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THE EMPLOYMENT MARKET,

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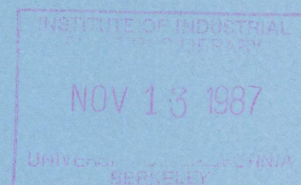
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# **CHAPTER 11:**

## **The Employment Market**

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## **Chapter 11: The Employment Market**

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## Chapter 11: The Employment Market

An earlier chapter analyzed the employment relationship in terms of demand and supply analysis, both from a classical and a more modern economic perspective. It was noted that one of the characteristics of the real world labor market was its tendency not to "clear" (not to equate demand and supply) in the classical meaning of that term. And, one of the reasons for the labor market's departure from the classical model was seen to be the cost of employee turnover.

One element of demand and supply analysis was also discussed in the last chapter, as part of a general discussion of conflicting employee-employer interests. Specifically, the determination and scheduling of labor hours was reviewed. Again, a simple classical view of the labor market proved to be insufficient; hours determination involved not only individual employer and employee preferences but also externalities across employers, and -- again -- problems of imperfect market clearing.

In this chapter, there will be further elaboration of demand and supply analysis, relying heavily on empirical information. Just who succeeds in the labor market and who does not? How do employees and employers find each other? What does it mean by "unemployment" and how does it affect the employer-employee attachments of those who are employed? The goal is to provide a

realistic picture of the employment market and suggest HRM implications.

Discussion of those issues will serve to introduce two key questions of the next chapter: Under what circumstances will employers and employees "invest" in the employment relationship through training and skill enhancement? And how does individual investment in education affect job search and success in the labor market?

Previous chapters have drawn repeated on data from the monthly "Current Population Survey" (CPS) for information on the labor market. The CPS provides a wealth of detailed data on individuals in and out of the labor force, based on a sample survey of 59,500 households. As noted in chapter 1, three key statuses are determined for noninstitutional individuals of "working age" (defined as 16 years and older): 1) employment, 2) unemployment, and 3) not in the labor force.<sup>1</sup> The labor force is defined as the number of individuals in the first two categories. Hence, the third classification is the residual population, those who are not employed nor unemployed.

## **I. Employment.**

Each of the three statuses is more arbitrary than its label might seem to imply at first impression. For example, someone

who is actually working for economic gain at the time of the survey should clearly be counted as employed.<sup>2</sup> People who are not working in the external commercial setting are not considered as employed, even though they may be engaged in worthwhile activities. Thus, volunteers, homemakers, and students (without jobs), are not recorded as being employed. But, not all individuals who think of themselves as having a job (and, hence, as employed) are actually at work.

i. Nonworking Workers.

Table 1 shows that on average about 5% of nonagricultural employees in 1986 were, in fact, not at work during the reference week of the monthly survey. Of these "nonworking workers," over half were on vacation, obviously a seasonal activity which is not spread evenly over the entire year. The remainder were idled due to illness, bad weather, industrial dispute, or what are termed "other" reasons.

Exactly what these other reasons were is not reported. However, employers commonly grant leaves for jury duty, bereavement, maternity, and military service. Less common are leaves for paternity and adoption. In addition, employers will sometimes grant (often unpaid) leaves for such personal reasons as alcohol or drug rehabilitation, educational pursuits, work in a political campaign, or social service work. In one survey, a

Table 1

**Persons With a Job But Not at Work, 1986  
(Nonagricultural Workers)**

Reason	With a Job But Not at Work as Percent of all Civilian Employees	Percent of Wage and Salary Workers not at Work Being Paid by Employer <sup>1</sup>
All Reasons	5.3%	56%
Vacation	3.0	71
Illness	1.2	42
Bad weather	.1	
Strike/lockout	.1	-->25
Other	.9	

<sup>1</sup>Excludes private household workers. Ninety percent of those with a job but not at work were non-household wage and salary workers.

Source: Employment and Earnings, vol. 34 (January 1987), pp. 156, 193.

few employers even cited serving a jail sentence as a reason for unpaid leave.<sup>3</sup>

A little more than half of those people who had jobs but were not at work were being paid for their absences, mainly workers who were on vacation. However, the converse observation is also significant; about half of wage and salary workers who are not at work are viewed as employed -- and seen by themselves as having a job -- even though they are receiving no payment from their employers. This view of the employed workforce is symptomatic of the stakeholder attachment of workers to their jobs which we have stressed throughout this volume. An individual can have a job yet not be working. American data collection methods, and the way individuals answer CPS questions about their employment attachments, reflect this employee stake.

#### ii. Insufficient Hours.

Not all workers who have jobs necessarily are working the hours they wish. In 1986, almost 2% of those who usually worked full time (35 hours or more per week) reported that in the survey week they were working only part time in the survey week because of "economic reasons." These reasons involved insufficient demand for labor by their employer to maintain full time work or an inability to find a full time job.



For example, someone who normally worked full time on a 5 day per week schedule would fall into this category if he/she were suddenly placed on a 3 day per week schedule due to slack work. Also so-counted would be someone who was permanently laid off part way through the reference week, since he/she would have some work activity to report during that week. About one fifth of individuals who normally worked part time in 1986 reported that their part time status was due to economic reasons, i.e., they did not have the full time work they preferred.<sup>4</sup> As noted in the previous chapter, employee frustration over differences between their actual weekly schedule, and the schedule they would prefer, can pose a human resource problem for employers.<sup>5</sup>

## II. Unemployment.

The word "unemployment" is sometimes used in casual conversation to refer to anyone who does not have a job. Yet there are many people who do not have a job, and do not wish to have one, e.g., retired persons. Historically, when empirically-oriented economists have used the term "unemployment," they have referred to people who do not have jobs but want to work, i.e., to people who are "involuntarily" without employment. Yet because the classical economic model seemed to preclude the existence of involuntary unemployment, arriving at a precise definition posed a significant problem.

i. Involuntary Unemployment.

Economists have pointed out that in a formal sense, unemployment involves an asymmetry between capital and labor.<sup>6</sup> Normally it is expected that capital (the employer) hires labor. Were there no transaction costs, however, workers could just as well hire capital. Thus, unemployed auto workers might hypothetically hire a car factory and go into business for themselves if a factory owner refused to hire them. In such an imaginary world, there would be little opportunity for unemployment to exist.<sup>7</sup> But the difficulties involved in an entire factory workforce somehow coalescing itself and hiring the necessary management and capital are self evident.

The fact that there is always some option for self employment of unemployed workers, however, is one of the objections by purists to the very concept of involuntary unemployment. Perhaps the unemployed auto worker cannot really join with other idle individuals to hire an auto factory, because the costs of forming the necessary coalition are too high. But he or she could always offer to cut their neighbors' grass or sell pencils or apples on street corners. Even though such pursuits would pay substantially less than work in a car factory, the unemployed auto worker still "chooses" not to undertake these tasks, and therefore is "voluntarily" idle, according to this view.

Still another objection that has been raised to the concept of involuntary unemployment is that unemployed workers "ought" to bid down the wage for jobs, in effect underselling incumbents. An unemployed worker could -- in theory -- enter a workplace and offer to work for a few cents an hour below the wage paid to the existing workforce. Economists with a pragmatic orientation have long recognized that such offers would most likely be met with employer responses that there are "no vacancies." Yet the notion that the labor market should operate like an auction market (even though it does not) has proved to be an intellectual stumbling block for some theorists. That employees refuse to act as if the labor market were a classical auction as a sign by certain theoreticians that their unemployment is not "truly" involuntary.

#### ii. Actual Measurement.

During the Great Depression of the 1930s -- when unemployment was the most pressing social issue of the day-- such debates were quite common in the economic literature. The views expressed then still persist in some circles today, although they would probably be stated more elegantly than they have been stated above. As the Great Depression continued, empirically-oriented economists and statisticians struggled to come up with a definition of unemployment that would permit actual measurement. Ironically, however, it was not until 1940

(when the Great Depression was almost over) that the predecessor to the modern Current Population Survey was established to monitor unemployment and other labor force characteristics.

Since 1940, the empirical approach to unemployment has been to sidestep any attempt to classify people on the basis of what the survey taker might have viewed as available alternatives for them to unemployment. Since cut-the-grass or sell-pencils-and-apples alternatives are always available, no one would ever be counted as unemployed using a strict version of such a definition. And any less strict version would be inherently subjective and indefensible as a labor market indicator. Instead, those being questioned in the CPS tell their own stories in the form of answers to specific questions.<sup>8</sup> A working-age person is counted as unemployed if he/she meets one of the two following criteria:

- 1) The individual was available for work during the survey week (except for temporary illness) and had looked for work during the past four weeks, or,

- 2) The individual had not looked for work because he/she was on layoff status from a job or was waiting to start a new job within 30 days.

Criterion #1 -- under which the vast majority of the unemployed are captured -- measures unemployment by a self-expressed desire to work as evidenced by some job searching activity. The issue of whether the individual could have found a job if only he/she had searched more diligently is not considered. For example, someone who had received a job offer, but rejected it as unsatisfactory, would still be counted as unemployed.

The CPS survey taker does not dismiss the offer-rejecting individual as being too "picky" and, hence, not really unemployed. As will be seen below, such rejections of offers (including "self offers" of grass cutting) may be entirely rational responses of individuals. Much depends on what alternatives the job seeker may expect to uncover by continuing to search for other job offers.)

