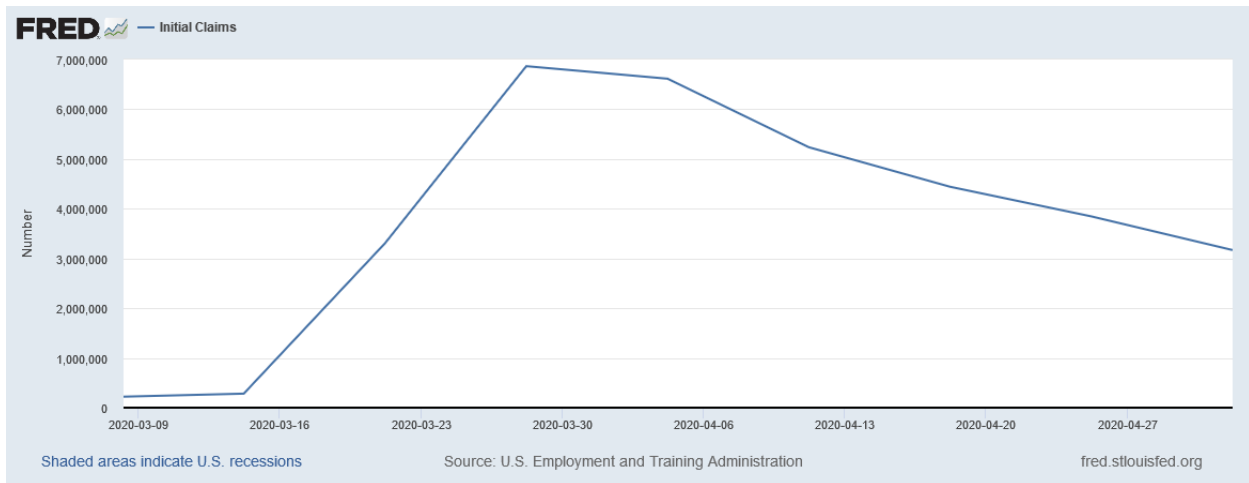


Covid-19 Induced Idleness Leading Towards Cyclical and Structural Unemployment (III)

05.09.2020

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(Figure 1)¹

Participating and enforced idleness² were induced to mitigate the potential overwhelming of hospital systems in the United States due to the Covid-19 pandemic. The flattening of the infection curve required social distancing which included furloughs, lay-offs and business closures. The Unemployment Insurance component of the CARES ACT encouraged participating idleness and the Paycheck Protection Program and SBA loans encouraged enforced idleness. On March 27, 2020 the CARES ACT was signed into law. On April 3, 2020 The Employment Situation–March 2020 was released by the Bureau of Labor Statistics. “The March survey reference periods for both surveys **predated** many coronavirus-related business and school closures that occurred in the second half of the month”.³

In March, employment in leisure and hospitality fell by 459,000. Most of the decline occurred in food services and drinking places (-417,000); this employment decline nearly offset gains over the previous 2 years. Employment in the accommodation industry also declined in March (-29,000).

(Figure 1.2)⁴

Obviously restaurants and bars (food services and drinking places) were the first to be impacted and the March report reflects -417,000 lost jobs in this occupation category. Not all job losses were **predated** in the March report.

¹ (U.S. Employment and Training Administration)

² “By withholding labor, the workers receive a sum over and above what would have been the competitive (natural scarcity) value of the total work supplied. But instead of some of the workers moving out to other jobs when the amount of work is thus cut down, they participate in the extra revenues by sharing the reduced supply of work.” “Enforced idleness exists when specialized resources have (a) been driven out of one productive employment by legal enactments, by physical violence, by threats, by “moral suasion” by strikes, by boycotts, or by the use or threatened use of discriminatory charges and yet (b) have not taken other employments because of some “participating” rights conferred by idleness.” (Hutt, 1939)

³ (U.S. Bureau of Labor Statistics)

⁴ (U.S. Bureau of Labor Statistics)

I've been looking at Initial Claims when they are released every Thursday.

8	ICSA	Initial Claims, Number, Weekly, Seasonally Adjusted				
9						
10	Frequency: Weekly, Ending Saturday					
11	observation_date	ICSA		Participating & Enforced	Cyclical	Total
12	2020-03-14	282,000				
13	2020-03-21	3,307,000				
14	2020-03-28	6,867,000		10,174,000		
15	2020-04-04	6,615,000	3,307,500			
16	2020-04-11	5,237,000				
17	2020-04-18	4,442,000				
18	2020-04-25	3,846,000				
19	2020-05-02	3,169,000		13,481,500	20,001,500	33,483,000

(Figure 1.3)⁵

I think all of the unemployment claims from the weeks ending 3.21 & 3.28 are all the result of participating and enforced idleness. I think half of the claims from the week ending 4.4 are due to participating and enforced idleness (3,307,500) and the other half of the week ending 4.4 are due to cyclical unemployment (lack of demand 3,307,500). I base this assumption on the timing of State Executive orders, the CARES ACT, and other anecdotal economic slowdown observations.

