DO OUR STATISTICS MEASURE THE REAL LABOR MARKET HARDSHIPS?

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The Anachronisms of Labor Market Statistics

It is critically important that the economic indicators we compile and use in decisionmaking accurately portray reality. They should be valid and reliable measures of the factors that genuinely reflect the state of society. Current labor market measures, developed at the end of the Great Depression, reflect the primary concern of the time--the availability of jobs for those able and willing to work. Since then the unemployment data have proven to be a valuable multi-purpose indicator. The data were applied as a measure of the available stock of unused human resources in the economy. Based on the unemployment concepts the Phillips curve formulation suggested a relationship between labor market slack and inflation. Unemployment was applied as a basic variable in describing and predicting individual behavior. Before an elaborate transfer system was developed, the unemployment rate also served as a reasonable indicator of economic hardship.

Changing Realities

Over the decades, changes in the labor market and in our society have eroded the validity of the unemployment measure as an economic indicator for policy determination. Changes in the structure of the domestic economy have apparently altered the relationship between unemployment, wages, and inflation. Labor market developments were not primarily responsible for price changes in the 1970s. An ever increasing share of the labor force comes from households with two or more earners.

Idleness is increasingly an acceptable and voluntary option whose impact is softened by transfer payments or by multiple family earners. Many workers claim they want jobs but are only half-heartedly looking. More would take jobs if working conditions were favorable, but they are not actively seeking work. Others may feel it prudent and possible to look longer in order to find a higher paying job. Extended unemployment compensation, welfare, food stamps, social security, veterans benefits and other aid reduce earnings losses and even generate work disincentives; recipients with no interest in work may claim to be able, willing, and actively looking solely to meet program requirements. Finally, for workers trapped in a "secondary labor market," intermittent employment is the product of low wages, bad jobs, and employment situations in which turnover is accepted and even encouraged.

As a product of these changes, the relationship between unemployment and hardship has been increasingly obscured and unemployment statistics are no longer valid measures of economic and social health they once were. Joblessness among teenagers rarely affects the well-being of families. Many unemployed have a spouse with very adequate earnings, or else the family may have other income sources. Persons who do have intermittent work may have low earnings over the course of a year and even full-time work is no guarantee against poverty where there are many mouths to feed. Many full-time and intermittent workers end up with a lesser income than the families of the more affluent unemployed.

The Need for New Numbers

The shortcomings of the unemployment rate and other official labor market statistics have not gone unnoticed. Questions raised in the 1950s led to the appointment by President John F. Kennedy of a blue-ribbon panel, the Gordon Committee. The panel reviewed the concepts and suggested some revisions, but paid little attention to the emerging impact of income transfers upon work. No effort was made to redesign the unemployment data as a measure of economic hardship. Later, in the 1960s boom years, there was concern with persisting structural problems in ghettos, depressed areas, and among racial minority groups. The Great Society's policymakers, convinced that statistics then understated the seriousness of social problems, believed that a new measure of hardship would justify its active welfare efforts. When administrations and economic conditions subsequently changed, the statistics were questioned from another perspective. Some argued that the prevailing level of unemployment did not reflect economic deprivation as it had in the past, and that a higher rate had to be accepted to achieve price stability. The relevance of unemployment data as hardship measures was further questioned in the mid-1970s when unemployment compensation was liberalized and expanded, and when massive joblessness was greeted by public indifference.

Reacting to these concerns, the Bureau of Labor Statistics made efforts to expand the scope and coverage of the Current Population Survey data. Weekly earnings data were compiled each May and data on discouraged workers were added quarterly. An expanded household survey added details about family status and persons outside the labor force, but BLS made little effort to change the concepts that underlie the collection and presentation of unemployment data. The support for a hardship measure dissipated as unemployment became more widespread and policymakers showed little interest in a measurement which would accentuate labor market pathologies. The idea of a weighted unemployment rate to measure unutilized human resources or to justify raised unemployment targets became less pertinent when joblessness approached depression levels. Unemployment compensation benefits expanded as a stop-gap measure but critics claimed that many claimants were not seeking work. As in the past, debate over the numbers abated as conditions improved. The supremacy of the long-standing concepts was demonstrated when President Gerald Ford touted as part of his economic record a few downward ticks in the unemployment rate from the highest levels since the Great Depression, and his critics were sidetracked in a fruitless debate over the feasibility of an arbitrary full-employment goal.