Still another reason for avoiding subjective judgments about the diligence of job search is the notion of queuing. Suppose there are 90 jobs available and 100 job seekers. Ten of the job seekers will end up as unemployed, because of the labor demand insufficiency. But 90% of the job seekers will be successful in finding work. Had one of the remaining ten been more aggressive in search, he/she might have among the successful 90%. But someone else would simply have been elbowed out of the line and

wound up as unemployed. When all is said and done, ten unemployed individuals will remain.

Criterion #2 recognizes the potential linkage between employer and employee during spells of non-employment, if the employee has an expectation of returning to his/her old job. Formal layoff systems are particularly common in the union sector, but can also be found in nonunion employment. In effect, criterion #2 recognizes that it may not "pay" an employee who believes he has a new or old job "lined up" to search for some other interim job during a spell of non-employment. Indeed, because of the costs of turnover, workers on lay off who do search for temporary alternative jobs may be rejected by potential employers on the grounds that they will probably quit when their old jobs resume. Why hire someone who will soon be quitting to work for someone else?

Since, by some definition, all unemployment can be dismissed as voluntary, there is no perfect approach to measuring unemployment. Thus, for example, the requirement under criterion #1 that those seeking work must cite a search activity within the past four weeks is clearly arbitrary. It could just as well have been set at three weeks or eight weeks. The "looser" the criteria, e.g., eight weeks rather than three weeks, the higher will the absolute number of unemployed be in any given survey week.<sup>10</sup> However, any plausible measure of unemployment will



produce the same general cyclical responses, i.e., more unemployed in recessions and less in booms. Thus, most industrialized countries have adopted some variant of the U.S. approach to unemployment measurement for their own economies.<sup>11</sup>

### iii. Job Losers.

Perhaps the most common public perception of an unemployed person is someone who has lost a job. Such individuals in fact make up only about 40-60 percent of the unemployed as defined in the CPS, depending on the stage of the business cycle. Times of high unemployment and job scarcity are known as periods of loose labor markets. Job losers become a larger proportion of the unemployed -- not surprisingly -- during recessions, when the labor market is loose. Their importance in total unemployment falls during booms, when jobs are plentiful and the labor market is termed tight.

Table 2 illustrates the dominance of job losers in the cyclical fluctuations of unemployment (as opposed to the absolute number of unemployed people). The unemployment rate is defined as the proportion of the labor force which is unemployed, i.e., as  $E/(E+U)$  where  $E$  = the number of employed persons and  $U$  = the number of unemployed persons. The job loser component accounts for much of the variation in the overall unemployment rate between business cycle peaks (denoted "P" on the table) and

Table 2

**Civilian Unemployment Rates by Reason for Unemployment**

	1973 (P)	1975 (T)	1979 (P)	1982 (T)	1986
Total	4.9%	8.5%	5.8%	9.7%	7.0%
Job losers	1.9	4.7	2.5	5.7	3.4
Job leavers	.8	.9	.8	.8	.9
Re-entrants	1.5	2.0	1.7	2.2	1.8
New entrants	.7	.9	.8	1.1	.9

Note: Details need not sum to totals due to rounding.

Source: U.S. Bureau of Labor Statistics, Handbook of Labor Statistics, bulletin 2217 (Washington: GPO, 1985), p. 80; Employment and Earnings, vol. 34 (January 1987), p. 170.

troughs (denoted "T"). In contrast, unemployment rates for labor force re-entrants and new entrants (workers who began to seek work but did not have jobs in the immediate past) show milder fluctuations.

The unemployment rate for job leavers (quitters) shows little fluctuation since it is affected by two opposing influences. People with jobs are less likely to quit them during business cycle troughs, since alternative work is scarce. This factor tends to lower the trough unemployment rate for quitters. On the other hand, those workers who do quit despite the bad times will find it harder to find new jobs (and thus will remain unemployed longer) than during good times. And that factor tends to raise their unemployment rate.

#### iv. Unemployment Duration.

Fear of job loss is an important factor in the lives of many workers. This fear, in turn, affects their relationship with employers, and -- therefore -- the human resource policy of firms. Other factors held constant, an employer who offers job security, i.e., a reduced possibility of lay off, is more attractive to potential job applicants and incumbents than one offering only uncertain prospects of continued employment.

Unemployment is feared, in part, because of its potential duration. One source of information on unemployment duration is the monthly CPS. Those persons who are identified as currently unemployed by the CPS are asked how long they have been in that condition. The average response has varied from 8 to 20 weeks, depending on the business cycle. During periods of high unemployment, the duration recorded rises relative to its level in periods of low unemployment. The long duration during recessions reflects the fact that in loose labor markets, finding a job is difficult and the search for work must be extended.

Two points should be noted. First, these reported 8-20 week responses reflect interrupted spells of unemployment. That is, those responding are currently in the midst of being unemployed and many will remain unemployed for additional weeks. If the crude assumption is made that the average respondent is half way through his/her spell of unemployment, then the unmeasured completed spells will be double the length of the measured interrupted spells. Thus, average completed spells -- spells of unemployment after which the worker has found a new job or has dropped out of the labor force -- can be taken to be roughly 16 to 40 weeks in length, again depending on the tightness or looseness of the labor market.

Second, analysts of labor market phenomena have noted that these long durations can hide the fact that many unemployment

spells are much shorter than the average spell. When a person enters unemployment, he/she often leaves that state quickly, perhaps within a few weeks. But some people have very long spells which drive up the average. Thus, the median interrupted spell of unemployment reported has been 4-10 weeks in length, compared to the 8-20 weeks of the average interrupted spell.<sup>12</sup>

Thus, an alternative view of unemployment duration is to ask how long someone who becomes unemployed can expect to remain in that condition. If the analysis is confined only to "new entrants" into unemployment, the estimated completed spell should be shorter than if all currently unemployed persons are considered. This feature is due to the fact that long-term unemployed will be disproportionately represented in the CPS sample of currently unemployed individuals.<sup>13</sup>

Estimates of expected unemployment spells for the newly unemployed suggest durations ranging from 6 weeks during the period of very low unemployment rates in the late 1960s to 15 weeks during the deep recessions of the mid 1970s and early 1980s.<sup>14</sup> For those with concerns about HRM policy, i.e., the readers of this text, the important question is what is the average duration of unemployment that can be expected by a job loser who becomes unemployed. It is that group which is most likely to represent attitudes of current or prospective employees.

Some information on unemployment duration for job losers is available. In 1986, for example, 22% of job losers (other than those on layoff status) reported interrupted spells of unemployment of 27 weeks or more, compared with only 10% for other unemployed persons.<sup>15</sup> A "typical" worker whose job is permanently terminated can expect to experience several months of unemployment and possibly -- particularly in a period of recession -- a spell extending beyond a year. Thus, despite the limits of available data, it appears clear that the possibility of unemployment (and attendant income loss and uncertainty) is an important shaper of employee attitudes and motivation.

Debate over the best way to tabulate and present the issue of unemployment duration is best left to specialists and to other books. From the human resource management point of view the key issue is whether unemployment is a significant concern of employees (and, therefore, to employers). The argument here is that it is, and that workers -- who are likely to be averse toward the risk of unemployment-related income loss -- will be anxious to avoid layoffs. Thus, the degree of job security offered by an employer is a key attribute of the total package of working conditions.



#### v. Income Losses, Employee Attitudes, and Employer Policy.

Sometimes it is argued that unemployment no longer is a serious problem for families since the advent of greater female participation in the labor force has produced the "cushion" of an extra earner in the household. But evidence from the CPS suggests that even with two-earner (husband-wife) families, very substantial drops in family earnings can occur if one family member becomes unemployed, especially if the unemployed member is the husband. A very rough estimate would be that if a two-earner family (husband and wife) experiences unemployment of the husband, family wage income will drop by two thirds. If the wife becomes unemployed, the drop will be roughly one third.<sup>16</sup>

There is no doubt that two-earner families and the availability of unemployment insurance (discussed below) has made unemployment a less severe problem than it was, say, in the 1930s. As will be discussed below, unemployment insurance will typically make up a little over 40% of lost weekly wages after layoff, but its payments usually terminate after 26 weeks. Even with the advent of unemployment insurance, the income shocks related to unemployment are still sufficiently large so that employees will want to avoid them. Employees will value privately developed internal human resource policies that offer protection from unemployment resulting from fluctuations in economic conditions. And they will be attracted to proposals in

the external political setting that require such internal policies to be adopted.

The threat of unemployment, as noted in a previous chapter, also may have a disciplinary effect. A worker dismissed for inadequate or improper performance can anticipate a period of difficulty in finding a new job. Thus, fear of unemployment may discourage worker activities likely to be disapproved by management.