With a total of 33,483,000 million Americans filing initial unemployment claims from the week ending 3.21 – 5.2, I suspect 13,481,500 are the result of participating and enforced idleness and 20,001,500 are the result of a lack of demand resulting in cyclical unemployment.

It is tough to square the more up to date contemporary Initial Claims numbers with the more backward looking Employment Situation lagging indicator.

The Employment Situation – April 2020 was released on May 8, 2020.

Table A-1. Employment status of the civilian population by sex and age

HOUSEHOLD DATA

Table A-1. Employment status of the civilian population by sex and age
[Numbers in thousands]

Employment status, sex, and age	Not seasonally adjusted			Seasonally adjusted ⁽¹⁾					
	Apr. 2019	Mar. 2020	Apr. 2020	Apr. 2019	Dec. 2019	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020
TOTAL									
Civilian noninstitutional population	258,693	259,758	259,896	258,693	260,181	259,502	259,628	259,758	259,896
Civilian labor force	162,097	162,537	155,830	162,546	164,556	164,606	164,546	162,913	156,481
Participation rate	62.7	62.6	60.0	62.8	63.2	63.4	63.4	62.7	60.2
Employed	156,710	155,167	133,326	156,696	158,803	158,714	158,759	155,772	133,403
Employment-population ratio	60.6	59.7	51.3	60.6	61.0	61.2	61.1	60.0	51.3
Unemployed	5,387	7,370	22,504	5,850	5,753	5,892	5,787	7,140	23,078
Unemployment rate	3.3	4.5	14.4	3.6	3.5	3.6	3.5	4.4	14.7
Not in labor force	96,596	97,221	104,066	96,147	95,625	94,896	95,082	96,845	103,415
Persons who currently want a job	4,951	5,215	9,761	5,105	4,832	4,904	4,962	5,509	9,916

(Figure 1.4)⁶

The civilian labor force, participation rate, number of people employed, and the employment population ratio all decreased in April while the number of unemployed, unemployment rate number of people not in the labor force, and those who currently want a job increased.

⁵ (U.S. Employment and Training Administration)

⁶ (U.S. Bureau of Labor Statistics)

The civilian labor force changes within the timeframe it is measured. The U.S. has lost 8,330,000 from the labor force from February – April of 2020, because these 8.3 million are no longer in the labor force they are not counted as unemployed! These 8.3 million are not counted in Table A-15 below.

Table A-15. Alternative measures of labor underutilization

HOUSEHOLD DATA

Table A-15. Alternative measures of labor underutilization

[Percent]

Measure	Not seasonally adjusted			Seasonally adjusted					
	Apr. 2019	Mar. 2020	Apr. 2020	Apr. 2019	Dec. 2019	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	1.4	1.4	1.2	1.3	1.2	1.2	1.2	1.2	1.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	1.5	2.7	13.1	1.6	1.6	1.6	1.7	2.4	13.2
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	3.3	4.5	14.4	3.6	3.5	3.6	3.5	4.4	14.7
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	3.6	4.8	14.8	3.9	3.7	3.8	3.8	4.7	15.1
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force	4.2	5.3	15.6	4.5	4.2	4.4	4.4	5.2	16.0
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force	6.9	8.9	22.4	7.3	6.7	6.9	7.0	8.7	22.8

(Figure 1.5)⁷

The seasonally adjusted numbers highlighted in green below provide a nice baseline level of the typical levels of the always present frictional and seasonal unemployment. Highlighted in red we see the spike in “job losers on temporary layoff” and “permanent job losers”.

Table A-11. Unemployed persons by reason for unemployment

HOUSEHOLD DATA

Table A-11. Unemployed persons by reason for unemployment

[Numbers in thousands]

Reason	Not seasonally adjusted			Seasonally adjusted					
	Apr. 2019	Mar. 2020	Apr. 2020	Apr. 2019	Dec. 2019	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020
NUMBER OF UNEMPLOYED									
Job losers and persons who completed temporary jobs	2,484	4,441	20,384	2,660	2,686	2,665	2,723	3,946	20,626
On temporary layoff	574	2,223	17,878	722	807	742	801	1,848	18,063
Not on temporary layoff	1,910	2,219	2,506	1,938	1,880	1,923	1,922	2,099	2,563
Permanent job losers	1,287	1,559	1,951	1,314	1,295	1,289	1,279	1,456	2,000
Persons who completed temporary jobs	623	660	555	625	585	634	644	643	563
Job leavers	685	695	520	728	829	836	777	727	570
Reentrants	1,761	1,784	1,329	1,899	1,655	1,838	1,803	1,778	1,477
New entrants	457	449	271	535	551	557	505	509	389

(Figure 1.6)⁸

The 18,063,000 “On temporary layoff” in April is misleading because that description would indicate they are going to return and are in a temporary state of participating and enforced idleness. I do not believe this is the case.

