unemployment rate, are then released to the American public on the first Friday of every month.

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Unemployment Rate

Unemployment is normally expressed in terms of the **unemployment rate**. This is the number of unemployed people divided by the total number of people in the civilian labor force. The monthly unemployment rate is expressed as a percentage of the whole labor force. For example, in September 2009 the unemployment rate was calculated as follows:

$$\frac{\text{Number of unemployed persons}}{\text{Civilian labor force}} = \frac{9,474,000}{155,694,000} = 0.061 = 6.1\%$$

Monthly changes in the unemployment rate, often as small as one-tenth of 1 percent, may seem minor. However, they have a huge impact on the economy. With a labor force of about 155.6 million people, a one-tenth of 1 percent rise in unemployment means that nearly 154,800 people lost their jobs. This number is more than the population of many major American cities.

Variations in the unemployment rate are shown in **Figure 13.5**. In general, it tends to rise just before a recession begins and then continues to rise sharply. If the recession is severe enough, as it was during the Great Recession of 2008–2009, joblessness can double. Finally, when the rate starts to go back down, it may take five or more years for it to reach its previous low.

Uneven Burden of Unemployment

The burden of the unemployment does not fall evenly on everyone. Instead, unemployment differs for people of different ages, races, and sexes. Also, differences in work experience, education, training, and skills play a role. Discrimination does, too.

For example, the unemployment rate for adult women is just slightly lower than the rate for adult men. The rate for teenagers is normally about three to four times higher than the rate for either adult men or adult women. Likewise, the unemployment rate for African Americans, regardless of gender, is about twice as high as the rate for Caucasians. Asians have the lowest rate of all.

Finally, about one-third of all unemployed people—no matter their sex, age, or race—are the **long-term unemployed**. These are workers who have been without a job for 27 weeks or more. They have most likely given up looking for a job and eventually will leave the labor force.

Underemployment

It might seem that a measure as comprehensive as the unemployment rate would include all people who do not have a job. However, the unemployment rate understates employment conditions for two reasons.

First, the rate does not count those too frustrated or discouraged to look for work. During recessions, these labor force “dropouts” may include nearly 1 million people. Although they are not working and probably want to find work, these people are not classified as unemployed. This is because they did not actively seek a job within the previous survey period.

Second, people are considered employed even when they only have a part-time job. For example, suppose a worker lost a high-paying job of 40 hours a week and took a new job at minimum-wage for one hour a week. Although that worker is now working and earning less, he or she is still considered employed. In other words, being employed means working at all, not just full time.

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Defending Against Unemployment

People often ask what they can do to protect themselves against unemployment. However, the solutions are not always easy. For example, you cannot do much about your race or gender, but you can do something about your education. After all, the unemployment rate for everyone goes down as the level of education goes up.

This is important because it is easier for a person to get more education while they are young than when they are older. All a young person has to do is complete high school. He or she may then go to a community or technical college to earn a two-year degree. A four-year college degree gives even more protection against unemployment. Getting more education is more challenging as you get older, so it is a good idea to get your education while you are young.



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Summarizing How do we calculate the monthly unemployment rate?

Sources of Unemployment

Guiding Question *Why are some types of unemployment unavoidable?*

Economists have identified several kinds of unemployment. The nature (type) and cause of each affects how much the unemployment rate can be reduced.

Frictional Unemployment

A common type of unemployment is **frictional unemployment**. This is a situation where workers are between jobs for some reason. This is usually a short-term condition, and workers suffer little hardship.

As long as workers have the freedom to choose or change jobs, some people will always be leaving old jobs to look for better ones. Because of this, the economy will always have some frictional unemployment.

Structural Unemployment

A more serious type of unemployment is **structural unemployment**. This is when economic progress, a change in tastes and preferences, or a **fundamental** change in the economy lowers the demand for certain workers. For example, in the early 1900s, technological and economic progress brought the development of the automobile. This soon replaced horses and buggies (small horse-drawn carriages) and left highly skilled buggy-whip makers out of work. Later, when automobile drivers decided that they could lower the price of a fill-up by pumping the gas themselves, there was a sharp drop in the demand for gas station attendants.

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Another development is **outsourcing**. This is the hiring of outside firms to do non-core (non-central) tasks to lower costs. It has become very popular. Outsourcing was first used when firms found that other companies could do some routine internal operations. This included preparing paychecks. Later, better technology made it possible for companies to move some of their customer-service operations abroad (to a foreign country) where wages are much lower. For example, suppose that you call a software maker for customer assistance. Your call is likely to be answered by an English-speaking worker in the Philippines or India, not in a U.S. office.

Sometimes the government adds to structural unemployment. Congress's decision to close military bases in the 1990s is a prime (good) example. Military bases are much larger than most private companies. The impact of the base closings was focused in certain regions and communities. A few areas were able to attract new industry that hired some of the unemployed workers. However, most workers either developed new skills or had to move to find jobs.