For example, in the union sector, strike activity tends to diminish during periods of high unemployment. During the first half of the 1980s, when labor markets were generally loose, absence rates (including those attributed to illness and injury) fell markedly. Apparently, workers felt less secure about "calling in sick" or being absent for other reasons. And employers felt more secure about taking measures to control absences.<sup>17</sup>

#### vi. Job Security as a Fringe Benefit.

Table 3 presents evidence on the risk that an employee in a particular occupational group will experience some unemployment during the course of a year. In 1984, the average monthly unemployment rate for all workers was 7.4%. Yet, 17.4% of

Table 3

**Percent in the Labor Force Experiencing  
and Unemployment in 1984**

	Percent Experiencing Unemployment
All who worked or looked for work	17.4%
All who worked	15.3
Executives, administrators, managerial	6.5
Professional specialty occupations	7.0
Technicians and related support	10.0
Sales occupations	13.2
Administrative support, including clerical	11.1
Protective services	11.1
Other services except private household	19.4
Mechanics and repairers	12.9
Construction trades	34.5
Other precision production, craft, and repair	14.4
Machine operators, assemblers, inspectors	24.9
Transportation and material moving	23.9
Handlers, equipment cleaners and helpers	30.3

Source: Shirley J. Smith, "Work Experience Profile, 1984: The Effects of Recovery Continue," Monthly Labor Review, vol. 109 (February 1986), p. 41, 42.

individuals who were in the labor force at some time during that year reported experiencing one or more spells of unemployment.

Even when confined only to individuals who actually had jobs during 1984 (as opposed to those who looked for work but never had a job), the table shows the probability of experiencing some unemployment was 15.3%. The median spell of unemployment for those who had jobs, but were also unemployed at other times during 1984, was about three months in duration. Almost a fifth of those who had jobs at some time in 1984 reported that they were unemployed more than half the year.<sup>18</sup>

Moreover, Table 3 suggests that job security has aspects of a fringe benefit. It is known that jobs which pay higher wages also tend to offer higher fringe benefits, e.g., an electrical engineer is more likely to have a pension plan than a janitor. As job classification rises in the occupational (and pay) hierarchy of Table 3, the risk of having experienced unemployment decreases markedly.

Thus, 30.3% of the "handlers, equipment cleaners, and helpers" classification -- low skilled and low paid workers-- experienced some unemployment in 1984 compared with only 6.5% of "executives, administrators, and managers." This discrepancy is not merely a blue collar/white collar phenomenon. Within the white collar groupings, sales and clerical workers have higher

risks of unemployment than (generally higher paid) managers and professionals. And in the blue-collar groups, with the exception of the highly seasonal construction trades, skilled workers show lower unemployment probabilities than unskilled workers.

Some of these discrepancies in proneness to unemployment occur because employers, for reasons discussed in earlier chapters, have more reason to hold down turnover costs of the occupations in the higher paid groups. But some of the difference is also due to the general pattern of offering to the higher paid a variety of desirable job characteristics (including employment security) along with the basic pay rate.

What type of employee would particularly value job security? An important element in determining "tastes" for security is the probability that it would be difficult to find another job once unemployed. Some research has been done on estimating these probabilities.<sup>17</sup> It appears that the monthly probability of leaving the state of unemployment is lower than average for prime age persons, i.e., persons aged 35-64, especially for males. And it is interesting to note that managers and administrators have particularly low probabilities.

Thus, the estimates indicate that while the chance of becoming unemployed for relative senior workers and for managers is relatively low, if unemployment does occur, these workers face

an especially long (and perhaps painful) search before their unemployment ends. Individuals who are knocked off a career ladder may find it difficult to locate a job comparable to the job which was lost. It may not be easy for a 50-year old executive to pick up and find a new position. Thus, the data suggest that relative security is offered by employers to persons who would be especially hard hit by unemployment and who therefore value protection from such risks.

Note that HRM policies which provide seniority-related security and career ladders paradoxically may worsen the plight of those employees who are dislocated. Policies under which new entrants come in at the bottom of the ladder mean that dislocated senior workers will be forced "to start all over again." The possibility of having to face such a loss -- a loss of the employee in the stake in his/her old job -- adds to pressures from employees for HRM policies of seniority-related security. The existence of "internal labor markets" -- systems of promotion from within and career advancement within the firm -- thus tends to reinforce itself.

#### vii. Layoff Systems.

As already noted, workers who are on layoff status, but are not seeking work, are counted as unemployed in the CPS. This practice is followed on the grounds that since such workers have



a reasonable prospect of recall, job search for them might not be rational. From the employer perspective, a layoff system for dealing with the ups and downs of product market demand offers certain attractions. In a world of imperfect information about employee characteristics, rehiring a worker who has previously been employed by the firm may well be cheaper than hiring a new employee "off the street." The rehired worker has known productivity characteristics; the new one does not.

Apart from purely information considerations, a rehired worker embodies whatever investment in training and skill upgrading the firm has previously provided.<sup>20</sup> In contrast, a new worker must be "brought up to speed" by the firm before full productivity is achieved. Thus, the employer saves training costs, as well as screening costs, by the use of rehires from a layoff pool.

In a period of high unemployment, the chances that a laid off worker will find a new job before being recalled to the old one are reduced. Nevertheless, an employer with a layoff system will probably want to convey to workers who are being laid off that recall may be expected, or -- at least -- what the probability of recall may be. If a laid off employee is told that he/she has a good chance of recall within a not-too-long period, he or she is likely to remain available to the employer.

It might be expected, therefore, that unemployment spells by laid off workers will be shorter than those of other job losers. Labor market evidence bears out this expectation. Table 4 shows that the length of (interrupted) unemployment spells of workers on layoff status tends to be shorter than length of spells for other job losers. In 1986, for example, almost half of all unemployed workers on layoff status reported that their spells had thus far been of less than 5 weeks' duration. The corresponding proportion for other job losers -- those not on layoff status -- was well under a third.

According to Table 4, the significance of layoff unemployment for total unemployment is quite cyclical. At the trough of the economic slump of the early 1980s, workers on lay off accounted for 20% of all unemployed workers and over a third of all job losers. By 1986, however, the proportion of all unemployed workers who were on layoff status had dropped to 13% as the economy recovered from the slump.

Formal layoff systems are more likely to be found in unionized firms than nonunion, indicating that employee preferences as well as employer preferences play a role in the establishment of layoff rules and procedures. However, the issue of formality may be misleading.

Table 4

**Workers on Layoff Relative to All Unemployed  
and Job Losers, 1979-86**

Year	Civilian Unemploy- ment Rate	Workers on Layoff as Percent of the Unemployed		Percent of Job Losers with Interrupted Spells of Un- employment Less than 5 Weeks	
		All	All Job Losers	Workers on Layoff	Other Job Losers
1979	5.8%	14%	33%	55%	34%
1982	9.7	20	34	40	25
1986	7.0	13	27	48	29

Source: Employment and Earnings, various issues.

Formality in the Union sector means layoff by reverse order of seniority and recall by seniority. For reasons discussed in an earlier chapter, seniority is likely to be a key issue for unions, due to their internal political structure. Thus, unions will push employers to obtain seniority-related benefits including job security and recall preference.

But an employer is likely to prefer to have more discretion in choosing who is laid off and who is recalled. Generally, from the firm's perspective, the optimal rule is to lay off the least productive employees first. Similarly, the firm will want to recall the most productive workers in the layoff pool before others are recalled. Nonunion employers, who determine layoff policy unilaterally, are likely to build in more room for managerial discretion.

Even with their more flexible layoff systems, nonunion employers are likely to pay some attention to seniority. Seniority is linked to employee loyalty; the most senior workers have remained with the firm the longest. Under an implicit contracting model, in which loyalty is rewarded, nonunion employers might well give significant (although not determining) weight to seniority in layoff/recall decisions.

An exception to this rule is possible when the value of continuing the implicit contract declines. There is evidence

that nonunion employers who are permanently closing facilities and laying off workers are less likely to give weight to seniority than those making temporary layoffs. The former no longer see a value in maintaining the implicit agreement, since the employer-employee relationship is ending. But the latter still need to retain employee good will.<sup>21</sup>

#### viii. Unemployment Insurance and Layoffs.

In theory, private insurance policies against the risk of unemployment could be offered by insurance carriers to workers. However, a large moral hazard problem would occur under a private unemployment insurance system; it would be difficult for a private insurance carrier to verify that a worker who claimed to be unemployed really could not find a new job. There might be incentives for people who were planning to drop out of the labor force to claim unemployment insurance benefits in a hypothetical private system. The difficulties in defining unemployment might also create an incentive for a private insurance carrier to challenge excessively the validity of worker claims for payments.

Adverse selection problems would also arise. Workers who knew that they were likely to be laid off would naturally seek insurance. Of course, moral hazard and adverse selection present difficulties for insurance carriers in other contexts. But as these problems mount, the ability to offer insurance profitably

declines to the point where no policies are offered. Unemployment insurance seems to be such a case; there are no significant offerings of such insurance from private carriers, nor was there even in the era before it was provided by government.

The only private unemployment insurance arrangements of any consequence which are found in the real world are the Supplemental Unemployment Benefit (SUB) plans specified in some union-management contracts. These SUB programs were described in an earlier chapter. SUB plans are monitored by the employer, not an outside carrier, and the employer's operation of the plan is monitored -- in turn -- by the union. Opportunities for moral hazard problems to arise on the employee or employer sides are thus limited.

In the absence of unemployment insurance from private carriers, society has chosen to rely on a state-run system. The American unemployment insurance (UI) system was established as a joint federal-state venture during the Great Depression of the 1930s. UI was an important component of the Roosevelt administration's New Deal social insurance arrangements, which also included Social Security.

