

Interpreting Recent Labor Market Developments

By Steven P. Zell

The national unemployment rate is, without question, the most widely followed indicator of labor market conditions in the United States. At a time, however, when inflation, recession, and unemployment are so much in the news and changing labor market conditions are reported daily, it becomes increasingly necessary to look beyond the total unemployment rate in order to assess the effect of these changes on the economy. This article examines recent U.S. labor market developments with special emphasis on important labor market indicators other than the total unemployment rate and, in particular, on some possible problems involved in their interpretation.

While unemployment developments were essentially stagnant during the first half of 1974, a series of dramatic changes began early in the second half of the year. After remaining at or below the 5.2 per cent level for the first 6 months of 1974, the national unemployment rate rose a significant 0.6 of a percentage point from June to September to a 2% year high of 5.8 per cent in September. This long anticipated climb in the unemployment rate was initiated by small jumps of 0.1 of a point in both July and August. The large September increase of 0.4, of a point confirmed the fact that these small initial changes marked the start of an upward trend in the rate of unemployment.

This unwelcome but expected news was further brought home by unemployment rate increases of 0.2 of a point in October, 0.6 in November, and 0.6 in December to a 16-year high of 7.2 per cent. In each of these months, however, the observed changes reflected somewhat different labor market patterns which were not obvious from the total unemployment rate alone.

THIRD QUARTER DEVELOPMENTS

From June to July, while the civilian labor force increased by almost 250,000 persons, only some 150,000 of these were able to find employment. As a result, the number of unemployed persons increased about 100,000 and the national unemployment rate rose from 5.2 to 5.3 per cent. Of particular interest is that the July increase in the labor force was due solely to increased participation among adult women, 20 years of age and older. In that month, both the number of adult males and the number of teenagers in the labor force actually declined. From January to July, the number of women at work increased 1.2 million while the number of employed men fell 230,000, and the number of employed teenagers dropped 460,000. While female employment and participation has been on an historical **uptrend**, the large increase in female participation of over 450,000 in July and

almost 300,000 in June would appear to indicate an attempt to maintain real family income in the face of high inflation and a weakening primary labor market.'

In August, the total unemployment rate again inched up slightly, rising to 5.4 per cent of the civilian labor force, due mostly to an increase in adult male unemployment. The adult female rate² remained constant and the teenage rate declined.' In absolute numbers, there was very little overall change in the labor market.

The first major jump of the year in the unemployment rate took place in September, when the unemployment rate moved up 0.4 of a per cent to 5.8 per cent, the highest level since April 1972. Similarly, the number of unemployed, at 5.3 million, was the highest recorded since this series was first collected for 1947. These numbers represented an increase of 440,000 over August in the number of unemployed and 1.2 million over October 1973, when the unemployment rate was at its recent 4.6 per cent low.

Unlike in July and August, the rate and number of unemployed increased in September in all categories of the population. While the unemployment rate for adult men moved up only from 3.8 to 3.9 per cent, much greater changes were observed for women and teenagers. The female rate, which rose from 5.2 to

5.7 per cent, represented an unemployment increase of about 150,000 persons. The greatest change, however, was found among persons 16-19 years of age. In this population subgroup, unemployment climbed some 236,000, yielding an unemployment rate increase from 15.3 to 16.7 per cent.

Several factors must be considered in interpreting these third quarter labor market developments. While unemployment moved up 440,000 between August and September, total employment also increased 351,000 in the same period. Furthermore, most of the increase in unemployment can be ascribed to lower than normal employment growth among young men, smaller than usual college enrollment, and increased job search among persons who continued to attend school in September. It has been argued, therefore, that the observed unemployment increase in September was not of the same economic significance as it would have been were adult male wage earners the principal factor. In assessing the validity of this conclusion, several points must be taken into consideration. First, the significance of teenage unemployment, in and of itself, is by no means a closed question. While some economists view a high teenage unemployment rate as practically normal, George Perry of the Brookings Institution asks, "'... But what kind of experience with the capitalist system is it for a teen-ager entering the labor force to find that nobody wants to hire him.' Perry believes that the immediate cost of not absorbing teen-agers into the labor force is social disruption, and the long term cost is the creation of another generation of workers with low productivity and chronic unemployment problems."⁴

Furthermore, while employment and the civilian labor force usually increase in September, in recent years the only changes of the September 1974 magnitude (i.e., increases of 800,000 in the civilian labor force and 350,000

4/'Unemployment becomes an explosive issue,' *Business Week*, November 9, 1974, pp. 156-57.

