

Mitchell's Musing: 4-23-12: U-What? U-Which?

Daniel J.B. Mitchell

In the past, it has been mainly those on the left of the political spectrum who liked to point out that the unemployment rate would be higher if you counted "discouraged workers." Now the right has joined in:

Item from Congressman Duncan Hunter (Republican - 52nd District - East and Northern County San Diego) - excerpt

...In its monthly report, BLS calculates a total of six unemployment figures, U-1 to U-6, but only the U-3 rate, now at 8.2 percent, is reported as the "official" rate. Who is not included in the U-3 rate? Americans who are considered too discouraged and who have given up looking for work. Factor in these individuals, and the U-3 rate of 8.2 percent for the month of March increases to 9.6 percent. That's quite a difference. Some estimates suggest as many as 2.6 million unemployed Americans are overlooked by the U-3 statistic.

Federal law only requires that BLS complete a monthly unemployment report. Within that context, there are no specific requirements for BLS to follow. Indeed, the official U-3 rate does a decent job of capturing the number of Americans it specifically aims to count. The problem is that it is not the best indicator of the national unemployment rate and in turn misleads taxpayers, policy makers and others on the real condition of the American economy. And in order to effectively address an issue of such importance, it's necessary to know the full extent of the problem...

To add clarity to this process, I recently introduced H.R. 4128, the Real Unemployment Calculation Act, in the U.S. House of Representatives. This one-page bill states that for purposes of the federal government, the official unemployment rate that is reported each month must take into account people who have given up looking for work—as currently represented by the U-5 statistic...

Full article at <http://www.flashreport.org/featured-columns-library0b.php?faID=2012041810432572>

So let's review the issue. As the excerpt above indicates, the U.S. Bureau of Labor Statistics (BLS) puts out several monthly employment rates as shown on the table reproduced from the latest (March 2012) release on the next page. Some of the alternative measures vary in the stringency by which the status of someone without a job (or without a full-time job) is tested to determine if he/she is "unemployed" or not in the labor force at all. The less stringent the test, the higher the unemployment rate at any point in time. Thus, while the official (U-3) rate was 8.2% in March, the alternatives vary from 4.5% to 14.5%.

HOUSEHOLD DATA

Table A-15. Alternative measures of labor underutilization

[Percent]

Measure	Not seasonally adjusted			Seasonally adjusted					
	Mar. 2011	Feb. 2012	Mar. 2012	Mar. 2011	Nov. 2011	Dec. 2011	Jan. 2012	Feb. 2012	Mar. 2012
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.....	5.7	4.9	4.9	5.3	5.0	5.0	4.9	4.8	4.6
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force.....	5.8	5.1	4.8	5.4	4.9	4.9	4.7	4.7	4.5
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate).....	9.2	8.7	8.4	8.9	8.7	8.5	8.3	8.3	8.2
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.....	9.7	9.3	8.9	9.4	9.3	9.1	8.9	8.9	8.7
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.....	10.6	10.2	9.7	10.3	10.2	10.0	9.9	9.8	9.6
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.....	16.2	15.6	14.8	15.7	15.6	15.2	15.1	14.9	14.5

NOTE: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

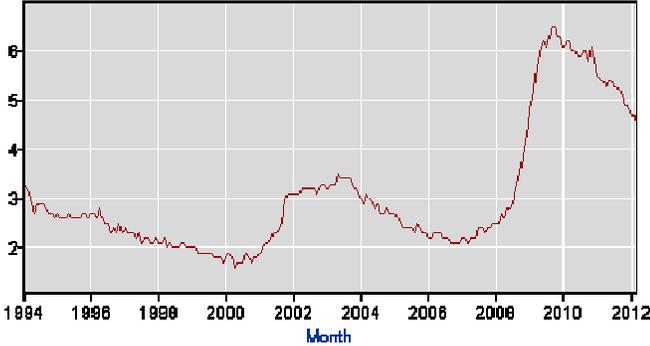
Source: U.S. Bureau of Labor Statistics, press release *USDL-12-0614*, available at <http://www.bls.gov/news.release/pdf/empst.pdf>.

Let’s look at these six unemployment rates from a time-series perspective. All are available on a seasonally-adjusted basis since 1994. Below is a graph of each U rate beginning in that year through March 2012.