⁷ (U.S. Bureau of Labor Statistics)

⁸ (U.S. Bureau of Labor Statistics)

Adjusting the initial claims data to fit the period measured in the Employment Situation for April⁹ looks like this:

8	ICSA	Initial Claims, Number, Weekly, Seasonally Adjusted				
9						
10	Frequency: Weekly, Ending Saturday					
11	observation_date	ICSA		Participating & Enforced	Cyclical	Total
12	2020-03-14	282,000				
13	2020-03-21	3,307,000				
14	2020-03-28	6,867,000				
15	2020-04-04	6,615,000	3,307,500			
16	2020-04-11	5,237,000				
17	2020-04-18	4,442,000				
18				13,481,500	12,986,500	26,468,000

(Figure 1.7)¹⁰

The number of initial claims filed from 3.21 through half of 4.4 equals 13,481,000 (which I'll say are participating and enforced idleness) and half of the 4.4 claims in addition to the rest of the claims filed through 4.18 equals 12,986,500 (which I'll say are cyclical unemployment due to reduced/lack of demand) when added together we get a total of 26,468,000. So not a perfect fit, however it gives us a glimpse of how sloppy all of this is.

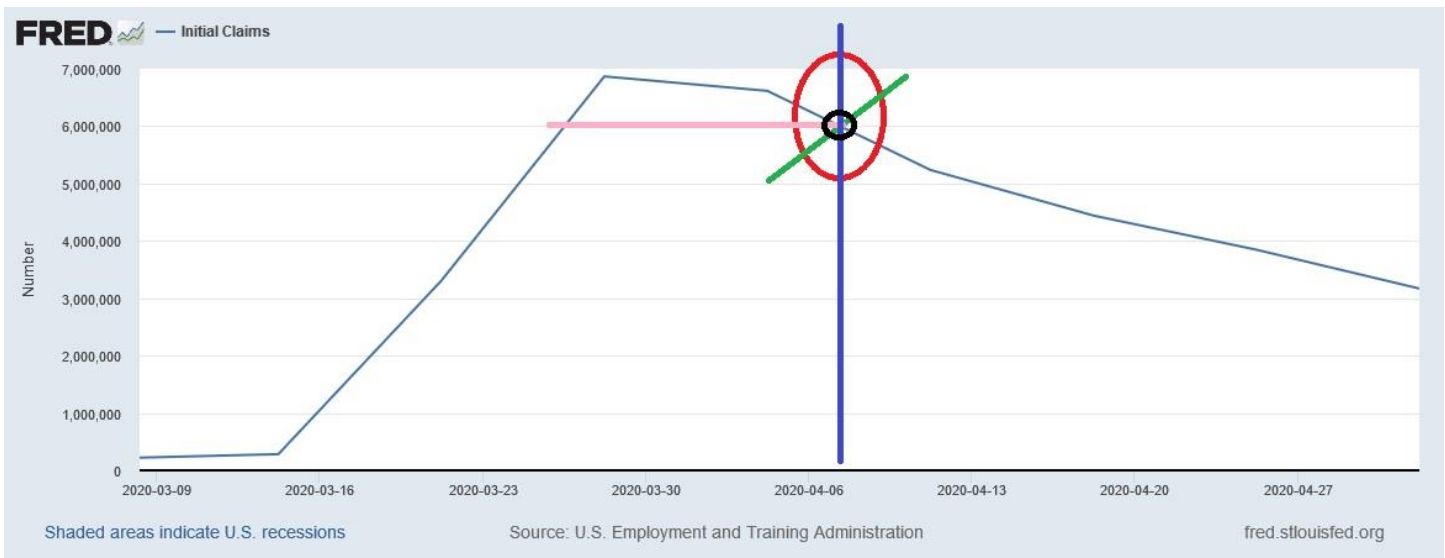
Out of the 33,483,000 filing initial unemployment claims since 3.21 and the 8,330,000 million dropping out of the civilian labor force since February there will be two things occurring. First, this will lead to a significant drop in demand which will in turn reduce the number of those who return from temporary layoffs who will become cyclically unemployed. Secondly, the adjustment period in which firms adjust to operating in the new environment may damage those who are unemployed through participating and enforced idleness, and for cyclical reasons because they may no longer possess the skills employers require operating in this new environment. In that case there will be structural unemployment!

As things begin to open back up, the ongoing Initial Claims reports and the next Employment Situation for May 2020 will give insight into how many become structurally unemployed. I have a feeling I'll be adjusting some of my calculations after the May Employment Situation is released.

It is totally responsible to split participating and enforced idleness in half with cyclical unemployment during the week of 4.4.

⁹ In the household survey, individuals are classified as employed, unemployed, or not in the labor force based on their answers to a series of questions about their activities during the survey reference week (April 12th through April 18th). (U.S. Bureau of Labor Statistics)

¹⁰ (U.S. Employment and Training Administration)



(Figure 1.8)

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