1/Steven P. Zell, "A Labor Market Primer," *Monthly Review*, Federal Reserve Bank of Kansas City, January 1975, p. 16.

2/*Ibid.* The unemployment rate for a sub-group of the population, such as adult females, is calculated by taking the ratio of the number of unemployed persons in that group to the number of employed plus unemployed persons in that group.

3/Because these data are taken from a probability sample rather than from a complete census, seemingly large changes are not always statistically significant. A change is termed statistically significant if there is only a very small probability that it would have resulted solely by chance. For relatively small population groups with large unemployment rates, such as Negro teenagers, a change would have to be much larger to be statistically significant than for a large group such as adult males. For an excellent discussion of this subject, see Geoffrey H. Moore, "On the Statistical Significance of Changes in Employment and Unemployment," *How Full Is Full Employment?* American Enterprise Institute, Domestic Affairs Study No. 14, July 1973, pp. 3-8. See also John E. Bregger, "Unemployment statistics and what they mean," *Monthly Labor Review*, November 1971, pp. 23-24, and *Employment and Earnings*, December 1974, pp. 166-67.

in employment) took place in 1973. At that time, however, the increases were due to a relatively strong demand for labor, yielding virtually no increase in unemployment. The large September 1974 increases, however, took place in the face of a weakening labor market. Total employment grew only 1.4 million from September 1973 to September 1974, in contrast with a growth in employment of 3.1 million in the similar 1972-73 period.

Finally, although the growth in the unemployment rate was greatest among teenagers, it was extremely widespread, occurring among all groups of the population. Adult men and women, teenagers, whites, blacks, and both blue and white collar workers all experienced unemployment rate increases in September. In addition, several other important indicators confirmed the existence of worsening labor market conditions: the average factory workweek and factory overtime, the distribution of workers by reason for unemployment, the number of workers working part time for economic reasons, and the proportion of labor force time lost.

SOME IMPORTANT LABOR MARKET INDICATORS

Two important indicators of U.S. labor market conditions and general business activity are the average factory workweek and the level of factory overtime.⁵ These data cover all production and nonsupervisory workers who received payment for any part of the pay period containing the 12th of the month. The factory workweek consists of all hours for which regular pay was received, including paid holidays, sick leaves, and vacations. Thus it does not coincide with the scheduled workweek. The number of factory overtime hours consists of

those hours, in excess of regular hours, for which overtime premiums were received.

The average factory workweek is classified as a leading indicator. This means that the workweek tends to rise and fall in advance of similar changes in the business cycle and thus it, along with other data, can be used to forecast future broad-based swings in the economy. For example, as the economy begins to slow down after a period of high demand and tight labor markets, employers' uncertainty as to the extent of the slowdown initially tends to result in a reduced workweek in advance of increased layoffs. Employers perceive the need to begin to trim production levels. However, instead of risking the possibility that they might soon have to incur the costs of rehiring laid-off workers, many employers choose first *to hoard their labor but to reduce the workweek*. As the slowdown becomes clearer and more pronounced, these same employers begin laying off workers and the unemployment rate rises.⁶ The number of overtime hours tends to behave in a similar manner.

Recent developments in these data show precisely this pattern in the present recession. The factory workweek, which was at a recent high of 40.8 hours in September 1973, fell to 40.2 hours in July and August and then to 40.0 hours in September 1974. Similarly, factory overtime in September 1974 was at 3.3 hours, down 0.1 hours from August, and 0.5 hours from September 1973. Both of these indicators pointed to a weakening labor market and presaged the unemployment increase which followed in the fourth quarter of 1974.

