**AIM** How do we measure the health of the economy?

**TOPIC:** Part I: Humphrey-Hawkins Act and Unemployment

**Document #1: The Humphrey Hawkins Act**

The Great Depression of the 1930’s marked the worst economic period in American history, with unemployment reaching as high as 25% in 1933 and remaining solidly in the teens throughout the 1930’s. After World War II, Congress passed the Employment Act of 1946 (also known as the Humphrey-Hawkins Act), which stated that it was the policy and responsibility of the federal government to use all practical means to promote maximum employment (most individuals who are willing to work at the current wage and price level are working), economic growth (are we producing newly produced goods and services) and purchasing power (people are able to purchase goods because of price stability). Each goal also has an indicator to measure it: full employment is measured by the unemployment rate, economic growth is measured by the Real Gross Domestic Product Rate (RGDP Rate) and price stability is measured by the Inflation Rate.

1. **What was the Employment Act of 1946? Why do you think it was passed in 1946?**
2. **How does the Employment Act mark a change of policy from Early American History?**
3. **Why would the government say the goals of full employment, economic growth and price stability are the three main indicators of a healthy economy?**

**Document 2: Introduction to Full Employment**

**Task: As you are reading, stop and define each term in the chart below before answering the questions**

**Goal #1: Full Employment Indicator: The Unemployment Rate**

The goal of Full Employment is that no more than 4% of working age adults (defined as people who are 16-65) to be unemployed. To be unemployed you must be considered to be **actively seeking employment.** Full Employment is also known as the **Natural Rate of Unemployment** because there is naturally going to be unemployment in an economy. This “natural” unemployment is known as **frictional unemployment and structural unemployment.** A person is considered **frictionally unemployed** if they are temporarily between jobs, may have quit one job to find another, or they could be trying to find the best opportunity after graduating from high school or college. Frictional Unemployment can also be **Seasonal Unemployment;** part- or full-time jobs that change with the season (such as life-guards, holiday gift wrappers). **Structural Unemployment** involves mismatches between job seekers and job openings and skills. Most often this includes people who have been replaced by technology (the machine has replaced the skill of the worker) or if a person’s skills are welding, but there are not welding jobs in their area. However, the economy is “structured against them.” The unemployment the government is most worried about, which raises the number above 4%, is what is called **Cyclically Unemployed.** This is when people are unemployed due to downturns in the economy such as a recession, where a decrease in spending creates job loss around the economy. It is called cyclical unemployment to reflect the “cycles” of boom and bust that the economy goes through.

Unemployment is calculated in several steps, all done based on a survey by the National Bureau of Labor Statistics of 60,000 households which serve as a microcosm for different demographics across America, then used as a representation for all of America. The first step is to determine who is in the **labor force**. The labor force consists of all working age adults (16-65) who are employed (full or part-time) or unemployed, but actively seeking employment. Then, the number of unemployed is divided against the total labor force, which is then multiplied by 100 to give a percentage. This is known as the **unemployment rate.**

Unfortunately, there are several problems with the accuracy of the unemployment rate. The first is the idea of “who is counted.” The survey puts the 60,000 households into three categories of the labor force: employed, unemployed and not in the labor force. If you are in high school and college but are focusing on school and not looking for a job, you are part of the adult population, but not part of the labor force. If you are part time employed you are still considered employed, but are really “under-employed.” Determining if a person is unemployed but “actively seeking work” is difficult and the best measure is if they are receiving unemployment benefits. However, once those unemployment benefits run out, they are still unemployed, however, they are no longer counted as part of the labor force. They also may have altogether given up looking for a job. These people are known as the “hidden unemployed” or “discouraged unemployed” and **not included in the labor force.** Therefore, it is actually possible for the unemployment rate to “falsely decrease;” the unemployment rate number might be getting smaller, not from more people participating in the economy, but rather from more people not participating, reducing the size of the number of technically “unemployed.”

To put the number in perspective it is important to calculate the labor force participation rate. This is where the labor force (employed +unemployed but actively looking) is divided by the adult population (16-65) and then multiplied by 100 to give a percentage. This number reflects if more or less people are participating in the economy. So, if the unemployment rate is going down and the labor force participation rate is going up, this means that the unemployment rate is decreasing because more people are participating and working. However, if the unemployment rate is going down and the labor force participation rate is also going down, then this might mean that the unemployment rate is decreasing because less people are participating in the economy. If both are not analyzed together this could give us a false reading of economic health.

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| **Define:** |  |
| **Full Employment:** |  |
| **Natural Rate of Unemployment:** |  |
| **Frictional Unemployment:** |  |
| **Structural Unemployment:** |  |
| **Cyclical Unemployment:** |  |
| **Hidden Unemployment:** |  |
| **Discouraged Unemployment:** |  |
| **Unemployment Rate:** |  |
| **Labor Force Participation Rate:** |  |

1. **What is the goal of full employment?**
2. **Why is full employment also called “The Natural Rate of Unemployment?**”
3. **Why are frictional and structural unemployment not really bad?**
4. **What are the problems with the unemployment rate as an indicator of economic health?**
5. **How can these problems be rectified to give a better representation of economic health?**

**Practice Exercises:**

**Part II: Formula Practice:** Complete the data (page 72) and answer the following questions:

1. **What year was the unemployment rate closest to full employment?**
2. **What trends since the 1960’s and 1970’s may lead to an increase in employment?**
3. **Comparing the Unemployment Rate and the Labor Force Participation Rate, how would you assess the health of the American Economy?**

**Part II: Definition** **Practice: Complete the Mix and Match Exercises.**