

How Many Kinds of Unemployment?

BY JOHN A. WEINBERG

The persistently high level of unemployment in the United States has stimulated a spirited debate about its causes. This debate has focused largely on the importance of structural factors — the possibility that demand for labor is rising in the economy, but not in those occupations, industrial sectors, or geographic locations where the unemployed are predominantly looking for work. Those who think such structural causes are important point to the historically high proportion of long-term unemployed (those out of work for more than 26 weeks) and to the upturn in reported job vacancies. Those on the other side of the argument point to the fact that the sharp decline in and continued low levels of economic activity have been pretty widespread, which is seemingly inconsistent with the notion that the economy is dealing with the costs of shifting resources from depressed to robust sectors or geographic locations. They tend to argue, instead, that unemployment is high (and aggregate production low) because of a short-fall of the aggregate demand for goods and services.

This debate drew me back to the textbooks from the introductory macroeconomics courses I have taken or taught in my life. These textbooks typically had (and still have) sections on the types of unemployment, which are identified as a three-part taxonomy — structural, cyclical, and frictional. Structural unemployment, as in the current debate, refers to the effects of shifts in economic activity between different parts of the economy — either because of changing relative demands or changing technology, or both. Cyclical unemployment is identified as the joblessness that results from a downturn in the economy, often thought of as resulting from falling aggregate demand. Finally, frictional unemployment captures the fact that some people are always “in between” — between their last job and their next job, or in some cases, between their last job and leaving the labor force.

I wonder how useful this taxonomy really is. An unemployed person’s current predicament is made no easier whether it is the result of structural, cyclical, or frictional forces. On the other hand, if there are structural factors at play that could help that individual make longer-term plans — like training or relocation decisions — this information could be useful. Of course, the recent debate about structural versus cyclical factors is driven largely by peoples’ thinking about policy responses — in particular how responsive unemployment might be to stimulative fiscal or monetary policy. An emphasis on cyclical factors often is

offered as support for the idea that policies to boost aggregate demand will be effective in bringing down the unemployment rate. If, on the other hand, structural factors are more important, stimulative policy may make relatively little difference in the near term.

The third part of the textbook taxonomy — frictional unemployment — doesn’t play much of a role in the popular debate. But even though its meaning in the textbook definitions is fairly narrow, there is an important sense in which all unemployment is frictional. The definition of an unemployed person is someone who does not have a job but is actively searching for one. The fact that searching can take time — that is, the fact that there are frictions that get in the way of unemployed workers finding available vacancies — is integral to the very existence of unemployment.

At the same time, I’m not so sure the distinction between structural and cyclical unemployment is as clear as the recent debates make it seem. There are always differences in the growth paths of different

industries and regions, bringing about reallocation of labor that takes time and entails some unemployment. This shifting of economic activity is an important part of the dynamics that drive the business cycle, making it hard to fully distinguish what’s structural and what’s cyclical.

Thinking about unemployment as a search issue — which I think is the most useful way to frame the discussion — leads one to consider variations in unemployment over time in terms of changes in the rate at which people enter the search process, mainly through the loss of jobs, and the rate at which people exit the search process, mainly through finding jobs. These transition rates vary over time for a variety of reasons, both structural and cyclical. While many things remain uncertain, what seems clear is that the low rate at which people exit from unemployment is at the heart of the current sluggish behavior of the job market.

The economy has been growing, though the recovery has been slow and unemployment has come down very little from its peak. As the pace of growth likely quickens in 2011, the responsiveness of unemployment could be revealing about the relative importance of structural and cyclical factors in the current business cycle. That information would be useful to the writers of future textbooks and to future policy analysts, but surely less so to those now waiting for improvements in the labor market. **RF**

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