Another important indicator of labor market developments is the change in the distribution among the unemployed of those who have either lost their jobs, left their jobs voluntarily, entered the labor force for the first time, or reentered the labor force after a period of

⁵Both of these statistics refer to manufacturing and are obtained from the Labor Department's establishment series instead of the household survey. See *Employment and Earnings*, December 1974, pp. 168-74.

⁶Sheldon Stahl, "Employment, Unemployment, and Economic Adjustment," *Monthly Review*, Federal Reserve Bank of Kansas City, July-August 1970, p. 9.

Interpreting Recent labor

nonparticipation.⁷ As the economy begins to turn down and the demand for labor weakens, several changes take place in the structure of unemployment. Workers who might have voluntarily left their jobs in a "tighter" labor market, either for increased leisure or to search for a better position, become increasingly reluctant to do so. On the other hand, firms begin to cut back on employment and to increase layoffs. Thus, in recessions, the proportion of job losers tends to increase while that of job leavers tends to decrease, despite the fact that both categories may increase in actual number.

Conflicting factors affect the number and proportion of reentrants and new entrants among the unemployed. While the declining availability of new jobs tends to discourage job search, the rising unemployment among primary workers tends to stimulate increased participation by other family members. This latter effect is accentuated in the present recession by the rapid rate of inflation, which spurs increased participation by secondary workers as families attempt to maintain their prior levels of real income.⁸

Recent developments in these data provide some useful insight into the nature of cyclical unemployment changes in the United States. On a seasonally adjusted basis, unemployment increased by almost 440,000 persons in September 1974. Of these, some 250,000 were new job losers, with the remainder either reentering the labor market or seeking their first job. The number of job leavers actually fell in September.

The number of new job losers represented 56.6 per cent of the new unemployed. This abnormally high proportion significantly raised the percentage of job losers among all unemployed persons, from 40.8 per cent in Au-

gust to 42.4 per cent in September. This sharp rise in the number and proportion of job losers represented one of the strongest indications of a rapidly deteriorating labor market, and marked the beginning of a trend which continued and worsened in the remaining months of the year. The September increase in the number of unemployed who were either reentrants or new entrants largely reflected the increasing joblessness among women and, especially, among teenagers, which was discussed earlier.⁹

The two remaining labor market indicators, the number of workers working part time for economic reasons and the proportion of labor force time lost, are closely related to one another. Part-time workers, persons who worked between 1 and 34 hours, are classified according to whether their reason for working part time is economic or otherwise. Workers classified as part-time for economic reasons are those workers who wanted to work full time, but were forced to work shorter hours due to such factors as slack work, material shortages, repairs to plant and equipment, start or termination of a job during the survey week, and the inability to find full-time work. Labor force time lost is a measure of the man-hours lost to the economy through unemployment and through part-time employment for economic reasons. It is expressed as a per cent of potentially available man-hours and is calculated by assuming "(1) That unemployed persons looking for full-time work lost an average of 37.5 hours, (2) that those looking for part-time work lost the average number of hours lost by voluntary part-time workers during the survey week, and (3) that persons on part time for economic reasons lost the difference between 37.5 hours and the actual number of hours they worked."¹⁰

7/If a person lost or left his job but did not immediately seek employment, he is classified as a reentrant when he does begin to search for a job. New entrants, on the other hand, are persons who never worked at a full-time job lasting 2 weeks or longer.

8/See Zell, "A Labor Market Primer," p. 16, for a discussion of this phenomenon in the context of worker discouragement.

9/For a further discussion of the classification of the unemployed by reasons for unemployment, see Curtis L. Gilroy, "Job losers, leavers, and entrants: traits and trends," *Monthly Labor Review*, August 1973, pp. 3-15.

10/*Employment and Earnings*, October 1974, p. 135.

On a seasonally adjusted basis, the number of nonfarm workers working part time for economic reasons remained relatively stable in July and August. In September, however, this number rose 310,000 to a 13½ year high of 2.8 million persons. This increase in "partial unemployment," coupled with the sharp rise in actual unemployment, caused the proportion of labor force time lost to shoot up from 5.8 per cent in August to 6.4 per cent of available man-hours in September. This represented a significant loss in potential output and was a strong indication of the developing recessionary trend in the economy.