The unemployment rate is like the proverbial shoe: we wear it because it is familiar even though it has become disfigured and the sole wears thin. We debate minor changes in joblessness and faraway targets without really knowing what the numbers mean. We continue to ignore the realities of a drastically expanded transfer system which provides some support to at least one of every four Americans. We still think in terms of neoclassic supply and demand theory despite the demonstrated interrelationships between low wages, discrimination, welfare and unemployment in the secondary labor market. In brief unemployment rates and other official labor market statistics have become inadequate to explain the ever changing labor market conditions. New concepts and new measures are needed for public policy formulation. Multibillion dollar programs and new proposals regarding employment policy may be riding on misconceptions about labor market operations which are based on Current Population Survey statistics.

A Hardship Measure

With earnings the predominant and societally-preferred source of income, a crucially important concern is the labor market's ability to provide workers not just a job, but a minimally adequate income. The long-term unemployed are likely to live in deprivation because of their earnings loss, but others besides these unemployed are failed by the labor market. Part-time employees seeking full-time work, intermittent workers, persons withdrawing from the labor force because of limited job opportunities, and, of course, low wage earners may all have deficient incomes. But many individuals with similar employment problems may not face economic hardship if there are other earners in their families or if they have alternative sources of income.

Concepts

The Employment and Earning Inadequacy index attempts to count all persons in the labor market who face employment and income problems. The prevalence of employment problems is first assessed by a "subemployment" measure defined to include the unemployed, discouraged workers not in the labor force who currently want a job but are not looking because they think no work is available, employed household heads who earned less than a poverty level wage in the last year (including those working full-time full-year as well as those working intermittently), and persons employed part-time involuntarily because of shortened work-weeks and other economic reasons. Full-time students age 16 to 21 years are excluded since they presumably are occupied in socially useful activity and therefore seek only part-time jobs, and since their income needs are frequently met from nonwork sources. Persons age 65 and over are also excluded since public pensions are now nearly universal and private pensions are much more widespread, reducing needs and labor force attachments. Only family heads are counted in the two low-earnings categories because other family members may frequently have only a peripheral attachment to the work force and hence limited earnings. [The technical flaws and conceptual difficulties involved in the proposed index were spelled out by the authors in Employment and Earnings Inadequacy: A New Social Indicator (Baltimore: The Johns Hopkins University Press, 1974), pp. 39-45, and in the Monthly Labor Review, Oct. 1973, pp. 24-27. Particularly troublesome is the distinction in the treatment of low earning males and spouses. The problems can be corrected when a more refined measure is developed.]

Despite the difficulties they face in the labor market, some of the subemployed may have an adequate personal or family income. In order to screen out these cases, an upper income adequacy test is applied. All persons whose family income for the preceding year was above the mean for families are excluded. The same holds for

unrelated individuals with income above the mean. Since wide variations exist between metropolitan and nonmetropolitan areas separate mean incomes are applied to residents inside and outside metropolitan areas.

The Employment and Earnings Inadequacy index is calculated as a ratio of the subemployed with below-average incomes to the number of persons in the labor force, defined to include discouraged workers. The index indicates the proportion of people working, seeking work, or discouraged from seeking work who are unable to secure a minimum income and are also not fortunate enough to have other working family members or sources of income which ameliorate their own earnings problems.

Derivation

In March 1974 the civilian noninstitutional population numbered 148.2 million persons age 16 years and over. A total of 89.6 million were in the labor force and 585,000 were nonstudent, nonaged discouraged workers. The adjusted labor force was the sum of the two--90.2 million (Table 1).

Subemployment was the sum of five categories:

1. Unemployed. The Current Population Survey counted 3.9 million unemployed workers in March 1974 after subtracting students age 16 to 21 years old and individuals age 65 years and over.

2. Discouraged workers. There were 585,000 persons wanting a job currently but not looking because of discouragement over the prospects.

3. Fully employed low earners. There were 1.8 million family heads and 293,000 unrelated individuals who worked full-time, full-year in the previous 12 months and yet did not earn enough to reach the poverty threshold.

4. Intermittently employed low earners. Another 2.6 million employed family heads and 1.1 million unrelated individuals who had worked intermittently during the preceding year did not earn a poverty level income.