Generally, the UI system operates today much as it did at its inception. Its intent is still to provide benefits to



workers laid off for economic reasons while they search for new employment.<sup>22</sup> The federal government imposes a payroll tax whose revenues can be used only to finance a state-run UI program, if the state where the taxes are collected elects to create one.

In principle, a state could refuse to have a UI program. But if it did, the state's employers would still be taxed and its unemployed workers would receive nothing. Thus, the federal government effectively makes an offer the states cannot refuse through its control of the tax system. As of 1987, the tax rate for UI was 6.2% on the first \$7,000 of annual wage income.<sup>23</sup>

Almost all wage and salary earners work for employers covered by UI. (Self employed persons and unpaid family workers are not protected). However, whether an individual unemployed worker is actually eligible for benefits depends on his or her work history. To establish eligibility, state UI formulas require minimum time periods of employment and minimum earnings with an employer. (Thus, new entrants and re-entrants to the labor force are not eligible, even if they are unemployed according to CPS definitions). Benefit payments are determined by formulas specified in the state programs which are linked to the worker's recent earnings history. States impose a dollar cap on their benefits which limit the operation of the formulas.

As Table 5 shows, UI benefits have averaged between 40-45% of average weekly wages of nonsupervisory and production workers on private, nonagricultural payrolls. The ratio has tended to rise during business cycle troughs, probably because higher paid workers in the cyclically-sensitive manufacturing industries are laid off in such periods.<sup>24</sup> Since higher paid workers are eligible for higher benefits, their presence boosts the average UI benefit.

Typically, state UI systems limit benefits to a maximum of 26 weeks. Thus, in severe recessions, the resulting long durations of unemployment tend to cause unemployed workers to exhaust their benefits before new jobs are found. However, until the 1980s, Congress often intervened on an ad hoc basis, providing funds for benefit extensions beyond the 26th week. In the 1980s, however, a break from the earlier pattern occurred.

As Table 5 shows, the ratio of UI recipients to CPS-measured job-loser unemployed persons fell from levels above 90% to below two thirds. This shift resulted from a change in public policy. At the federal level, a swing to a more conservative policy with regard to social benefits associated with the Reagan administration restricted Congressional generosity.

Congress was also influenced by the ballooning federal budget deficit of the early 1980s caused by tax cuts and the

Table 5  
Unemployment Insurance Coverage and Benefits,  
1969-1985

Year	Civilian Unemploy- ment Rate	Claimants Receiving Unemployment Insurance Benefits as a Percent of Unemployed Job Losers	Average Weekly Unemployment Insurance Benefit as Percent of Average Weekly Earnings <sup>1</sup>
1969	3.5%	92%	40%
1971	5.9	93	42
1973	4.9	96	41
1975	8.5	91	43
1979	5.8	92	41
1982	9.7	65	45
1985	7.2	63	43

<sup>1</sup>Average weekly earnings refers to nonsupervisory and production workers in the private, nonagricultural sector.

Source: U.S. President, Economic Report of the President, January 1987 (Washington: GPO, 1987), pp. 288-289, 293; U.S. Bureau of Labor Statistics, Handbook of Labor Statistics, bulletin 2217 (Washington: GPO, 1985), p. 80; Employment and Earnings, vol. 33 (January 1986), p. 166.

recession itself. (The UI program is considered part of the federal government budget, even though it is largely administered by the states). It was reluctant to undertake funding of potentially costly supplemental UI benefits. The upshot is that by the mid 1980s, the federal-state UI system was undoubtedly less of an influence on both worker and employer behavior than it had been previously.

Despite the decline in benefit eligibility, however, the presence of the UI system still had the potential to affect labor market behavior. Much of the research concerning the impact of UI on the labor market has focused on workers. It has been argued that by providing a subsidy to job seeking, UI may prolong the average duration of unemployment and, hence, raise the overall unemployment rate.<sup>25</sup> Also, it has been argued that the availability of UI benefits may influence some workers who are not really looking for work to declare themselves unemployed for the purpose of obtaining benefits.<sup>26</sup>

On the other hand, the financial cushion provided by UI has often been viewed as a macroeconomic stabilizing influence on national income. It provides income to laid off workers whose consumption might otherwise fall. To the extent that UI has this effect, it may reduce the unemployment rate below what it would otherwise be during recessions.<sup>27</sup>

While these possible effects of UI are interesting, further discussion of them would take us far afield from HRM policy. Of greater importance for the purposes of this volume is the impact of UI on HRM policy by employers. Three key influences of UI may be cited:

1) During union-management disputes, employers have a disincentive to use lockouts, since in many states locked out workers will be eligible for UI benefits whereas in most states strikers are not eligible.<sup>28</sup> Thus, UI influences employer tactics and bargaining power.

2) Employers have certain incentives to challenge payment of UI benefits to workers discharged for improper behavior, i.e., workers who were "fired" rather than laid off for economic reasons. To the extent employers are successful, the penalty of being fired for misconduct is increased, and employer authority over the workplace is thereby enhanced.<sup>29</sup>

3) Employers have incentives to use layoffs as a means of labor cost adjustment in preference to wage cuts or hours cuts under certain circumstances.

Since union-management relations have already been discussed in previous chapters, further elaboration here on influence #1 is not required. The second and third influences, however, are more general, affecting nonunion as well as union employers. And both influences are connected with the practice of "experience rating" in establishing UI tax rates.

The UI system, as already pointed out, is financed by means of a payroll tax. Because the system was originally designed to resemble a private insurance program, the tax rates charged are not necessarily uniform across employers. Those employers deemed to be good risks -- those that are not prone to generate substantial claimants of benefits -- can be charged lower tax rates than those deemed poor risks. In this regard, the tax rates are analogous to, say, the variations in automobile liability insurance premiums charged to car owners. Car owners with a history of prior accidents are charged more than those with safe records.

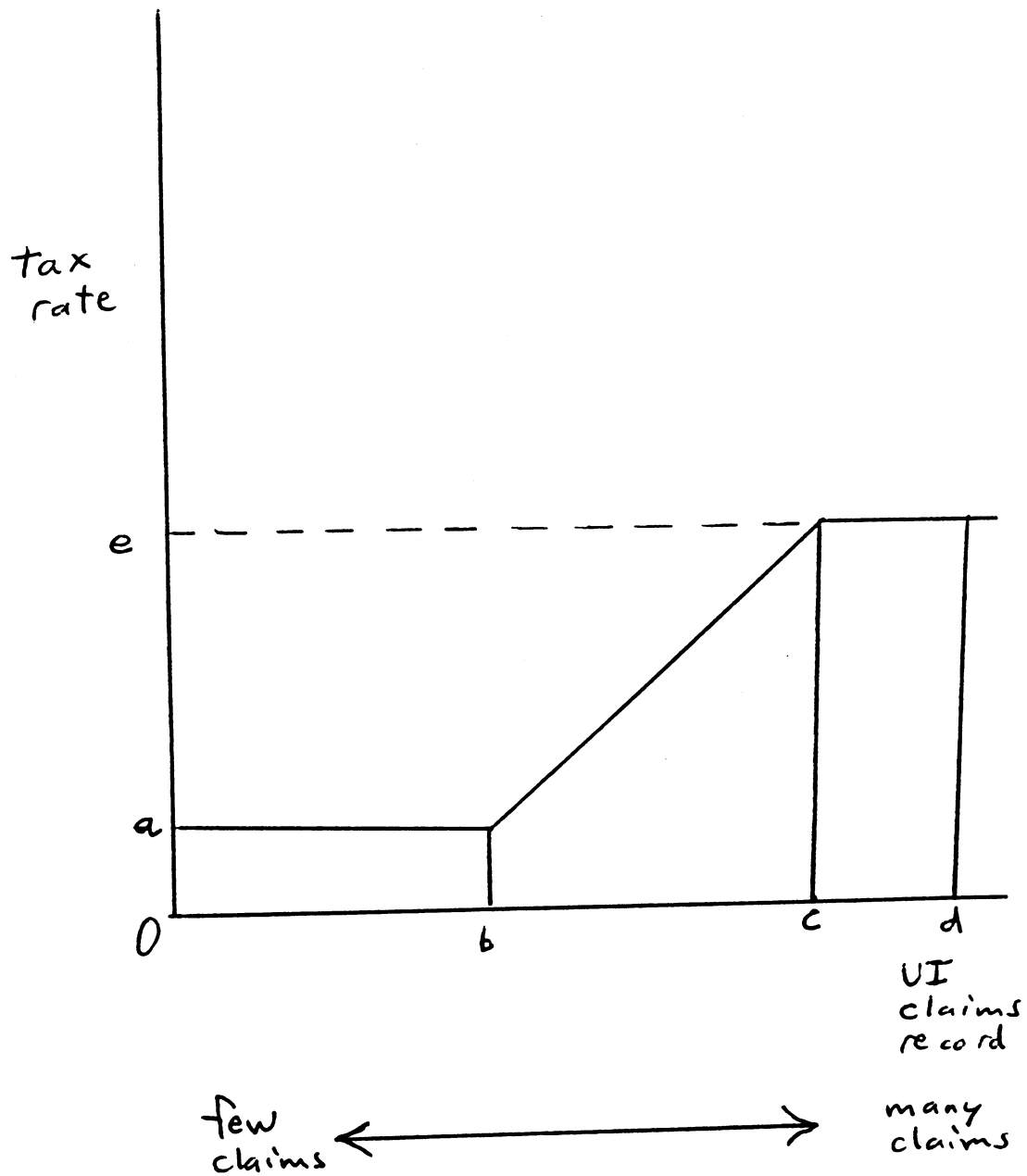
States may vary their UI tax rates for individual employers based on the employer's past history (experience) of employee claims for unemployment benefits. An employer whose prior layoff history has generated many such claims will pay a higher tax rate than one with a record of only a few claims. The rules and formulas across the states for determining experience-rated tax assessments are diverse. Nevertheless, a general representation

of a "typical" state system of experience rating is depicted on Figure 1.