FOURTH QUARTER DEVELOPMENTS

Labor market developments in the fourth quarter of 1974 provided ample evidence of this recessionary trend. In some sense, October represented the calm before the storm. The rate of unemployment, which had risen 0.4 of a per cent in September, increased only 0.2 of a per cent in October before exploding for 0.6 percentage point increases in both November and December." Yet even the October rise represented an increase in unemployment of approximately 240,000 to a seasonally adjusted level of 5.5 million unemployed. About two-thirds of the unemployment increase in October was due to job losers. In fact, of the 1.3 million persons who had become unemployed since the October 1973 low of 4.6 per cent unemployment, almost 60 per cent were job losers.

Adult males were the hardest hit in October as their unemployment rate climbed from 3.9 per cent in September to 4.3 per cent in October. Unemployment rates for adult females and teenagers showed little change from September, although both experienced substantial increases from the year earlier. Finally, black workers, whose unemployment rate increased in October from 9.9 to 10.9 per cent, made up a large

part of the total increase. The October upswing was particularly sharp for blue collar workers and reflected the increasing weakness in automobile and related industries.

In October, as through most of the year, employment either advanced slowly or stayed approximately constant. This trend, however, was radically changed in November as employment fell some 600,000 to a seasonally adjusted 85.7 million, a level little changed from November 1973. In December, this fall was continued, as total employment dropped by 500,000 to only 85.2 million, or almost 500,000 lower than December 1973. In November and December, therefore, total employment fell over 1.1 million, with adult men accounting for 620,000 of the decline, women for 245,000, and teenagers for some 234,000.

The civilian labor force, on the other hand, dropped only slightly in November and not at all in December. Unemployment, therefore, rose dramatically. In November and December, total unemployment rose more than 1 million to a seasonally adjusted 6.6 million. Not surprisingly, most of this advance was accounted for by persons who had lost their jobs. Of the total unemployed, job losers accounted for 41.1 per cent in July and 48.9 per cent in December. In the same period, the job leaver percentage fell from 15.5 to 12.1 per cent.

The other labor market indicators also pointed to a rapidly deteriorating economic situation. The factory workweek and the number of overtime hours both continued their decline. The seasonally adjusted workweek, which was at 40.6 hours in December 1973, fell to 40.1 hours in October and to 39.4 hours in December 1974. Similarly, the number of overtime hours decreased from 3.7 hours in December 1973 to 2.7 hours in December 1974.

The number of workers employed part time for economic reasons rose 450,000 in November and December to 3.4 million persons, almost 800,000 greater than in December 1973. When this measure is combined with the in-

11/This trend was strongly confirmed in January 1975, as the unemployment rate increased sharply to 8.2 per cent, its highest point in the entire post-world War II period.

crease in unemployment, the amount of labor force time lost was boosted sharply from 6.4 per cent in September to 7.9 per cent in December. In December 1973, on the other hand, the proportion of labor force time lost was only 5.4 per cent.

What was the pattern of unemployment in November and December? Not surprisingly, the unemployment increases in both months were extremely widespread. For adult males, whose rate of unemployment reached a low of 3.0 per cent in December 1973, the rate climbed from 4.3 per cent in October to 4.6 per cent in November, and finally, to 5.3 per cent in December 1974. Adult women were also greatly affected. Their unemployment rate rose a full percentage point in November to 6.6 per cent, and then climbed again to 7.2 per cent in December. The teenage unemployment rate rose from 17.1 per cent in October to 18.1 per cent in December.