Table 1. Derivation of employment and earnings inadequacy index for March 1974 (thousand persons)

	Subemployed in Current Population Survey	Persons in households with above-average incomes	Employment and earnings inadequacy
Current Population Survey labor force	89,616	------	------
Discouraged workers (less students age 16-21 and persons age 65 and over)	+ 585	------	------
Adjusted labor force	90,201	------	90,201
EEI components			
(1) Unemployed	4,755	------	------
Less students age 16-21 and persons age 65 and over	- 866	------	------
Adjusted unemployed	3,889	-1,371	2,518
(2) Net discouraged workers	682	------	------
Less students age 16-21 and persons age 65 and over	- 97	------	------
Adjusted discouraged workers	585	- 133	452
(3) Employed full-time, full-year at less than poverty earnings (less students age 16-21 and persons age 65 and over)	2,076	- 179	1,897
(4) Employed intermittently at less than poverty earnings (less students age 16-21 and persons age 65 and over)	3,702	- 240	3,462
(5) Employed part-time involuntarily at less than poverty earnings	2,309	------	------
Less students age 16-21, persons age 65 and over, and persons counted in item 4	- 311	------	------
Adjusted employed part-time involuntarily	1,998	- 814	1,184
Total	12,250	-2,737	9,513
Subemployment and EEI index	13.6%	------	10.5%

Source: Tabulations based on Current Population Survey data.

5. Involuntary part-time workers. There were 2.0 million persons working part-time involuntarily for economic reasons who were not students, were less than 65, and were not counted among the intermittently employed low earners.

Adding these components, there were a total of 12.3 million subemployed in March 1974 out of the 90.2 million in the adjusted labor force, yielding a subemployment rate of 13.6 percent. Among these were 2.7 million persons living in households with above average incomes in the preceding year and therefore with questionable needs. Eliminating these from the subemployed left 9.5 million with inadequate employment and earnings. The EEI index was, thus, 10.5 percent.

Employment and Earnings Inadequacy--1974

Because of the very severe recession, the EEI figures for March 1975 are not representative of post World War II experience. Comparison of conventional unemployment data and EEI would be distorted by the deep 1975 economic slump. However, conditions in March 1974, when the unemployment rate was 5.3 percent, were more representative of post World War II experience. A study of the contrasts between CPS and EEI data should yield some insights about the potential value of the proposed measurement.

Components

Though unemployment substantially exceeded 1960 levels, the unemployed accounted for only a fourth of all persons with inadequate employment and earnings in March 1974 (Table 2). More than a third of the non-

Table 2. Components of the EEI index, March 1974 (thousand persons)

	Subemployed	Percent screened out	EEI	Percent of subemployed	Percent of EEI
Total	12,250	22.3%	9,513	100.0%	100.0%
Unemployed	3,889	35.2	2,518	31.7	26.5
Discouraged workers	585	22.7	452	4.8	4.8
Low-paid fully employed heads	2,076	8.6	1,897	16.9	19.9
Intermittently employed heads with less than poverty earnings	3,702	6.5	3,462	30.2	36.4
Employed part-time involuntarily	1,998	40.7	1,184	16.3	12.4

Source: Tabulations based on Current Population Survey data.

student, nonelderly unemployed were members of households with above-average incomes and were not counted in the EEI index. Two-fifths of the involuntarily part-time workers were also screened out by the upper adequacy standards.

The low-paid fully employed heads accounted for a fifth of persons with inadequate employment and earnings, while the intermittently employed represented a third. The size of these low-earning groups is explained by several facts. Poverty among full-time working heads results from a combination of low wages and large families; intermittency compounds these difficulties by adding periods with no earnings. Many of the unemployed were affected by two or more spells of joblessness. Where the household heads earned less than poverty wages, it was very rare that earnings of other family members or alternative sources of income lifted the household to an above-average income. In terms of numbers, then, low earnings and intermittent employment accounted for twice the hardship as unemployment.

Employment Problems and Income

The EEI counts all persons with labor market problems and then screens out those who do not have severe income needs. This screening out process is vital in order to measure labor market related economic hardship.