Figure 1 shows that experience rating is not "perfect" in the standard UI system. That is, some employers pay less than the risk they impose on the system would justify, while others pay more. Usually, there is a low minimum tax for employers with very low claimant experience. Thus, the tax rate will be only  $Oa$  for employers whose claims record falls below "b" on Figure 1. Above "b", however, the rate rises as the claims record worsens. But even if the claims record rises above "c", the tax rate will not rise above ceiling rate  $Oe$ . This pattern means that a rise in claims from "0" to "b" costs the employer nothing in terms of a higher tax rate.<sup>30</sup> A rise from "b" to "c", in contrast, raises employer tax costs. Finally, a rise from "c" to "d" again costs the employer nothing.

Employers will have a financial incentive to challenge employee claims for benefits if their records fall in the bc range. Usually, when employers challenge a claim, they do so on the grounds that the employee was discharged for cause, e.g., misconduct such as theft of company property. State UI regulations generally deny benefits to such claimants, but the employer must be prepared to offer proof of the alleged grounds for discharge.

Figure 1  
Relation of UI Tax Rate  
and Claims Record





Thus, influence #2 -- outlined above -- is operative only over a certain class of employers (those falling in the bc range of claims). Such employers will find it worthwhile to devote resources to examining UI claims against their accounts and to ensure that they have adequate records to document the grounds for discharges.<sup>31</sup> The UI system is yet another influence in the American labor market which causes drift from the historic notion of "at-will" employment. Even though employers under the at will doctrine are free to discharge for no reason, they have an economic incentive under UI to follow just cause standards and to document their actions.<sup>32</sup>

Employers in lines of business which are inherently cyclical or seasonal are likely to have histories of many claims against their accounts. A "poor" claims record will result from cyclical or seasonal adjustments in labor costs via layoffs. The typical employer of this type will probably fall into the cd range of Figure 1. Because the tax rate on such employers is capped at  $O_e$ , they pay less than fully experience-rated taxes for UI coverage. There is a net subsidy to the layoffs of these employers which is being financed by tax payments of employers with better records.

This net subsidy reinforces the use of layoffs to reduce labor costs.<sup>33</sup> For example, when a seasonal ski resort hotel lays off its employees at the end of the winter, the laid off

workers will probably be eligible for additional weeks of benefits. And it is likely that they will actually collect these benefits, since the chance of finding local employment during the off-season period is small.

From the employee perspective, the benefit of working at the hotel includes both cash wages during the active season and the expected UI benefits during the off-season. But the hotel does not fully finance the UI benefits. Hence, there is a net subsidy to its operations. The hotel can pay lower wages than it would in the absence of UI and still attract sufficient labor. In the long run, the result is more employment in the seasonal, layoff-prone ski-resort industry than would otherwise occur.

Similarly, a cyclically-sensitive industry during an economic downturn could consider three options for reducing labor costs: A) layoffs, B) reductions in weekly hours per worker without layoffs, or C) wage reductions without layoffs. The standard UI system, however, will pay benefits only in the case of option "A". And because the employer does not fully finance its UI benefits (since it is likely to be in the cd range of Figure 1), the UI system effectively subsidizes the choice of option "A" over "B" and "C".

In recognition of the artificial subsidy to option "A", some states have sought to make "B" more attractive by permitting so-

called "work sharing" options. Under these arrangements, workers may be partially laid off, i.e., work only part of their normal weekly hours, and be paid proportionately partial UI benefits. However, the regulations surrounding defining eligibility for work sharing UI payments have been cumbersome.<sup>34</sup> No attempts have been made to eliminate the artificial disfavoring of option "C" by UI programs. Indeed, severe moral hazard problems would arise were such efforts to be made.<sup>35</sup>

#### ix. Searching for Jobs and Job Applicants.

In a world of perfect and complete information, workers would not spend time searching for jobs, nor would employers have any unfilled vacancies. Workers and firms would instantaneously and costlessly find one another. But with imperfect information, it is likely that both firms and workers will spend time and resources coming together.

Economists have generally modeled the searching process from the worker side. A worker enters the labor market with only an imprecise idea of the actual job offers available. He/she may have an unrealistic notion of what wage his/her labor is likely to fetch in the market place. As a result, the worker depicted on Figure 2A decides not to accept wage offers below  $W_0$  initially (at time  $t_0$ ).

Figure 2A  
Job Search Behavior

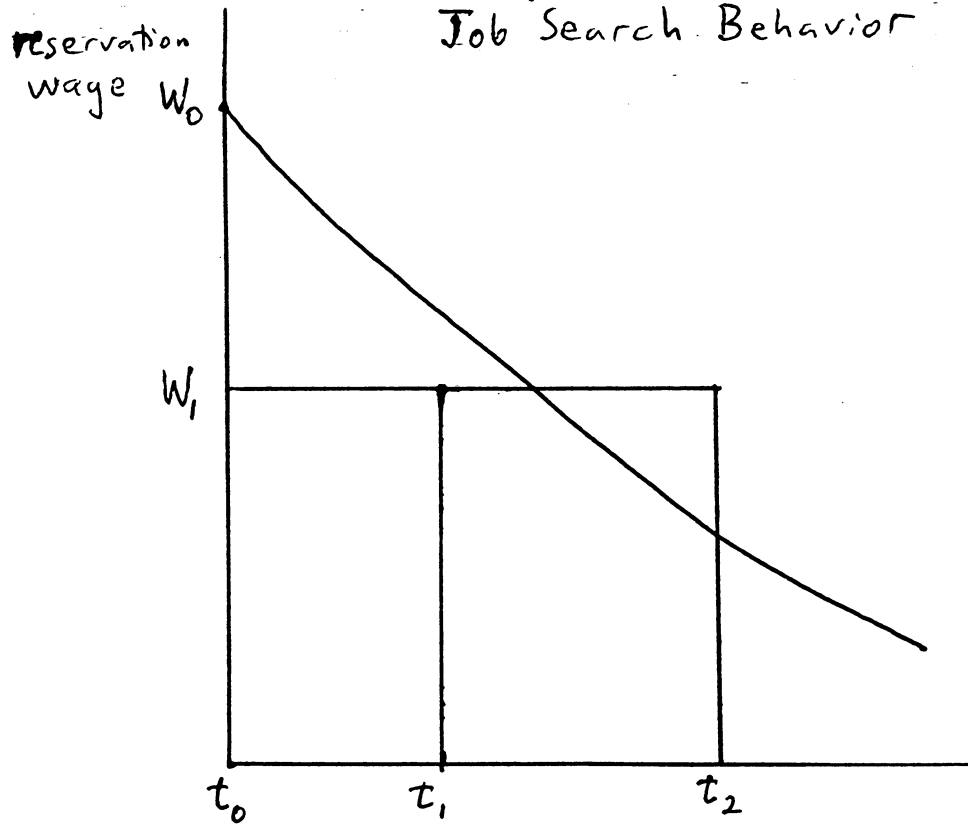
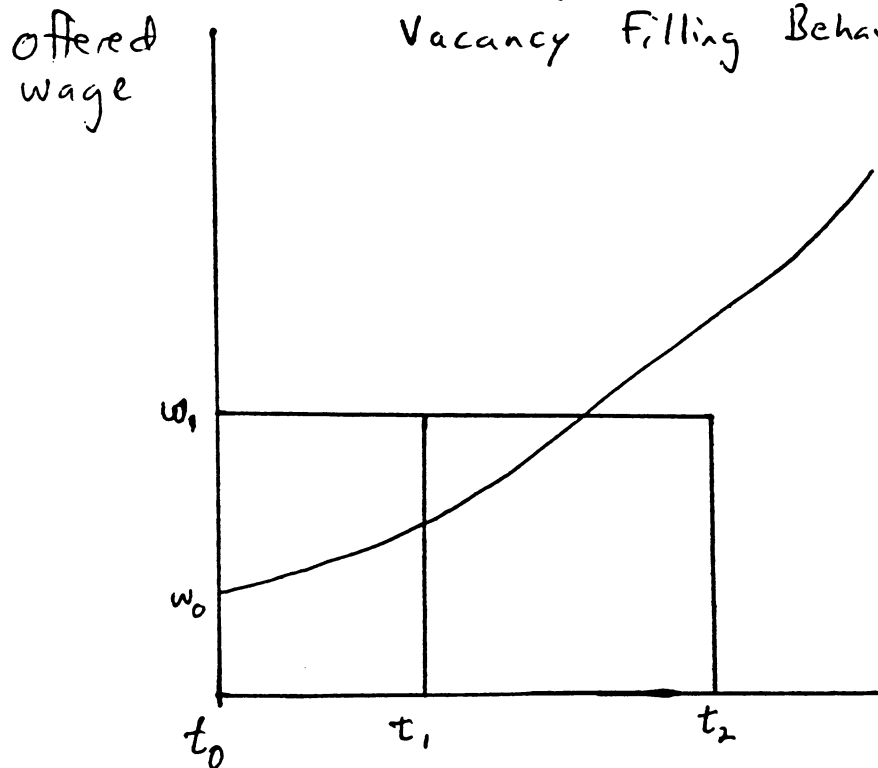


Figure 2B  
Vacancy Filling Behavior



However, there may not be any jobs the worker can obtain at a wage as high as  $W_0$ . (Or, if there is a distribution of wage offers by employers, there may be such a low probability of finding a  $W_0$  offer that none is located). As time progresses and the worker remains without a job, a more "realistic" appraisal of the labor market may set in. The worker will reduce his/her "reservation wage" to progressively lower levels as time passes, thus increasing the chance of finding a job.

