

Comments and Discussion

R. A. Gordon: This paper represents a useful attempt to study in some depth the differential effect on family income of cyclical changes in the level of unemployment. The findings are interesting and important. In general they confirm what other, less intensive, studies have led us to expect. But the cross-section data used permit detailed analysis that is not possible in more aggregative time-series studies.

The author has been ingenious in developing his relationships one step at a time and in using the variables in his regression equations. A number of questions can be asked about the details of the empirical results presented here. But before posing some of them, I should like to raise a few broader issues. First, the study would benefit from more historical perspective. It emphasizes differential effects on the distribution of employment and income over the course of the business cycle. But because the data in the cross-section cover the years 1967–72, they include the last three years of the abnormally long upswing of the sixties—years in which unemployment rates were very low and very stable at about 3.5 percent. The remaining three years include one of mild downswing and two of halting recovery.

How similar, then, is this cyclical episode to other periods of comparable length spanning boom, recession, and early recovery? In what respects are the patterns of employment and unemployment different in this period from those in earlier booms and recessions? How did the Vietnam boom and its termination affect the results reported? What effects, if any, carried over from the Great Society programs of the Johnson administration? How does the period 1967–72 relate to important underlying trends, such as the decline in labor force participation rates among black males and older white males? What are the implications of the apparent reversal in the

trend toward greater equality in the distribution of income, which seemed to become apparent after about 1966? What does the large-scale move toward revenue sharing mean for manpower programs?

I want to offer a second general criticism—or perhaps raise a general issue—of a more technical nature, on which I should welcome some informed discussion. I am not altogether comfortable with the effort to merge cross-section data, covering many microeconomic observations, with time-series data that involve only six consecutive observations for each family. Do these data really provide a number of independent observations equal to six times the number of families in the sample? Or, so far as cyclical behavior is concerned, are there only six observations? I would like the views of the experts on statistical inference about these issues. The results obtained in the regression equations seem intuitively reasonable, but I have no confidence in the *t*-statistics presented, and I am not prepared to dismiss the low value of the *R*²s as casually as Gramlich does. Similarly, I am concerned about the appropriateness of grafting regressions for transfer payments based on a single year (1971) onto the regressions that apply to the entire 1967–72 period.

A final general question concerns the extent to which the empirical results are affected by the nature of the sample. What are the implications of the exclusion of family heads who were out of the labor force for three or more of the six years covered? For example, does it mask cyclical influences that may affect the age of retirement, insofar as those who retire early may get omitted from the sample? What is the effect of combining black and white families with female heads, even though those with male heads are disaggregated by race?

I also have a number of questions about the regression equations relating group unemployment rates to the national rate. First, I am not sure why the group selected to correspond to male family heads was limited to those aged 25 to 54. Why omit those from 55 to 64? Second, the linear time trends in these regressions must reflect chiefly trends in demography and in labor force participation, and their implications must be interpreted with care. The extremely strong negative time trend for black males is hard to believe, and it has to be viewed against the background of declining labor force participation by this group.

In Table 2, among the explanatory variables are two groups of occupations—“high paying,” and “medium paying.” The latter is a hodgepodge, including on the one hand clerical and sales workers, who have relatively low cyclical sensitivity to unemployment, and on the other semiskilled

operators with high cyclical sensitivity. This probably accounts for the positive coefficient that seems to surprise the author. Also, membership in the occupational groups must be significantly correlated with the variable for hourly earnings. Other interrelationships in these regressions also need to be investigated. For example, there may be important correlations among education, job stability, and criminal records.

In general the results in Tables 2 and 4 present few, if any, surprises. The differences among the regression coefficients for race and sex groups are about what one would expect. They confirm that the black male suffers most from cyclical unemployment.

I found quite useful the analysis of transfer payments in the final part of the paper. And, given my own views, I particularly appreciated Gramlich's careful treatment of unemployment insurance, which provides an antidote to some of the more sweeping claims regarding the disincentive effects of this form of transfer income.

Charles Holt: Gramlich has written a good straightforward paper. I was bothered by the logical incompleteness of two things, both of which the author has mentioned. One is the exclusion of cyclical changes in wages. Since the whole thrust of the paper is on the cyclical impact on earnings, that seems an unfortunate omission. Second, when the significance of transfer payments is appraised, the neglect of personal income taxes leaves the analysis incomplete. Those two things would need to be added, ideally, before one could draw final conclusions about Gramlich's central question.