The unemployment rate alone is not a very good measure of hardship. The unemployed in March 1974 (less students and the elderly) had a mean household income in the previous year of $11,443, or only 15 percent less than that of the total labor force (Table 3). The average

Table 3. Income and poverty status of the subemployed and persons with inadequate employment and earnings, 1973

	Subemployed	Persons screened out	Persons with inadequate employment and earnings	Incidence of poverty among subemployed	Incidence of poverty among persons with inadequate employment and earnings
Total	$ 8,446	$19,158	$ 5,364	31.9%	41.1%
Family heads	7,747	18,715	5,728	34.6	41.0
Wives	12,781	20,859	8,305	7.5	11.7
Other relatives	14,300	23,432	7,648	15.7	27.7
Unrelated individuals	2,926	9,415	1,933	59.2	68.3
Males	8,510	18,350	5,595	31.7	41.1
Females	8,441	20,204	5,187	32.1	41.0
Whites	8,958	19,411	5,477	28.4	37.9
Blacks	6,419	16,291	5,006	45.2	51.6
Metropolitan residents	8,833	20,360	5,552	31.2	40.0
Nonmetropolitan residents	7,777	17,149	5,030	33.1	42.8
Unemployed	11,443	19,844	6,869	16.9	26.1
Discouraged	10,057	22,010	6,540	26.4	34.1
Fully-employed low earning	5,898	17,534	4,800	50.8	55.6
Other low earning heads	4,851	17,026	4,007	51.5	55.0
Involuntarily part-time employed	12,566	23,094	7,750	6.7	11.3

Source: Tabulations based on Current Population Survey data.

income of the unemployed excluded in calculating the EEI was $19,844. This would hardly qualify in anyone's book as hardship. The discouraged and involuntary part-time workers also included many with dubious needs.

The screening process was especially important for wives and other relatives. Many of the unemployed were secondary jobseekers in families with substantial incomes. On the

other hand, unrelated individuals with employment problems were more likely to face hardships because there was usually no one else to support them. Overall, the use of an income screen yielded an average annual EEI income of $5,364 compared with $8,446 for the subemployed. The proportion in poverty for the two groups was 41 and 32 percent, respectively; in contrast, only 17 percent of the unemployed were poor.

Who Bears the Burden?

The incidence of inadequacy varies significantly among different groups (Table 4). Some

Table 4. Characteristics of subemployed and inadequately employed, March 1974

	Percent of subemployed	Percent subemployed screened out	Percent of EEI	EEI rate
Family heads	51.6	15.5	56.1	12.3
Wives	15.2	35.7	12.6	5.9
Other relatives	15.5	42.1	11.6	5.8
Unrelated relatives	17.6	13.3	19.6	18.0
Males	56.9	22.9	56.5	9.9
Females	43.1	21.7	43.5	11.6
White	78.8	25.0	76.1	9.1
Blacks	19.4	12.5	21.9	23.2
Metropolitan residents	63.5	22.2	63.7	9.7
Nonmetropolitan residents	36.5	22.3	36.3	12.6

Source: Tabulations based on Current Population Survey data.

of the differences--those between blacks and whites and those between metropolitan and nonmetropolitan residents--reflect straightforwardly the diversity of their employment problems. Other differentials--those between the sexes and between persons with differing family status--are in part definitional since only household heads are included in the low earnings categories.

The EEI for blacks in March 1974 was 2.6 times that for whites, or more than the 2.1 ratio of adjusted unemployment rates. The unemployment rate clearly understates the disparity in hardship. Only an eighth of unemployed whites were poor, compared to a third of blacks; two-fifths of the former were in households with above-average income, compared to a fifth of the latter. Blacks were more frequently low earners and discouraged workers. In all categories, they were less likely to be in households with above-average incomes. A fourth of the subemployed whites were screened out by the upper income standard, compared to an eighth of blacks. Yet the average household income of blacks with inadequate employment and earnings was a tenth less than that of whites; half of the blacks compared to less than two-fifths of whites were living in poverty.

Whatever their relative position, there is no doubt about the severity of blacks' employment and earnings. Among black female family heads, the EEI was a staggering 56.0 percent and among unrelated females 32.5 percent. With such limited chances of success in the labor market, it is easy to understand why many find welfare an acceptable option.

According to the EEI, inadequacy is a sixth higher among female than male labor force participants. The difference would be greater if wives were included in the low-earnings categories. Two-fifths of women heading families had inadequate employment and earnings, more than four times the rate among male heads. Women in the adjusted labor force were 36 percent more likely to be among the unemployed in the EEI, 64 percent more likely to be employed part-time involuntarily, and 70 percent more likely to be discouraged and in a household with below-average income.

The EEI yields a different picture of the spatial distribution of hardship than the unemployment rate. In March 1974, 70 percent of the jobless resided in metropolitan areas compared with 64 percent of persons with inadequate employment and earnings. While the unemployment rate was virtually identical inside and outside SMSAs, the EEI in metropolitan areas was 2.9 percentage points less than in nonmetropolitan areas where low earnings were much more prevalent.