Thus, for example, at time  $t_1$  on Figure 2A a wage offer of  $W_1$  would be rejected as too low. (The reader should include in the definition of "wages" all conditions of work, i.e., wages plus non-wage benefits). But by time  $t_2$ , a wage offer of  $W_1$  would be accepted. By time  $t_2$ , the worker has learned from experience that higher-wage offers are unlikely to be found and that continued search for such offers will probably simply extend the period of unemployment (and lost income) without payoff.

Although economists have neglected the employer search process in filling vacancies, much the same concept could be applied. An employer might initially have an unrealistically low expectation of the price of hiring a worker for a given job. Thus, on Figure 2B, the initial wage offering might be only  $w_0$ .

But as time passed and the vacancy went unfilled, the employer might re-evaluate and progressively raise the wage

offer. Thus, at time  $t_1$ , a worker who happened along with a reservation wage of  $w_1$  would find the offered wage too low to accept. By time  $t_2$ , however, the offered wage has climbed still higher, so that such a worker would gladly accept the then-prevailing offer.

Search models of the type just described explain what economists call "frictional" unemployment, i.e., a minimal level of unemployment which can be attributed to information costs. Similar models might be made for other kinds of markets where information is imperfect and where, because of the importance of the transaction, it pays for both buyers and sellers to invest time and money in a searching process. Obvious examples come from the real estate field, e.g., markets for houses and markets for apartment rentals. The analogy to frictional unemployment in such markets is the stock of unsold houses at any point in time or the apartment vacancy rate.

Models of searching have some bearing on cyclical fluctuations in unemployment. Some economists have argued that unemployment rises in recession because workers are initially unaware that the probability of a job offer at their reservation wage has fallen. In this view, a lag in information causes workers to keep their reservation wage schedules too high, thus reducing their chances of finding work and increasing the duration of unemployment.

The difficulty with such views is that they require too long an information lag. Can it really be the case that workers in 1933 were unaware that the Great Depression (which had begun four years earlier) was upon them? Even in lesser recessions, the same objections hold. Workers in 1982 had only to watch the evening news on TV to discover that the U.S. economy had experienced a severe slowdown and that jobs had become scarce.

Simple search models require the presence of unrealistic naivete on the part of workers to help much in explaining cyclical unemployment fluctuations. They also do not explain wage rigidity on the part of employers with regard to their current workforces.<sup>36</sup> The implicit contract models and insider/outsider approaches discussed in earlier chapters are much more helpful in this regard.

However, search models do shed certain insights on both sides of the labor market. The model suggests a trade off process being made on both sides. Workers who embark on job search know in general terms the kinds of jobs they hope to find. In setting the reservation wage, the worker is saying implicitly,

"I know that if I lower my sights, I'll find something. But I would rather search longer -- even though it 'costs' me the wages from a less attractive job I probably could have obtained -- and find a better job. In the long run, the benefits from longer search will outweigh the immediate costs."

Similarly, the employer is saying:

"I know that if I put a high enough wage on this job offer, I could have a line of applicants which would wrap around the block. I could then pick the best applicant from the pool. But I would rather 'pay' the cost of lost production while the vacancy is unfilled and offer a lower wage, since eventually a satisfactory worker will come along. In the long run, the benefits of waiting will outweigh the immediate costs of lost production."

Such statements could be modeled very precisely as investment decisions in the face of uncertainty.<sup>37</sup> Decisions on how to set offered or reservation wages involve evaluation of current costs relative to expected future benefits, using an appropriate discount rate. But even without the specification of a precise model, the approach has an implication for HRM policy in filling vacancies. Simply setting some surveyed average wage on a vacancy may not be the best strategy for the employer. There is a time element involved, which must be considered.

The question should always be, "How long can I 'live' with this job unfilled?" If the answer is "not very long," a higher wage should be set. But if the answer is that it is possible to "make do" at moderate cost while the position remains open, then a more modest offer is appropriate.<sup>38</sup> An employer ought to look periodically at how long job vacancies have typically remained open under current policy with regard to wage offers. It should consider changing that policy if the duration seems out of line with internal needs (either too long or too short).



Unfortunately, information on employer strategies for filling vacancies is much more limited than information on worker methods for finding a job. A series was kept on employer vacancy rates (defined analogously to unemployment rates) by the U.S. Bureau of Labor Statistics for certain industries, until it was discontinued in the 1970s for conceptual and budget reasons.<sup>39</sup> However, there is evidence that during boom periods, employers make more of an effort to attract workers than during recessions.

The Conference Board, a private business research group, maintains an index of help-wanted advertising based on the number of classified ads appearing in major newspapers in 51 cities.<sup>40</sup>

As can be seen from Table 6, the help-wanted index moves as would be expected, that is, inversely to the unemployment rate. During recessions, employers advertise for employees less often. This diminution of advertising effort reflects both a reduction in available jobs and -- as will be shown below -- an increase in unsolicited applications from job seekers when times are bad.

Data from the CPS contain information available on job seeker behavior which is of potential relevance to the formulation of employer recruitment strategy. Table 7 shows job seeking methods cited by the unemployed in 1979, 1982, and 1986. (The figures exclude those individuals on layoff status who were awaiting recall to their former employer and not searching). Typically, job seekers cited less than two methods of search and

Table 6

**Help-Wanted Advertising and the Condition  
of the Labor Market, 1969-1986**

Year	Civilian Unemployment Rate	Help Wanted Advertising Index, 1967 = 100
1969 (P)	3.5%	121
1971 (T)	5.9	83
1973 (P)	4.9	126
1975 (T)	8.5	80
1979 (P)	5.8	158
1982 (T)	9.7	86
1986	7.0	139

Note: P = business cycle peak; T = business cycle trough.

Source: U.S. Bureau of Economic Analysis, Business Statistics, 1984 (Washington: GPO, 1985), pp. 44, 60; Survey of Current Business, vol. 67 (February 1987), p. S12.

Table 7  
Searching Methods Cited by the Unemployed<sup>1</sup>

Search Method	1979	1982	1986 All <sup>1</sup>	1986 Job Losers <sup>1</sup>
Public employment agencies	27%	24%	24%	31%
Private employment agencies	6	6	7	7
Employer directly	71	78	74	76
Placed or answered ads	30	35	36	37
Friends or relatives	14	16	18	21
Other	6	5	5	5
Average number of search methods cited	1.5	1.6	1.6	1.8

<sup>1</sup>Excludes unemployed individuals on layoff status.

Source: U.S. Bureau of Labor Statistics, Handbook of Labor Statistics, bulletin 2217 (Washington: GPO, 1985), pp. 86-88; Employment and Earnings, vol. 34 (January 1987), p. 175.

the predominant method, by far, was to approach employers directly.

These figures, in short, bear out the popular image of "pounding the pavement" looking for work. Of course, employers can also be approached by telephoning the personnel office or sending a resume. An actual visit to the personnel office by a job applicant is not always necessary for an initial contact.

To the extent that information is available on employer practices, it also supports the importance of direct contacts from employees as the key method of recruitment. For nonexempt personnel, over 90% of employers in one survey reported using unsolicited applications at their personnel offices as a recruiting tool. More importantly, for these workers it was the top ranked method as measured by the number of new employees recruited.<sup>41</sup>

There is cyclical variation in the proportion of unemployed workers citing their own approaches to employers as a job search method. In 1979, a business cycle peak, 71% of job seekers cited such approaches. But in trough year 1982, the figure had risen to 78%. By 1986, four years into the recovery, the figure had fallen back to 74%. Not surprisingly, therefore, employers can expect more job searchers to come to them when jobs are generally scarce.

But the fact is that even during boom periods, job applicants will be coming to employers. Many employers, therefore, will not find it worthwhile to engage in substantial outreach efforts. Exceptions occur among employers with special needs (such as affirmative action programs) and employers experiencing severe labor shortages. In addition, employers seeking employees with unusual qualities or technical qualifications may find a large applicant pool to be necessary and thus are unlikely to follow a passive recruitment strategy.

The relatively low use of private employment agencies may be surprising to some readers. Such agencies charge fees for their services, either to the employer or employee, assuming that a successful placement occurs. Apparently, both sides prefer to avoid such fees, thus holding their use of such agencies down.

Public employment services -- which charge no fee to either side -- have a much higher usage rate. But there is a requirement that applicants for UI benefits register with the state public employment service. Not surprisingly, the usage rate for these agencies is higher for job losers (the group within the unemployed which is eligible for UI) than for others.