These increases reflected the pervasive spread of unemployment throughout the economy and, in particular, the dramatic downturn in employment in the automobile industry. Thus, unemployment among manufacturing workers¹² closed the year at 8.9 per cent, up from 7.4 per cent in November, and from only 4.3 per cent in December 1973. Similarly, the unemployment rate in construction climbed from 8.2 per cent in December 1973 to 14.9 per cent in December 1974. It is not surprising then, that among blue collar workers, the unemployment rate rose from 5.2 per cent in December 1973 to 7.4 per cent in October, 8.3 per cent in November, and 9.3 per cent in December 1974. Finally, even among white collar workers, the 4.1 per cent unemployment rate in December was the highest level recorded since the

12/Unemployed persons are classified by industry and occupation according to their latest full-time civilian job lasting two or more weeks. The unemployment rate in a particular industry or occupation is the ratio of the number unemployed to the sum of those employed or unemployed in the respective industry or occupation.

Bureau of Labor Statistics began collecting this series in 1958.

UNEMPLOYMENT: A FURTHER VIEW

In the light of these precipitous developments, it is important to examine from another angle an often asked question concerning the current labor market situation: Just how "serious" is the present unemployment? This question is generally posed with respect to two separate labor market developments; the changing age-sex composition of the labor force and the existence of an expanded range of benefits to aid unemployed workers.

According to several critics, the growing fears of unemployment have been greatly exaggerated. Albert Cox, Jr., chief economist of Lionel D. Edie and Co., noted recently, for example, that although the unemployment rate might soon exceed the 7.5 per cent of 1958, "The fact is, however, that such a degree of unemployment will be far less of a social tragedy than the public will be led to believe. . . ." The first of his reasons for this conclusion is the substantially greater availability of jobless benefits."

Clearly, current unemployment benefits greatly exceed those available during the Great Depression. The principal source of present benefits, however, remains the Federal-State Unemployment Insurance (U.I.) system, established in 1936. This is even more the case in 1975 as, since the first of this year, about 12 million previously uncovered workers were given temporary unemployment insurance coverage and the length of maximum coverage was extended for all other covered workers. Nevertheless, although certain industries have established programs to supplement these benefits, the actual number of recipients under these programs, as well as under U.I., falls far short of the total number of unemployed. Thus, although the number of unemployment insurance

13/"Unemployment Dangers 'Exaggerated'," *Kansas City Star*, December 6, 1974.

recipients rose to an all-time high in January, this represented only about half of the total number of unemployed. Furthermore, while the system's goal is to compensate the unemployed for one-half of their lost earnings, the average level of unemployment insurance benefits in the country is only about \$64 per week.

Of the supplementary programs that do exist, the one most widely known is the United Auto Workers' Supplemental Unemployment Benefit (SUB) program. SUB was designed to complement the state unemployment program by making up the difference between what the state pays a worker and 95 per cent of his salary less \$7.50, the amount he would normally pay for lunch and transportation. A worker must be employed a full year before he is eligible for any SUB benefits. After that, he earns SUB credits at the rate of one credit for every 2 weeks of employment, to a maximum of 52 weeks of eligible compensation after 2 years of work. However, while the maximum compensation was to run for a full year, the program was not designed to cope with the present massive auto layoffs. Under this heavy pressure, the duration of benefits is sharply trimmed back as the amount of money in the fund falls below specified levels. This was already the case at General Motors in mid-December, when the reserve had fallen to 17 per cent of maximum funding. Similarly, it is estimated that at General Motors and Chrysler, the fund might have to suspend operation within a few months if layoffs continue at their present levels.¹⁴

Outside of the auto industry, supplemental benefits during layoffs are almost nonexistent. The only other large union with such a plan is the United Steel Workers. Under their program, the goal is to provide combined State-SUB benefits of about two-thirds salary, with a \$106 per week ceiling. The International

¹⁴/Joseph J. Bohn, "How SUB assists idled workers." *Automotive News*, December 2, 1974.

Ladies Garment Workers Union provides some benefits if an employer goes out of business, but none for conventional layoffs. In most other cases, then, the only alternatives to regular unemployment benefits are welfare and food stamps. Clearly, the effect of layoffs on morale and living standards remains extremely serious."