The EEI, 1968-1975

The EEI index has been calculated for March 1968 through 1975. This was a particularly turbulent period. It opened with a tight labor market which had attracted numerous secondary workers into the labor force. The major concern was with structural problems remaining after a lengthy boom. Social expenditures were rising rapidly and welfare had become a major political issue. Inflation was intensifying, as prices followed the Phillip's curve pattern. At the end of 1969, a decline in Vietnam war spending and some domestic belt-tightening to control inflation led to a substantial rise in unemployment. Recovery began in 1972 and became vigorous in 1973. Whether because the rebound was too rapid or because of exogeneous factors, inflation shot upwards and unemployment did likewise. By March 1975, forced idleness had reached massive proportions. What light does the EEI shed on these economic fluctuations?

Patterns of Change

There are several considerations in using the index to assess secular and cyclical changes. The upper adequacy screen, based on mean income, rises over time with inflation and any real gains, while the poverty threshold used as a lower screen in the earnings categories is adjusted only for changes in the cost of living.

Over a lengthy period, the relative well-being of persons screened in and screened out will change depending on the rate of increase in real income (which was slight between 1968 and 1975). The definition excludes persons 65 years old and over and students age 16 to 21 years as well as wives and other family members from the low earning categories. Secular changes in the composition of the work force may, therefore, influence the EEI (just as they affect the meaning of the unemployment rate).

In interpreting cyclical changes, it is important to remember that the EEI's employment-related components--unemployment, discouragement, and involuntary part-time employment--are based on the current status in the survey week, while the earnings-related components are based on income over the preceding 12 months. Labor market changes are picked up immediately in the employment-related segments, but the earnings impacts lag.

Despite these complications, the EEI provides some useful perspectives on labor market developments between 1968 and 1975. As expected, the pervasiveness of economic hardship is affected by business conditions and fluctuates with the level of unemployment. The unemployment rate declined between 1968 and 1969, rose the next two years, and fell somewhat between 1971 and 1973. It levelled off between 1973 and 1974, then increased dramatically in 1975. The directions of change in the EEI were precisely the same (Table 5).

The important difference was that the EEI index fluctuated less than the unemployment rate. In the recessionary 1970s, the EEI index rose only a fourth above the 1968 level compared to a 140 percent increase in the CPS-reported unemployment rate. The unemployment rate rose 31 percent between 1969 and 1970, while the EEI index increased only 2 percent. In the subsequent recovery, the rate of joblessness declined 15 percent between 1972 and 1973, while the EEI index went down by 9 percent.

Two major factors explain these differences. Unemployment is only one segment of the hardship total (27 percent in 1974). Any percentage change in this component alters the EEI by a lesser percentage. The other factor is because the unemployed tend to be drawn from low-earning workers who may otherwise be counted in the EEI. Many intermittently employed may be included in the EEI because of low earnings even before they are forced into complete idleness (Chart 1). This offsets

Chart 1
EEI components as percent of adjusted labor force, 1968-1975

the fact that the number of discouraged and involuntary part-time workers also tend to increase with unemployment. Hardship is not just a cyclical problem. Though worsened by recession, it exists in serious dimensions even in what we have come to consider the best of times.

The Recession's Impact

The 1975 recession was the severest economic dislocation since World War II. The number of unemployed rose from a seasonally

Table 5. Unemployment and the EEI, 1968-1975

									Year-to-year changes						
	1968	1969	1970	1971	1972	1973	1974	1975	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975
Persons with inadequate employment and earnings (thousands)	8,099	7,752	8,184	9,647	9,942	9,189	9,513	12,196	-347	432	1,463	295	-753	324	2,683
CPS unemployed (thousands)	2,929	2,746	3,733	5,175	5,215	4,512	4,755	8,359	-183	987	1,442	40	-703	243	3,604
CPS unemployment rate (percent)	3.8	3.5	4.6	6.3	6.1	5.2	5.3	9.1	-8	31	37	-3	-15	2	72
EEI index (percent)	10.4	9.8	10.0	11.6	11.5	10.5	10.5	13.2	-6	2	16	-1	-9	0	26

Source: Tabulations based on Current Population Survey data.

adjusted total of 2.7 million in December 1968 to 4.2 million in October 1973 after the relatively mild setbacks at the start of the decade. Unemployment then peaked at 8.3 million in May 1975. Yet, there was surprisingly little public clamor over this slump--no riots, no large-scale marches on Washington, not even much rhetoric. The Republican administration continued to claim that inflation was the number one enemy, while Democrats with an overwhelming majority in Congress introduced only modest countercyclical programs while failing to override the vetoed spending measures. What was the reason for this quiescence?