Technological Unemployment

A third kind of unemployment is **technological unemployment**. This occurs when workers are replaced by machines or automated systems that make their skills obsolete (no longer needed). Technological unemployment is closely related to structural unemployment. However, technology changes are not always as broad or influential on society as cars replacing buggies.

One example is the reduced need for bank tellers by commercial banks. This happened because of the increased use of automated teller machines (ATMs). Another example is the use of word-processing programs. Their spell-checking, formatting, and text-manipulation functions greatly reduced the need for typists. Finally, many workers have been replaced by Internet applications that take orders, process payments, and arrange for shipping directly to the consumer.

Exploring the Essential Question

Your older sister was laid off from her job as a bank teller a month ago. The bank where she worked laid off many bank tellers because of automation. She's thinking about looking for the same teller jobs at other banks, but you don't think that's a good idea. What kind of advice would you give your sister? Describe your advice and your reasoning for it in one or two paragraphs.

Cyclical Unemployment

A fourth kind of unemployment is **cyclical unemployment**. This is unemployment closely linked to swings in the business cycle. During a recession, for example, many people put off buying durable goods. These might include cars or refrigerators. As a result, some industries must lay off workers until the economy recovers.

In Figure 13.5 we can see that the unemployment rate rose greatly whenever the economy was in recession. For example, during the Great Recession, more than 8 million jobs were lost. Laid-off workers may eventually get their jobs back when the economy improves. However, it usually takes five or more years of economic growth before the unemployment rate returns pre-recession levels. In the meantime, the pain of unemployment is a fact of life for those who are out of work.

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Seasonal Unemployment

A fifth kind of unemployment is **seasonal unemployment**. This results from seasonal changes in the weather or in the demand for certain products or jobs. Many builders have less work in the winter because some tasks, such as replacing a roof or digging a cellar, are harder to do during cold weather. Department store sales clerks often lose their jobs after the December holiday season.

The difference between seasonal and cyclical unemployment is in the period of measurement. Cyclical unemployment takes place over the course of the business cycle. This may last three to five years. Seasonal unemployment takes place every year, no matter what the general health of the economy is.



Reading Progress Check

Interpreting Which categories of unemployment do you think are the most troublesome for the U.S. economy? Why?

Costs of Instability

Guiding Question *How can economic instability affect you?*

*Recession, inflation, and unemployment are all forms of instability that hinder (block) economic growth. These problems can occur separately or at the same time. Fears about these issues are not **unfounded**, because economic instability carries huge costs. These costs can be measured in both economic and human terms.*

GDP Gap

One measure of the economic cost of unemployment is the **GDP gap**. This is the difference between the actual GDP (Gross Domestic Product) and the potential GDP. (This is GDP that could be reached if all resources were fully employed.) In other words, the gap is a type of opportunity cost. It is a measure of output not produced because of unemployed resources.

On a production-possibilities curve, the amount that could be produced would be at a point on the frontier. The amount actually produced would be a point inside the frontier. The distance between the two would be the GDP gap.

The business cycle may cause the size of this gap to vary over time. The scale of GDP is such that if GDP declines even a fraction of a percentage point, the amount of lost production and income could be very large. For example, suppose that an economy with a \$13.5-trillion-dollar GDP declines by just one-tenth of one percent. This means \$13.5 billion in lost output!

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Misery Index

*Figure 13.6 shows the **misery index** (or discomfort index). This is the sum of the monthly inflation and unemployment rates. As the figure shows, the index usually peaks either during or right after a recession.*

Although it is not an official government statistic, the misery index provides a reasonable measurement of consumer suffering during periods of high inflation and high unemployment.

Uncertainty

When the economy is unstable, a great deal of uncertainty exists. Workers may not buy something because of concern over their jobs. This uncertainty means that many consumer purchases are not made. In turn, this cause unemployment to rise as jobs are lost.

Workers are not the only ones affected by uncertainty. The owner of a business that is producing at capacity (as much as possible) may decide against an expansion even though there are plenty of new orders. Instead, the producer may try to raise prices, which increases inflation. Even government may decide to spend less on schools and roads if it is not sure of its revenues.

Political Instability

Politicians also suffer the effects of economic instability. When times are hard, voters are unhappy, and incumbents (candidates who are running for re-election) are often voted out.

Events like the government shutdown of 2013 are a major cause of economic instability. If too much economic instability exists, as during the Great Depression of the 1930s, some voters are willing to vote for radical (quick and major) change. So, economic instability adds to the political instability of our nation.

Community and Domestic Matters

Recession, inflation, and unemployment can also lead to higher rates of crime and poverty. They also add to domestic problems such as marriage issues and divorce. This is especially true when individuals or families face uncertainty because lost jobs and make it hard to pay the bills. Because of this, all of us have a stake in reducing economic instability.



Reading Progress Check

Identifying What makes the GDP gap a type of opportunity cost?