Still, the reported use of public employment services is far below 100%, even for this group. It appears, therefore, that

many job losers do not cite the public employment service as a job seeking method, even though they have in fact registered with it. Possibly, the services are not perceived as likely to produce a placement by workers, and thus are not reported to CPS interviewers. Employers indicate that the public employment services are frequently used as recruitment tools, but rank them low in actual hires, except for blue collar workers. Even for that group, direct contacts from applicants and help-wanted advertising ranks higher in terms of new recruits hired.<sup>42</sup>

### **III. Persons Not in the Labor Force.**

At first blush, persons identified as not in the labor force, i.e., neither employed nor unemployed, might seem to constitute a group irrelevant to the concerns of employers. In fact, within the pool of persons not in the labor force, there are individuals who are potential recruits for jobs. And there are people who might enter the labor force and seek work (become officially unemployed) if they felt conditions were sufficiently favorable to finding work opportunities.

#### **i. Persons Who Do Not Want Work.**

Table 8 shows that individuals in the civilian noninstitutional population range across a spectrum marked by their degree of labor market attachment. Of the almost 181

Table 8  
**Degree of Labor Market Attachment, 1986**  
**(Civilian Population)**

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Employed:	109.6 million
Unemployed:	8.2 million
Not in Labor Force:	62.8 million
Not in Labor Force But Want Job Now:	5.8 million
Not looking because think cannot get job (discouraged workers):	1.1 million
Not looking because going to school, ill health/disabled keeping house, retired, other reason:	4.7 million
Not in Labor Force and Do Not Want Job Now:	56.9 million
-----	
Note: Total Civilian Non-institutional Population:	180.6 million

---

Note: Details need not sum to totals due to rounding.

Source: Employment and Earnings, vol. 34 (January 1987), pp. 156, 197.

million people who were in this population in 1986, about 57 million were not in the labor force and expressed no current interest in working. Presumably, even some of these persons could be enticed into employment, if conditions were sufficiently attractive. But, by self-declaration, their linkage to the labor market was extremely weak. Forty-six percent of these individuals were women who reported being homemakers and 27% were persons who are self-described as retired.

ii. Persons With Some Interest in Work.

However, another group of persons considered to be not in the labor force indicated -- when asked -- that they would like to have had a job but were currently occupied with other non-work pursuits (such as school or household tasks) or had some work-hindering disadvantage (such as illness or disability). The people in this group (4.7 million in 1986) seemed to be saying that they would have liked a job if one had come their way and had met their particular needs and situations. But the desire to work was not sufficiently strong to impel an active search for such jobs. The linkage between this population and the labor market was somewhat stronger than that of those people who said they did not want jobs.



### iii. Discouraged Workers.

A little over a million individuals indicated that they wanted a job but were not looking for one because they did not think work could be found. These persons -- sometimes called "discouraged workers" -- express a stronger interest in work than the previously cited groups. But they do not meet the test for being counted as officially unemployed (since they are not seeking work). Not surprisingly, the size of the discouraged worker pool fluctuates with the number of officially unemployed, since both classifications are related.

### iv. The Effective Recruitment Pool.

Those persons who can cite the requisite work seeking activity (or who are on layoff status) are counted as unemployed in official statistics. They are still more strongly linked to the labor market than the groups discussed above, even though they did not have jobs at the time of the survey. Of course, the most strongly linked to the employment market in 1986 were the almost 110 million persons who actually had jobs.<sup>43</sup>

These figures carry an important message for employers. Those employers who have policies of actively recruiting new workers are not confined to recruitment from the pool of unemployed individuals. Obviously, employers often recruit

employees directly from other employers. That is, many new recruits transit from job to job without passing through a period of unemployment. But it is also the case that new employees can be obtained from among those persons who are not in the labor force at all. There are people who are neither employed nor officially unemployed, but who nevertheless might accept a job offer.

Table 9 illustrates this point. Based on the CPS, the table shows the average previous month status of employed individuals during 1982. As it happened, 1982 was the trough of a recession; hence, job opportunities were not abundant. About 95% of people employed in a particular month that year were also employed the previous month. (Most of these people, it can be assumed, were in fact employed in the same job from month to month). In an average month, a little over 2% of the employed had entered employment after being unemployed the previous month. But almost 3% entered employment after being not in the labor force at all in the previous month. Those persons who made the transition from not in the labor force to employed were disproportionately female, as the table shows.

#### v. Employer Recruitment Strategies.

In seeking new recruits, employers can follow a strategy of simply waiting for job applicants. Such people will be

Table 9

**Average Monthly Shifts into Employment, 1982**

Percent of Employed in Current Month by Source from Previous Month	All Employed	Employed Males	Employed Females
Employed in previous month	95.2%	95.9%	94.2%
Unemployed in previous month	2.2	2.3	2.0
Not in labor force in previous month	2.7	1.8	3.8

Source: U.S. Bureau of Labor Statistics, Gross Flows in the Labor Force, 1980-82 (Washington: National Technical Information Service, U.S. Department of Commerce, 1983), p. 11.

unemployed and actively seeking work. Or they will be employed people engaged in job search while working, presumably because they are dissatisfied with their current positions. However, an employer who is willing to accommodate the needs of people who are out of the labor force (not searching), but who have some interest in working, will find that a significant labor pool is available.

There are methods of attracting this pool: offering flexible hours, creating arrangements permitting work at home (say, through computer terminals), provision of child care, etc. The ability to provide such accommodations, and the costs of doing so, will vary across employers. Although the direct labor costs paid to workers may be lower if the employer draws on a pool of individuals who otherwise cannot be in the labor market, there are expenses related to providing this flexibility.

The most obvious costs for individuals whose hours or work site needs must be accommodated are the inherent problems of coordination and control. People whose hours vary substantially from "normal" work schedules, or who work at home, are difficult to supervise. In addition, if these non-searchers are to be attracted into "regular" employment, coverage of worker transportation expenses, and other potentially expensive inducements may be needed.

vi. Outreach and the State of the Labor Market.

Employers are most likely to engage in outreach to the pool of workers not in the labor force during very tight labor markets, when shortages of workers and unfilled vacancies overcome these costs. Perhaps the most prominent example of such behavior occurred during World War II, when booming production demands for labor (related to the war effort) and reductions in labor supply (due to military conscription of males) forced employers to seek every available worker. The result was a considerable recruitment of women, who at that time had much lower participation rates than they do today, into nontraditional blue collar jobs.

But even apart from the extreme circumstances of World War II, there are examples of employer outreach. In the mid 1980s, although labor markets generally were loose by previous standards, the New England area experienced an economic renaissance. Employers, hit by shortages of available labor from their standard sources, engaged in various outreach strategies. For example, some firms sent buses into depressed urban areas to bring out and hire disadvantaged minority workers who might otherwise not have had job opportunities.

#### vii. Future Job Desires.

Absent such efforts, individuals in the not-in-the-labor-force classification may nevertheless become part of the available labor pool. Included in the CPS are questions to persons not in the labor force about their future work seeking intentions. Thus, in 1986, about 15% of those persons of working age who were not in the labor force indicated that they would be seeking work within the next 12 months.

Eighteen percent of individuals indicating they would be seeking work in the future had never worked before. Such persons were mainly young individuals planning to enter the labor market for the first time after leaving school. Almost half, however, had worked during the previous year. These respondents were also typically young, probably students who enter and leave the labor force during their school vacations.““

#### IV. Conclusions.

The employment market has been shown in this chapter to be a fluid system of matching employers and employees. It contains persons of varying degrees of attachment to employment. And it varies in its state of tightness: while there are always both job seekers and unfilled vacancies present, the balance between the two changes with the business cycle. The recruitment policies

followed by employers will vary accordingly between passivity and active search for new hires.

Available data suggest that job security is likely to be of concern to many employees. With security of employment, longer employer-employee attachments would result. In turn, the potential recoupment periods for "human capital" investments made by both the employee and the employer would lengthen, raising the rate of return. But, providing job security is potentially costly in the face of demand variability. In the next chapter, the interconnection between job security and investments in employees will be explored.

## FOOTNOTES

1. The institutionalized population which is not included consists of inmates of prisons, mental institutions, sanitariums, and homes for the aged, infirm, and needy. Other detailed information on the Current Population Survey can be found in U.S. Bureau of Labor Statistics, BLS Handbook of Methods, vol. 1, bulletin 2134-1 (Washington: GPO, 1982), pp. 3-31.
2. Self-employed individuals and unpaid workers in family enterprises who worked 15 or more hours per week are also counted as employed, even though they don't earn wages or salaries.
3. Bureau of National Affairs, Inc., Policies on Leave from Work, PPF survey no. 136 (Washington: BNA, 1983), pp. 3, 34.
4. Employment and Earnings, vol. 34 (January 1987), p. 165.
5. Presumably, there are some full time workers who would prefer part time work, but cannot find such a job. These individuals are not regularly reported in the Current Population Survey.
6. Weitzman, Martin L., "Increasing Returns and the Foundations of Unemployment Theory," Economic Journal, vol. 92 (December 1982), pp. 787-804.
7. There could be "frictional" unemployment in such a situation if there were imperfect and costly information about the labor market. This concept is discussed later in this chapter.
8. Actually, the person responding to the Current Population Survey answers on behalf of all members of the household.
9. In 1986, only 13% of those counted as unemployed were reported to be on layoff, i.e., the remaining 87% were covered by criterion #1. Formal layoff systems are discussed below in the text.
10. The way in which questions are asked and the timing of the questions will influence the results obtained. For example, in the Current Population Survey, there are always eight active "rotation groups." A group enters the sample for four months, drops out for four months, and then returns for four months. It has been found that the unemployment rate reported by the first rotation group (the group which has just entered the survey) tends to be higher than that of the other groups. Reasons for such biases are not known. See National Commission on Employment and Unemployment Statistics, Counting the Labor Force (Washington: GPO, 1979), pp. 134-136.