The EEI offers one explanation. This index suggests that economic hardship did not increase as sharply as unemployment. In 1969 the EEI stood at 9.8 percent and it was 10.5 percent in 1974, after recovery from the short recession. In 1975 the EEI rose to 13.5 percent. But if inadequacy had risen proportionately with joblessness, more than a fourth of the labor force would have faced economic hardship in March 1975.

As indicated, rising unemployment has a somewhat delayed effect because the intermittent employment category is based on the previous year's experience. Reflecting widespread joblessness in 1975, and the persisting high unemployment into 1976, the EEI total will probably rise further. Yet the 1975 index should give a good indication of the recession's impact. Unemployment had risen precipitously during the final quarter of 1974, from 5.0 million in October to 6.1 million in December, and to 8.4 million by March 1975. The rise in unemployment at the end of the year had limited impact upon total earnings during the year.

Between March 1974 and 1975, the number of unemployed rose by 3.5 million after excluding the elderly and students (Table 6). If

Table 6. Changes in subemployment and inadequacy, March 1974-1975 (thousand persons)

	Subemployed		Percent	EEI		Percent
	1974	1975	Increase	1974	1975	Increase
Total	12,250	17,113	39.7	9,513	12,196	28.2
Unemployed	3,889	7,343	88.8	2,518	4,665	84.5
Discouraged	585	1,153	97.1	452	826	82.7
Low-paid fully employed	2,076	2,121	2.2	1,897	1,899	---
Intermittently employed	3,702	3,270	-11.7	3,462	3,052	-11.8
Involuntary part-time workers	1,908	3,226	69.1	1,184	1,774	49.8
Percent of adjusted labor force	13.6%	18.5%		10.5%	13.2%	

Source: Tabulations based on Current Population Survey data.

the unemployed in households with above-average income are not counted, the increase was only 2.1 million. The proportion of the unemployed screened out by the upper income standard remained constant at 36 percent in 1974 and 1975. In March 1975, 62 percent of the 2.7 million excluded unemployed were wives or other relatives, and 10 percent were unrelated individuals.

While many victims of recession did not have serious needs, the conditions of others with already inadequate employment and earnings situations deteriorated even more. Workers with intermittent employment in the previous year fell 290,000 between 1974 and 1975. The number of low-paid fully employed household heads did not change noticeably. This pattern was somewhat different than in the previous recession when the number of fully employed heads declined precipitously while the intermittently employed family heads increased. It might be surmised that the extended slack labor market had already trimmed the ranks of the low-paid workers in stable jobs, and the victims of the major slump were those who had already been affected by intermittent idleness.

The number of discouraged workers in households with below-average income rose by four-fifths between 1974 and 1975 to a level six times that in 1969. Many workers experienced shortened work-weeks, and the number employed part time involuntarily increased by half to double the 1969 level.

Overall, then, the total with inadequate employment and earnings increased by 2.7 million, a fifth less than the increase in the number of unemployed. The proportion of the adjusted labor force with inadequate employment and earnings rose only by a fourth, compared to the 72 percent rise in the unemployment rate. Even in the most severe business downturn since the Great Depression, the continuing structural problem of hardship far outweighed the cyclical impacts. While headlines focused on the rise in unemployment, the increase in deprivation due to low earnings was much less and this may explain the limited social unrest generated by the economic downturn. The corollary, of course, is that when unemployment recedes it should not be assumed that the real problems have been eliminated.