Although he is trying to focus on earned income, the data he is using include nonearned income. More attention might be given to the seriousness of this bias. How serious it is depends on a quantitative issue—the relative proportion of nonearned income to earned income. The data ought to be examined with that issue in mind.

On one specific point, I would question the assumption underlying the regression equations in Table 2 that families with male heads would not be influenced by a child needing care. That is a chauvinist assumption that at the very least should be tested.

More generally, I am bothered about the way the data initially embodied in a fairly large sample were stripped away. If something happened to alter the headship of the family, like a divorce, or if the data were incomplete, such families were dropped from the samples. I suspect that the practice introduces a bias, because some of those who would be most hurt by a cyclical downturn and whose jobs would be most threatened probably

would be vulnerable to repercussions within the family structure as well. Simply dropping them out of the sample may result in underestimates of the cyclical impact on some precarious families.

Almost in passing the paper mentions a number of policy issues that seem to me to be bombshells worthy of more emphasis. First, the motivation for the paper was that some people may have to make serious sacrifices for the good of the nation in its fight against inflation. Then it turns out that those who are going to be called on to sacrifice the most are the very ones who fare the worst even in good times. The regression analyses reveal that blacks suffer from joblessness nearly as great as that of whites with criminal records. Furthermore, black households headed by males suffer especially. Aside from the racial angle, the data clearly show that the lowest-income members in the society are the ones who bear the brunt of the restriction in demand associated with fighting inflation. This is certainly a sobering conclusion.

One would have hoped—and perhaps even have believed—that unemployment compensation was one social invention that offered balancing, or social sharing, of the distress that accompanies demand restraint. But it appears to have much smaller coverage than is widely recognized, in terms of both total breadth and adequacy of the payments. Perhaps even more shocking, the occupations and jobs with high turnover have the poorest coverage by unemployment compensation. The paper reveals a sharp disparity between the groups who can and do benefit from unemployment compensation and those who, from society's point of view, need it most.

The broad policy thrust of the paper helps to spotlight a number of important questions. While many of the issues and findings are not novel, the paper certainly underscores their significance.

General Discussion

In response to some of the issues raised by R. A. Gordon and Holt, Gramlich noted that his sample seemed to miss about 20 percent of the income losses due to unemployment that would be expected on the basis of aggregate estimates. This bias presumably reflects a combination of (1) attrition in the sample through nonresponse; (2) further attrition because of Gramlich's decision to eliminate families that had changes in composition or irregular attachment to the labor force; and (3) response errors that

might arise from dependence on memory estimates of unemployment and secondary earnings in the previous year. Gramlich could not allocate the bias among these three sources, nor could he judge whether it would understate the relative burdens imposed on low-income workers.

Gramlich also sought to clarify his mixed findings on unemployment compensation. On the one hand, the responses in his sample suggested a surprisingly low coverage of family heads and a remarkably low ratio of unemployment benefits to normal earnings among males who are covered. On the other hand, his findings did suggest that those states with more comprehensive unemployment insurance programs did tend to have somewhat more unemployment.

Michael Wachter and R. A. Gordon emphasized Gramlich's finding that workers with a history of job instability are among those who suffer most from a cyclical downturn. This finding supports the labor turnover studies of Robert Hall. Considering the correlation of job instability with such factors as failure to finish high school, it indicates a clustering of adverse labor force attributes and high job turnover. R. J. Gordon, however, suspected that Gramlich's study of job instability may involve a tautology, since his measure of it is not entirely retrospective. Thus if a worker has had ten jobs in the last ten years, he is likely to have had a spell of unemployment during the past year, whether or not there is any causal relation between previous job instability and current unemployment.

Another issue of causation was raised by Arthur Okun. He questioned whether differences in the generosity of unemployment insurance coverage among states lead to differences in unemployment rates, as Gramlich interprets his result, or whether the relationship may at least in part reflect a propensity for better unemployment insurance coverage in states with more severe social problems of unemployment.

Robert Hall thought the paper would be more complete if two more areas were covered. First, he asked for an explicit estimate of the effects of higher unemployment on the size distribution of income. Second, a discussion or analysis of the changes in labor force participation would make the findings on unemployment more meaningful.

F. Thomas Juster questioned the validity of the variable that indicates a criminal record. The information was gathered voluntarily, raising the issue of whether those willing to admit their criminal records are a representative sample of those having criminal records. This is particularly important in view of the surprising failure of this variable to explain any variance in the unemployment of black males.