11. Figures on unemployment adjusted to U.S. definitions for various countries appear annually in the Monthly Labor Review and other publications of the U.S. Bureau of Labor Statistics.

12. Analysis of unemployment duration can be found in Hyman B. Kaitz, "Analyzing Spells of Unemployment," Monthly Labor Review, vol. 93 (November 1970), pp. 11-20; Kim B. Clark and Lawrence H. Summers, "Labor Market Dynamics and Unemployment: A Reconsideration," Brookings Papers on Economic Activity (1:1979), pp. 13-60; George Akerlof and Brian G.M. Main, "Unemployment Spells and Unemployment Experience," American Economic Review, vol. 70 (December 1980), pp. 885-893 (comments and replies appear in the December 1983 issue); Michael W. Horrigan, "Time Spent Unemployed: A New Look at Data from the CPS," Monthly Labor Review, vol. 110 (July 1987), pp. 3-15.

13. Suppose that there are two classes of individuals. People in group S experience only short spells of unemployment of 1 week when they become unemployed; people in group L experience long spells of 10 weeks. Suppose every week one person from each group becomes unemployed and that this process goes on indefinitely. In the steady state, the unemployed will consist of one person from group S and ten from group L. The average completed spell of those currently unemployed will be 9.2 weeks =  $[(10 \times 10) + (1 \times 1)]/11$ . The average completed spell of those entering unemployment will be 5.5 weeks =  $(10 + 1)/2$ . This example is a variant of one appearing in Horrigan, "Time Spent Unemployed," op. cit., p. 4.

14. Hal Sider, "Unemployment Duration and Incidence: 1968-82," American Economic Review, vol. 75 (June 1985), pp. 461-472, especially p. 469.

15. Employment and Earnings, vol. 34 (January 1987), p. 171. Additional information on unemployment duration for job losers is presented on Table 4, below.

16. Median family income of two-earner (husband and wife) families can be compared with median earnings of one earner families (just husband or just wife) to estimate the contribution of adding a wife (or husband) to the family's earners. Estimates are also available for families where just the husband is unemployed (and the wife works) or just the wife works (and the husband is unemployed). The two thirds/one third estimate in the text is based on such comparisons.

17. Bruce W. Klein, "Missed Work and Lost Hours, May 1985," Monthly Labor Review, vol. 109 (November 1986), pp. 26-35.

18. Shirley J. Smith, "Work Experience Profile, 1984: The Effects of Recovery Continue," Monthly Labor Review, vol. 109 (February 1986), p. 37-43.

19. Michael R. Darby, John C. Haltiwanger, and Mark W. Plant, "The Ins and Outs of Unemployment: The Ins Win," working paper no. 1997, National Bureau of Economic Research, August 1986.

20. Training is discussed in the next chapter.

21. Katherine G. Abraham and James L. Medoff, "Length of Service and the Operation of Internal Labor Markets" in Barbara D. Dennis, ed., Proceedings of the Thirty-Fifth Annual Meeting, Industrial Relations Research Association, December 28-30, 1982 (Madison, Wisc.: IRRA, 1983), pp. 308-318.

22. Workers who quit their jobs may not be eligible for benefits, or may be eligible for only reduced benefits, although eligibility and benefits (if any) will depend on the circumstances of the quit. As will be discussed below, workers who are discharged for misconduct are generally ineligible.

23. The employer can receive a credit of up to 5.4% of the 6.2%, with the remaining 0.8% used to finance federal and state administrative costs of the unemployment insurance system. Some states use wage bases higher than the \$7,000 basic amount in order to generate higher revenues for their program. Under "experience rating" (see below in the text), employers may not in fact pay the full 5.4% and still be given credit for it against their federal tax obligation. State-by-state details on the UI system can be found in annual volumes issued by the National Foundation for Unemployment Insurance & Workers' Compensation entitled Highlights of State Unemployment Compensation Laws.

24. There is evidence that the mix of individuals unemployed changes during cyclical downturns. See Michael L. Darby, John Haltiwanger, and Mark Plant, "Unemployment Rate Dynamics and Persistent Unemployment Under Rational Expectations," American Economic Review, vol. 75 (September 1985), pp. 614-637.

25. Finis Welch, "What Have We Learned from Empirical Studies on Unemployment Insurance?," Industrial and Labor Relations Review, vol. 30 (July 1977), pp. 451-461.

26. Technically, the CPS has nothing to do with an individual's eligibility for UI. Thus, a respondent who is not really seeking work need not fear that disclosing this information to the CPS survey taker will result in loss of benefits. (Responses to the CPS are confidential). However, respondents may not know this fact or believe assurances they are given. In any case, since UI payments are contingent on registration with the state employment service, the respondent can always cite such registration as a job seeking activity.

27. UI effect as a macroeconomic stabilizer is weakened by the system of "experience rating" of UI taxes collected from employers. Average tax rates of employers will rise during recessions under this arrangement. In theory, consumption might not be affected by a temporary fall in income due to layoff. However, the evidence suggests that consumption and income are linked. See Robert E. Hall, Consumption, working paper no. 2265, National Bureau of Economic Research, May 1987.

28. Strikers are eligible for benefit in Rhode Island and New York. State laws vary as to the definition of a striker and the determination of whether a dispute is a strike or lockout. Employers may sometimes be able to create a situation in which the union is "forced" to declare a strike, thus avoiding having non-working union members be eligible for benefits. In turn, unions can sometimes try and force a lockout, say by striking only a key plant and offering to work at other plants.

29. Employers might challenge the eligibility of claimants on grounds other than that they were fired for misconduct.

30. Strictly speaking, as the employer approaches point "b", it progressively exposes itself to the risk that further layoffs might push it into the rising tax rate range bc.

31. The state UI systems have appeals tribunals which examine employer challenges and protests of denials of benefits by claimants.

32. See the previous chapter for more information on the at-will doctrine and wrongful discharge.

33. Robert H. Topel, "On Layoffs and Unemployment Insurance," American Economic Review, vol. 73 (September 1983), pp. 541-559.

34. See the symposium on working sharing UI programs in Barbara D. Dennis, ed., Proceedings of the Thirty-Eighth Annual Meeting, Industrial Relations Research Association, December 28-30, 1985 (Madison: Wisc.: IRRA, 1986), pp. 424-464.

35. Imagine a UI system which paid benefits to workers whose wages were cut. An employer paying less than fully experience-rated taxes would have an incentive to hire workers at artificially high wages, and then cut those wages once eligibility of the workers was established, to induce a UI subsidy. If the rules required that UI would be paid only if the wage cuts were in lieu of a layoff, it would be difficult (if not impossible) to provide such proof. Hence, wage-cut benefits would not be paid. If the rules required that the UI authorities would have to disprove assertions that the wage cuts were in lieu

of layoffs, they would never be able to do so and the subsidy would be automatic.

36. Suppose currently employed workers are naive about the demand for labor. Their employers would begin to cut pay, as recession loomed. But the naive workers would quit as pay fell, on the (incorrect) assumption that they could find work at the old wage somewhere else. In fact, quit rates fall as the economy goes into recession; they do not rise as the naive-worker hypothesis would suggest.

37. Steven A. Lippman and John J. McCall, The Economics of Search (Cambridge, Mass.: Harvard University Press, 1985).

38. It has been noted in a previous chapter that considerations of wage structure and cross-job wage equity may rationally be important to employers. Such considerations could constrain the wage offer decision.

39. Some states elected to continue the program within their jurisdictions. See Katherine G. Abraham, "Structural/Frictional vs. Deficient Demand Unemployment," American Economic Review, vol. 73 (September 1983), pp. 708-724.

40. Audrey Freedman and Kenneth Goldstein, "Labor Market Data from The Conference Board" in Barbara D. Dennis, ed., Proceedings of the Thirty-Eighth Annual Meeting, Industrial Relations Research Association, December 28-30, 1985 (Madison, Wisc.: IRRR, 1986), pp. 34-41.

41. Harriet Gorlin, Personnel Practices I: Recruitment, Placement, Training, Communication, information bulletin no. 89 (New York: The Conference Board, 1981), pp. 11-12.

42. A common view of public employment agencies among employers is that they do not refer the best applicants, i.e., better applicants are available through other sources. This poor image may lead to negative "signalling" of applicants referred by public employment agencies, i.e., employers may assume that they are of lower quality. The concept of signalling is discussed later in this chapter.

43. The reader is reminded that these figures are monthly averages. Hence, there were more than 110 million people who had jobs at some time during 1986.

44. Employment and Earnings, vol. 34 (January 1987), p. 200.