A Perspective on Racial Progress

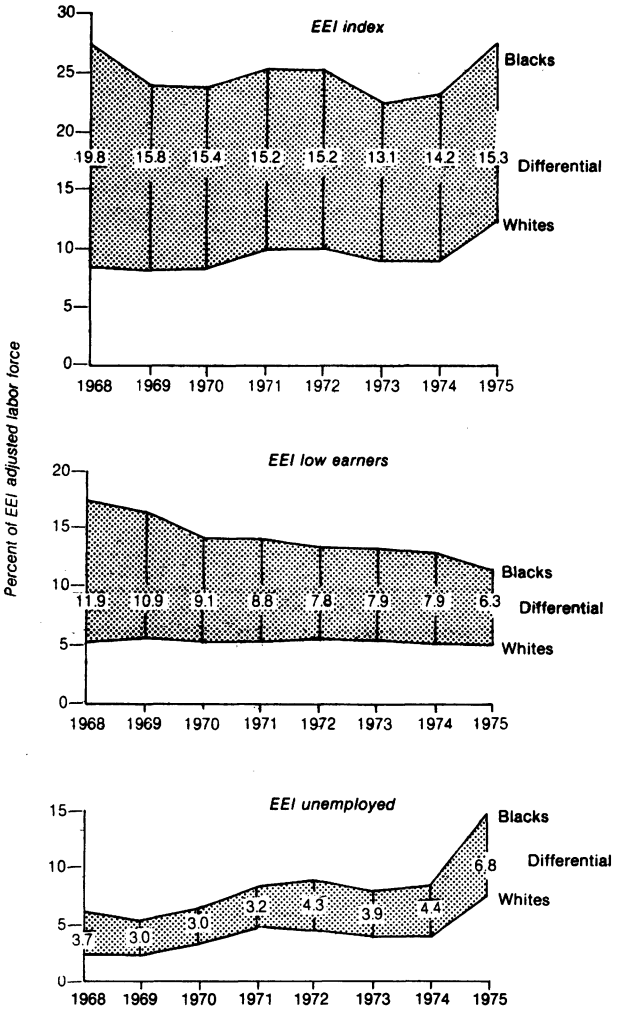
In the 1960s there was a concerted effort to improve the employment status of minorities through manpower programs and equal employment opportunity action. The tight labor market provided a conducive climate, since those at the end of the labor queue tend to move up relatively, as well as absolutely, in good times. In the 1970s the government's commitment slackened, or, at least, its rhetoric favored a policy of benign neglect. The gainers in the tight labor markets become the losers in the recession. What, then, has been the end result for minorities?

The official unemployment statistics tell a not too pleasant story. Joblessness declined in 1969 to 3.1 percent for whites and 6.4 percent

for nonwhites. The respective rates deteriorated to 7.8 and 13.9 percent in 1975. The nonwhite/white unemployment ratio fell from 2.1 to 1.8, but the unemployment rate differential increased from 3.3 to 6.1 percentage points. If nonwhites had done as well as whites in 1969, 295,000 more would have been employed in 1969 and 553,000 more in 1975.

The victims of unemployment and low earnings even in prosperous times have little to loose in economic slumps. Accordingly the EEI shows no further deterioration in the conditions of blacks between 1968 and 1975. The index for blacks remained virtually unchanged at 28 percent compared with a sharp increase from 8.5 to 12.5 percent for whites. The black/white inadequacy ratio declined from 3.2 to 2.2, while the gap was reduced from 19.8 to 15.3 percentage points. Before the severe economic setbacks of 1974, inadequacy was falling quite rapidly among blacks, reaching a low of 22.2 percent in 1973, compared to the upward drift of the white rate (Chart 2).

Chart 2
Incidence of low earnings, unemployment, and and inadequacy for blacks and whites, 1968-1975



The relative improvement for blacks is related to a decline in low earnings. The percentage of blacks in the adjusted labor force earning less than a poverty level wage fell from 17.3 percent in 1968 to 13.0 percent in 1974, while for whites the proportion declined only from 5.4 to 5.1 percent. The proportion for blacks went down even further to 11.4 percent in 1975, but this was probably due to increased joblessness among the otherwise intermittently employed.

Some blacks who would have had inadequate employment and earnings abandoned the labor force in preference to income support or other activities not counted as work by the Current Population Survey. As defined by the EEI index, the black male participation rate fell from 77.3 percent in 1968 to 72.6 percent in 1974, while the white male rate fell by .8 percentage points to 78.5 percent. If the decline for blacks had been the same as for whites, and the differential had all been added to the ranks of those with employment problems, the black EEI would have been 26.3 rather than 23.3 percent in 1974. This is an extreme assumption, however, and it does not deny that those leaving the labor force (including, for instance, many males receiving disability insurance or early retirement) were better off than in low-paying jobs. On the whole, then, it would appear that despite the lack of aggressive public efforts in the 1970s, some absolute and relative progress was made before the massive recession.

An Economic Hardship Measure

The Employment and Earnings Inadequacy index demonstrates the feasibility and usefulness of a measure which considers the impact of unemployment, discouragement, low-earnings, involuntary part-time and intermittent work on household well-being. The EEI is an exploratory formulation; the controlling constraint was the need to base calculations on currently available data. The underlying relationships are likely to persist, however, in any reasonable measure of labor market-related economic hardship.

