

POLICYNOTE

UNDERCOUNTING THE UNDER-EMPLOYED: HOW OFFICIAL INDICATORS HAVE MISSED MILLIONS OF UNDERUTILIZED WORKERS

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The Bureau of Labor Statistics publishes six alternative indicators of labor underutilization, ranging from the long-term unemployed (U-1) and the standard unemployment rate (U-3) to a measure that includes all unemployed, involuntary part-time, and ‘marginally attached’ workers (U-6). These capture important dimensions of underutilization, but in recessions they miss millions of ‘displaced’ workers – those who are not counted in the U-6 measure but would have been working but for the economic downturn.

For example, over the course of 2009 (2008:4 to 2009:4), employment fell by 5.8 million workers, but unemployed job losers and marginally attached (including discouraged) workers increased by less than 4.3 million, leaving over 1.5 million uncounted in the BLS underutilization rates. These include those who no longer qualify as ‘marginally attached’ or have simply disappeared from the data (e.g., workers returning to Mexico). If we take into account the growth in the working age population and apply a 2007 employment rate of 63%, the number of missing underutilized workers in 2009:4 increases to about 3.1 million.

The current economic crisis has produced the greatest labor market collapse since the Great Depression. The Center for Economic and Policy Research reports that 8 million jobs were lost between December 2007 and December 2009². Indeed, 2009 was a record setting year for many of the data series the Bureau of Labor

Statistics (BLS) maintains: the largest over-the-year decrease in the employment rate since 1948 (2.9 percentage points); the lowest likelihood that an unemployed person would find employment; the highest quarterly unemployment rate for all prime age workers (9.0 percent) and the lowest quarterly employment rate for prime-age men (80.6 percent); and a 4th quarter unemployment rate for teens that was actually higher (27.2%) than the employment rate (26.1%)³.

BLS INDICATORS OF LABOR UNDERUTILIZATION

While the unemployment and employment rate statistics could hardly be more striking, they greatly understate the devastation in the labor market because they do not count the ‘underutilized’: those too discouraged to search for jobs or those who can only find part-time jobs.

To be unemployed, a worker must be without a job and be actively searching for one, and is measured as a share of the labor force (the sum of the employed and the unemployed). Thus, if workers become discouraged and ‘drop out’ of the labor force, as some are likely to do when jobs are scarce, they are not counted as unemployed but as ‘discouraged.’

The BLS counts discouraged workers as ‘not in the labor force’ since, although they say they want a job and are available for work, they have not actively looked for work in the previous four weeks on the grounds that they do not believe that work is available. These discouraged workers are part of the larger category of ‘marginally attached’ workers; apart from discouragement, reasons for being marginally attached include family, health or transportation problems (which tend to increase in economic downturns). After 12 months as discouraged or otherwise marginally attached, they are counted only as ‘out-of-the-labor force’ and no longer appear in the underutilization statistics.

Recognizing the need for measuring different kinds of labor underutilization, the BLS has produced six indicators of underutilization since 1994. The U-1 includes only those unemployed at least 15 weeks (5.9 % in May, 2010) as a share of the civilian labor force; the U-2 includes only those who have lost

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2. John Schmitt and Tessa Conroy, “The Urgent Need for Job Creation,” Center for Economic and Policy Research, July 2010.

3. See Steven F. Hipple, “The labor market in 2009: recession drags on,” Monthly Labor Review, March 2010 (3-22).

their jobs (5.7%); the U-3 is the conventional unemployment rate (9.3%); the U-4 adds discouraged workers to the unemployed (10%); the U-5 adds all marginally attached workers to the unemployed (10.6%); and the U-6 adds those working part-time for 'economic reasons' – otherwise known as involuntary part-time workers (16.1%).

It has become increasingly common to find the U-6 cited in the popular press as a gauge of the severity of the current economic crisis. At the same time, this indicator has been sharply criticized by those opposed to increased federal spending efforts as an overstatement of the problem of labor underutilization since it includes 'marginally attached' people who cannot work for reasons unrelated to the availability of jobs. As Alan Reynolds wrote recently in *The Wall Street Journal* (June 10, 2010, p. A21), "To describe people who are not available for work as unemployed or even underemployed is a misuse of the language."

Unfortunately, the BLS does not produce an indicator that would sidestep this critique by including only discouraged workers, because the size of these other 'marginally attached' workers is relatively small. It turns out that the marginally attached workers who are not discouraged were about 1.1 million in May 2010, compared to almost 15 million unemployed and 8.8 million who worked involuntarily part-time. Excluding them would reduce the May 2010 U-6 from 16.3% to 15.8%.

COUNTING DISPLACED WORKERS

A far more important critique comes from the other direction – in fact, the BLS is missing millions of workers who are clearly underutilized in the sense that, but for the recession, they would be working.

We can take the year 2009 as an example. Between the 4th quarter of 2008 and the 4th quarter of 2009, total employment declined by 5.8 million workers. This employment collapse took place despite the fact that the working age population grew by almost 2 million over this period. Indeed, given this increase, at 2007's employment rate of 63%, there should have been an additional 1.3 million workers employed, for a total of 7.1 million lost jobs.