The other development which has attracted considerable analysis and commentary in recent years is the recognition of the changing age-sex distribution of the labor force and its effect on the interpretation of unemployment. In 1971, George L. Perry published a now widely cited article in which he attempted to explain the coexistence of inflation and unemployment.¹⁶ He noted that the structure of the labor force has shifted markedly toward an increased proportion of women and teenagers. Thus, he concluded, the aggregate unemployment rate has become increasingly less comparable with that of earlier years. In particular, because there are relatively fewer highly skilled workers in the labor force, a given unemployment rate is now associated with a tighter overall labor market than was the case 10 or more years ago. To compensate for this structural shift, Perry devised a weighted unemployment rate in which individuals were weighted by an estimate of what they would produce if they were employed.

Perry's work was followed by numerous other models in which researchers constructed various weighted unemployment indices. In the most widely cited version, a "standardized" unemployment rate is constructed by weighting the actual present unemployment rates for each age-sex group by the proportion of the labor force which that particular group represented at some specified earlier time. Because women

¹⁵/A. H. Raskin, "The Unemployed Have Better Crutches Now, But Still Limp," *New York Times*, December 15, 1974.

¹⁶/George L. Perry, "Changing Labor Markets and Inflation," *Brookings Papers on Economic Activity*. 3: 1970, (Washington: The Brookings Institution. 1971). pp. 41 1-41.

Interpreting Recent Labor

and teenagers have "traditionally" had higher rates of unemployment than men, and because they comprised smaller proportions of the labor force in earlier years, this weighting procedure would tend to result in a standardized rate which was lower than the present aggregate unemployment rate. Thus, for example, in the 1974 Economic Report of the President, the Council of Economic Advisors noted that: "If each age-sex group shown . . . is weighted according to its importance in the labor force in 1956, when unemployment averaged 4.1 per cent, one finds that the overall unemployment rate in 1973 would also have averaged 4.1 per cent rather than the 4.9 per cent actually experienced."¹⁷

There are, however, several major difficulties associated with this reasoning. Its principal flaw lies in the fact that the construction of a standardized rate tends to focus attention away from the actual labor market problems that currently exist given the present structure of unemployment. Policies which are keyed to a nonexistent unemployment structure are useless in a changing labor market. Furthermore, the emphasis on the "traditionally" higher unemployment of women and teenagers and the implication that this unemployment is not quite so significant, implies a clear social preference for unemployment in one group rather than another.¹⁸

While it is doubtlessly true that, in most cases, adult males are the primary wage earners in a family, this implied preference ignores several important phenomena. In addition, the weighting model itself has associated with it several implicit assumptions which are rather improbable.

Over the years, the structure of the labor force has clearly changed. At any given time, however, that structure is a function of basically two factors: the size and age-sex distribution of

the population, and the rates of participation of the various demographic groups. The first of these factors is mainly a function of the historical pattern of birth rates, which, to some extent, reflects changing social values and events. For example, as a result of the post-World War II "baby boom," the young adult component of the labor force grew nearly five times as fast as the mature adult segment from 1960 to 1971.¹⁹

For the most part, though, the changing structure of the labor force is due to long-term changes in participation rates among the several population groups. For example, in 1960, adult females had a participation rate of 37.6 per cent. By 1974, this rate had risen to 45.2 per cent. Similarly, the rate for all teenagers rose from 47.5 to 54.9 per cent. For adult males, on the other hand, rates fell from 86.0 per cent in 1960 to 81.0 per cent in 1974 (Table I). The reasons for these changes are complex. For older male workers, they include changing laws on retirement and altered valuation of leisure. For adult females, they include altered conceptions as to the role of women in society and, in particular, the related rapid rise in education among women. For both women and teenagers, they include the tremendous rise in the cost of living and the associated attempt to maintain real family income. The effect of all of these changes is that women are becoming to an ever greater extent co-earners and primary workers rather than secondary workers.

The implicit assumptions in the weighting model can be seen by examining Table I. In that table, the population is divided into three categories: all teenagers (16-19 years of age), adult males, and adult females. The changing population and labor force distributions as well as the changing participation rates which occurred between 1960 and 1974 are easily seen. In 1960,

17/Carolyn Shaw Bell, "The Economics of Might Have Been," *Monthly Labor Review*, November 1974, pp. 40-42.
18/*Ibid.*

19/Leonard G. Bower, "Changes in Composition Affect Unemployment," *Business Review*, Federal Reserve Bank of Dallas, February 1973, pp. 1-6.