The Utility of the EEI

In normal times the jobless are a minority of those who might reasonably be considered in need. On the other hand, many unemployed do not face serious economic hardships. Indeed some are very well off. The EEI clearly demonstrates that there are many employed persons who do not rise above the poverty threshold, even if they work at full capacity. The unemployment rate is, therefore, a poor hardship measure. Substituting EEI concepts

for traditional unemployment data suggests greater concentration of need outside metropolitan areas. The EEI also highlights the still dismal labor market prospects of blacks, especially black female family heads.

The data for 1968 through 1975 reveal consistent patterns of relationship between the components of the EEI. When joblessness rises, many low earners and intermittent workers are the victims. On the other hand, many of the additional unemployed are screened out by the upper adequacy standard; these are mostly secondary workers in households with above-average incomes. Hence, the inadequacy index fluctuates much less than the unemployment rate. Even during the worst recession since the 1930s, the EEI rose modestly, perhaps explaining why the "social dynamite" that might have accompanied widespread joblessness never exploded. There is some evidence that the gap between blacks and whites closed between 1968 and 1975, though this was achieved by white setbacks rather than black gains over the period.

In brief, the EEI provides a reasonable and comprehensible assessment of needs. It seems to be a consistent measure, making sense when analyzed over time. Most importantly, it provides significant insights into labor market realities. Why, then, has no such measure been refined and officially tabulated to supplement the unemployment rate?

Inexcusable Procrastination

Based on earlier works by Secretary of Labor Willard Wirtz in 1967 and 1968, by the staff of the Senate Subcommittee on Employment, Manpower, and Poverty in 1972, and previous EEI calculations, Congress recognized the value of a needs index and directed the Department of Labor to "develop preliminary data for an annual statistical measure of labor market related economic hardship in the nation" (Section 312 (c) of the 1973 Comprehensive Employment and Training Act). In the 1975 Manpower Report of the President, the Labor Department reported on its progress: "considerable conceptual work must be done in the development of statistics on economic hardship. When satisfactory definitions and criteria have been developed, ways to use these in analyzing economic hardship and underemployment can be examined (p. 189)." Translating this bureaucratic jargon: no data had been collected and no new definitions tested. This remains the case today.

It is difficult to rationalize the failure of BLS to carry out the clear congressional mandate. The "conceptual work" in developing, analyzing and presenting the EEI for 1968-1975 amounted to less than one-half a man-year. A number of improvements and alternatives have been proposed which could be tested with little effort. The cost of developing the computor program, calculating the index for the eight years, and running several validation tests was less than $10,000. The incremental cost of calculating the index for any given year is $500. The shortage of conceptual or financial resources in the Department of Labor is clearly not the real constraint.

The lack of progress simply reflects a lack of priority. The administration was understandably reluctant to admit that conditions might be worse than already staggering unemployment rates suggested (although, paradoxically, the index would have demonstrated that conditions did not deteriorate as severely in 1975 as unemployment tallies indicated). The massive increase in joblessness diverted attention to other issues. But even more basically, administration economic policy shapers were apparently opposed to the underlying concepts of a needs index which would focus attention on deep-seated structural economic problems.

Can We Ignore Hardship?

The EEI and other economic hardship measures are based on the notions that: (1) the inadequacy of earnings is as important as the availability of employment; (2) unemployment and earnings problems are interrelated and compounded for a significant minority of all workers; (3) the gravity of employment problems is primarily related to their impact on household income; and (4) those with the most severe problems are the ones who should be given attention. In contrast, the prevailing view of the many policymakers in the first half of the 1970s seemed to be that any job was better than no job, that low earnings due to intermittent work was a reflection of limited work commitment, and that earnings provided in the labor market could somehow be divorced from family income needs.

These arguments which tried to explain away hardship sound disturbingly like the pre-depression neoclassical theories which dismissed mass unemployment as a transitional phenomenon. Problems do not disappear simply because we refuse to recognize them. Just as a new set of statistics were introduced in the late 1930s to measure unemployment, it is necessary to overhaul and supplement current economic indicators. The unemployment data are not an adequate measure of economic hardship. The need is to attack the problems of wage adequacy and intermittent work by focusing public efforts on work force participants who face economic deprivation in good times as well as in recessions. A first step is to develop and refine measures of labor market-related economic hardship.