Core Economics: Concepts and Applications

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Chapter 6: Job creation and Unemployment

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Chapter 6

Job creation and Unemployment

For many people, one critical economic issue is: Do I have a job, or will I have a job in the future?

Most working-age people want a job. It's not because they love to work, though some do, but they see it as the best option to make a decent living. There is a revealing, somewhat flippant saying about jobs and job loss: "It's a recession when your neighbor loses their job. It's a depression when you lose your job."

For this reason, **creating enough jobs is a primary social goal of an economy**. Not just any jobs but jobs that pay reasonably well. What's a reasonable wage? That's a subjective value, which will vary from place to place, and over time.
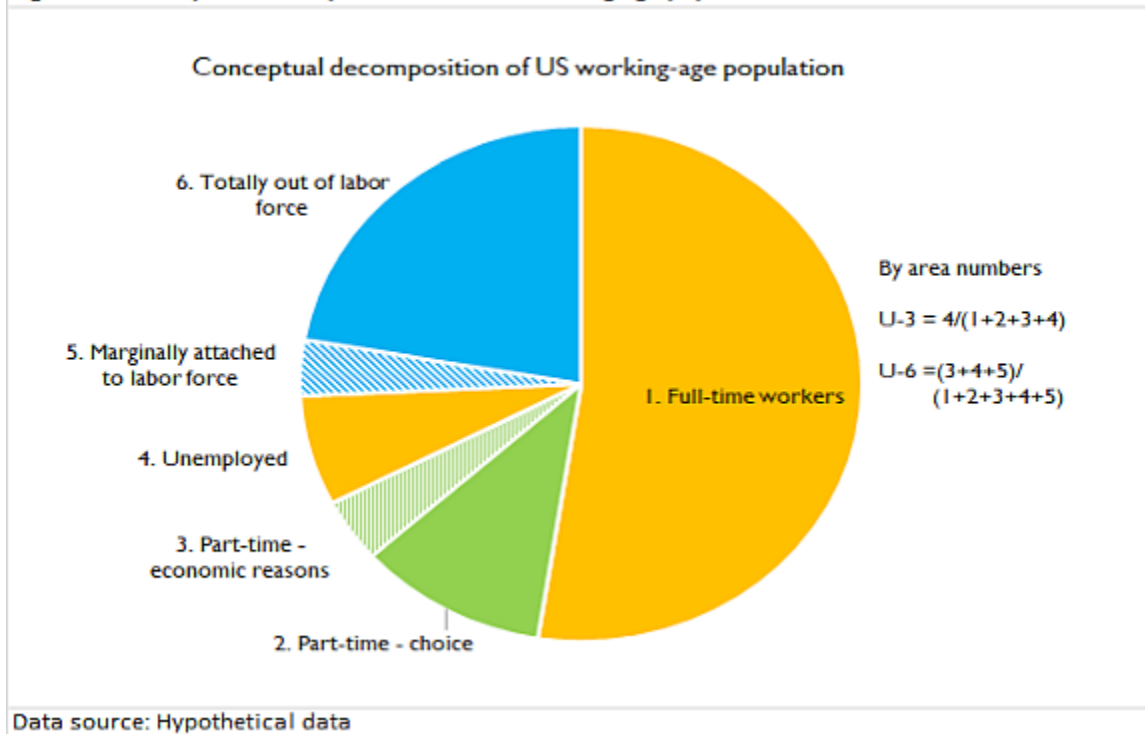
A substantial amount of public discussion about job creation focuses on the current unemployment rate. However, it is equally **useful to understand how many jobs are needed in the future to get to or maintain future full employment**.

With this forecast of future job needs, we would have a clearer idea of the policies or actions that have to be taken now to meet future job needs.

Chapter flow

This chapter has two main parts. In the first part, we discuss how many jobs have to be created in the future in various countries. We do not provide any numerical estimates. Instead, we lay out the broad steps that have to be taken to estimate this number in any country.

Figure 6.9 Conceptual decomposition of the US working-age population

Conceptual decomposition of US working-age population

6. Totally out of labor force

5. Marginally attached to labor force

4. Unemployed

3. Part-time - economic reasons

2. Part-time - choice

1. Full-time workers

By area numbers

U-3 = 4/(1+2+3+4)

U-6 = (3+4+5)/ (1+2+3+4+5)

Data source: Hypothetical data

U-3 measure of unemployment

U-3 is defined as all the unemployed people as a percent of the civilian labor force. To make this calculation, you need to define who is included in the civilian labor force. The civilian labor force includes all the people interested in paid employment. Within the civilian labor force, we define who is counted as unemployed.

In Figure 6.9, all the unemployed are shown as area 4. The civilian labor force is the sum of those employed full-time (area 1), those employed part-time by choice (area 2), those employed part-time because they cannot get a full-time job (area 3), and those who are unemployed (area 4). In other words, the civilian labor force is given by areas 1+2+3+4.

U-3 = area 4/ (areas 1+2+3+4) in Figure 6.9, calculated as a percentage.

Note that the civilian labor force is not the same as the working-age population. In the US, the working-age population consists of people who are 16 years old or older. In Figure 6.9, the working-age population is shown by the sum of all the