Table 1
POPULATION, LABOR FORCE PARTICIPATION, AND UNEMPLOYMENT
RATES OF CIVILIAN NONINSTITUTIONAL POPULATION BY
AGE AND SEX: 1960 AND 1974

	Population	Per Cent of Population	Labor Force	Per Cent of Labor Force	Per Cent Participation Rate	Unemployment Rate
1960*						
All	117,245	100.0	69,628	100.0	59.4	5.5
Teenagers (16+ yrs.)	10,187	8.7	4,841	7.0	47.5	14.7
Males (20+ yrs.)	50,698	43.2	43,602	62.6	86.0	4.7
Females (20+ yrs.)	56,360	48.1	21,185	30.4	37.6	5.1
1974*						
All	148,599	100.0	91,011	100.0	61.2	5.6
Teenagers (16+ yrs.)	16,055	10.8	8,813	9.7	54.9	16.0
Males (20+ yrs.)	62,149	41.8	50,363	55.3	81.0	3.8
Females (20+ yrs.)	70,396	47.4	31,836	35.0	45.2	5.5

Using the 1960 Labor Force Distribution as Weights:

	1960 Labor Force Distribution (per cent)	Standardized*	
		Labor Force †	Unemployment Rate
1974			
All	100.0	91,011	5.2
Teenagers (16+ yrs.)	7.0	6,371	—
Males (20+ yrs.)	62.6	56,973	—
Females (20+ yrs.)	30.4	27,667	—

*Data are not strictly comparable between years due to the introduction of population adjustments in 1970, 1972, 1973. For an explanation, see "Historic Comparability," *Employment and Earnings*, December 1974, pp. 164-65.

† The standardized participation rate is the ratio of the standardized labor force to the actual 1974 population.

SOURCE U.S. Department of Labor News Release, January 10, 1975. "Labor Force Developments Fourth Quarter of 1974," Table 8.

Manpower Report of the President, 1973, Tables A 1, A 3, A 7, A 15.

the aggregate unemployment rate was 5.5 per cent, versus 5.6 per cent for all of 1974. However, because the structure of the labor force changed greatly over these years, a lower "standardized" unemployment rate for 1974 may be calculated by using 1960 labor force proportions for the three groups and 1974 unemployment rates. If this is done, the 1974 aggregate unemployment rate is reduced to a "standardized" 5.2 per cent. This calculation, however, completely ignores shifts in the job and population structures between 1960 and 1974. In particular, by using the 1960 weights,

and thus increasing the adult male proportion in the labor force, it is implicitly assumed that males will be willing and able to fill every job relinquished by the necessarily declining proportions of females and teenagers. In fact, they would have to fill many more jobs than currently exist or else the unemployment rate would not fall as calculated in the model.

Finally, in order for the age-sex distribution of the present labor force to be altered in the manner assumed by the weighting procedure, the participation rates of the three age-sex groups would also have to be altered

Interpreting Recent Labor Market Developments

radically (Table 1). In particular, because the age-sex composition of the population has also changed over time, the **artificially** altered labor force shares would result in participation rates of 91.7 per cent for adult males, 39.3 per cent for adult females, and 39.7 per cent for teenagers. This, however, would represent a higher level of participation for adult males, and a lower level of participation for teenagers, than has existed in our economy since at least the end of World War II. It would also imply a pattern of change in participation rates that runs counter to that which has, in fact, occurred.

From this analysis, it is clear that it is misleading to simply assume away the major

structural changes that have taken place in the labor market over the past several years. It is incorrect to claim for either the published total unemployment rate or for the standardized unemployment rate, the ability to correctly capture all of the complex unemployment developments in the economy. As stressed earlier in this article, it has become increasingly necessary to look beyond the total unemployment rate at a broad range of other measures. The weighting model, however, can serve an important purpose if used to highlight the impact of these structural changes upon the economy and to aid in the preparation of plans to deal with the problem of unemployment as it currently exists.