So what happened to those 5.8 million (or 7.1 million) workers? How many do not show up as 'underutilized' in the BLS indicators?

We can start with those who lost their jobs and are counted as unemployed. Over the same four quarters of 2009, there was an

increase of 3.72 million unemployed 'job losers' (Hipple, table 2). Of course there were other unemployed workers, such as those who were re-entering the labor market, or were entering the labor market for the first time. But for our purposes, we are only concerned with accounting for the 5.8-7.1 million lost jobs.

After accounting for this 3.7 million increase in unemployed job losers, there are still about 2.1 million workers to be accounted for (5.8 million minus 3.7 million). Those officially counted as "discouraged" increased by just 288,000 (Hipple, table 3) over these four quarters. With a little rounding (288,000 becomes 300,000) we are still missing about 1.8 million jobs [$5.8 - (3.7 + .3) = 1.8$]. We could also reasonably assume that the economic crisis explains the increase in those who are marginally attached but not counted as 'discouraged'. Since this group increased by 275 thousand, we are still short by over 1.5 million workers.

Of course, as noted above, if we also count in the employment shortfall those who would be working in a 2007-like labor market (given the growth in the working age population and an employment rate of 63%), the total decline in employment over the four quarters of 2009 becomes 7.1 million (5.8 million lost jobs plus 1.3 million jobs that should have been available given the growth in population). This more comprehensive accounting suggests that the official underutilization measures for 2009 are missing not 1.5-1.8 million workers, but 2.8-3.1 million workers. In sum, by these calculations, which are limited to the changes that took place over the four quarters of 2009, the BLS underutilization measures (U-4 – U-6) missed anywhere from 1.5 to 3.1 million workers.

An alternative measure of those displaced by the crisis in 2009 can be taken directly from the BLS statistics on the change in those "out-of-the-labor force but want a job". There were about 5.7 million people in this category in the 4th quarter of 2009, up from just 700,000 a year earlier, for a change of about 5 million (Hipple, p. 11).

In sum, if we take the low and high estimates of displaced workers that are not counted in the published BLS' underutilization indicators from the employment change data, we get low and high uncounted displacement estimates of 1.5 and 3.1 million workers; and if we treat the BLS' estimates of the increase in those who are out of the labor force but want a job as a 3rd estimate of uncounted displaced workers, we get an even larger uncounted displacement estimate of 5 million.

A NEW U-7 INDICATOR?

Each of these three displacement estimates can be added to the conventional U-6 indicator to get alternative scenarios for a new U-7 indicator for the 4th quarter of 2009:

U7:1: the conventional U-6 with an estimate of uncounted displaced workers based on the absolute decline in employment over the four quarters of 2009:

$$(U + \text{InvP-T} + \text{MA} + \text{DP1}) / (\text{LF} + \text{MA} + \text{DP1})$$

$$(15.4 + 9.2 + 2.4 + 1.5) / (153.5 + 2.4 + 1.5) = 28.5/157.4 = 18.1\%$$

U7:2: the conventional U-6 with an estimate of displaced workers based on an employment decline that accounts for the growth of the working age population, assuming a steady 2007 epop rate of 63%:

$$(U + \text{IP-T} + \text{MA} + \text{DP2}) / (\text{LF} + \text{MA} + \text{DP2})$$

$$(15.4 + 9.2 + 2.4 + 3.1) / (153.5 + 2.4 + 3.1) = 30.1/158.5 = 19.0\%$$

U7:3: the conventional U-6 with an estimate of displaced workers based the increase in those out-of-the-labor force but who want a job, according to BLS estimates:

$$(U + \text{IP-T} + \text{MA} + \text{DP3}) / (\text{LF} + \text{MA} + \text{DP3})$$

$$(15.4 + 9.2 + 2.4 + 5.0) / (153.5 + 2.4 + 5.0) = 32/160.9 = 19.9\%$$

Where U is the number of unemployed, InvP-T is the number of involuntary part-time workers, MA is the official count of marginally attached workers and DP is the number of displaced workers (see text).

The BLS U6 for the 4th quarter of 2009 was 17.3%, with 27 million counted as underemployed. Our calculations for these three alternative scenarios show that if we add uncounted ‘displaced’ workers – those not working who would be but for the recession – we get a range of considerably higher estimates for a hypothetical ‘U-7’ rate: 18.1%, with 28.5 million underemployed; 19.0%, with 30.1 million underemployed; and 19.9%, with 32 million underemployed.

These ‘U-7’ estimates are only rough approximations. It would be a great service to those attempting to understand the magnitudes of the current employment crisis and develop remedies for it if the BLS would regularly produce additional, more comprehensive underutilization measures of this sort. Until they do, we can at least be confident that the current U-6, by failing to count millions of ‘displaced’ workers, greatly underestimates the real level of labor underutilization in our economy.