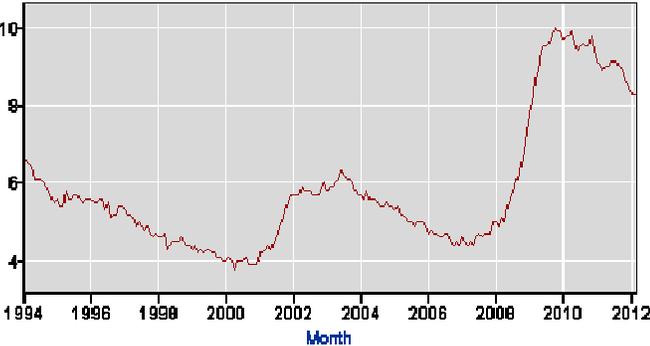
U-1: Percent of civilian labor force unemployed 15 weeks & over



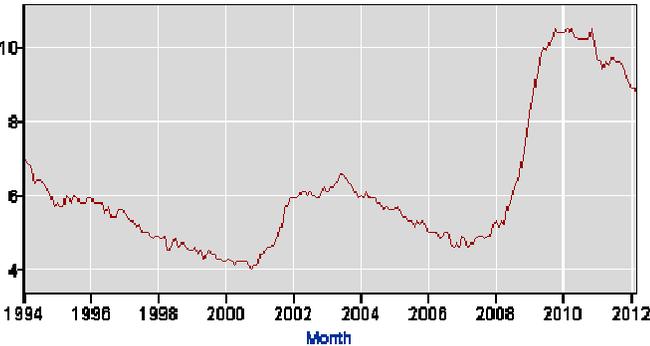
U-2: Job Losers unemployment rate



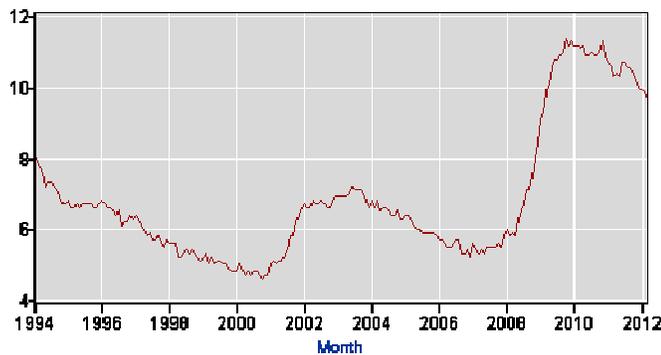
U-3: Official unemployment rate



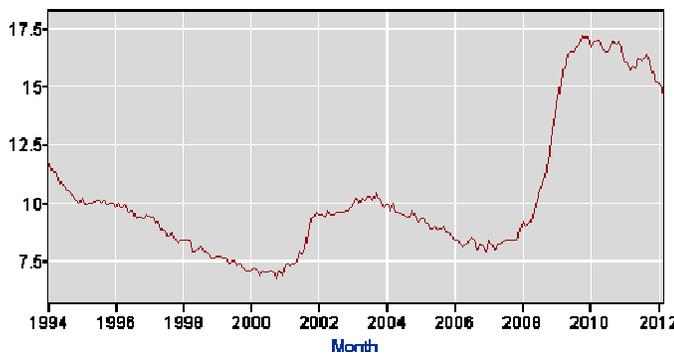
U-4: Unemployed and discouraged workers as a percent of the labor force and discouraged workers



U-5: Unemployed and marginally attached workers as a percent of the labor force and marginally attached (rate favored by Congressman Duncan Hunter)



U-6: Unemployed and marginally attached and part-time for economic reasons as percent of labor force plus marginally attached



The charts make it clear that if you are interested in looking at the ups and downs of the business cycle as reflected in labor-market data, all the definitions of unemployment move pretty much together. Thus, for example, all charts tell you that boom times in the labor market occurred in 2000 and 2006. So is there any point in presenting the six alternatives as opposed to presenting just U-3 as THE unemployment rate?

There is a political advantage in doing so, since otherwise BLS is open to criticism that it is hiding the “true” unemployment rate. Undoubtedly, that advantage is part of the motivation behind presenting the alternatives. But there is another reason as well, one more analytic. There is no precise definition of unemployment. Many people who don’t have a job are not interested in having one so unemployment cannot be defined as just not being employed. There has to be some testing of whether someone wants a job and the pragmatic approach

followed by BLS is to determine if the person has been actively looking for work. Inherently, such a definition requires determining what “actively” means through survey questions. Different plausible questions will produce different results. The U-3 test is reasonable but nonetheless it can be useful over time to track alternatives, particularly if the relation between the alternatives changes over time.¹ Such changes might suggest a need for revising the official definition.

Below is a crude test as to whether the relationships between the various U definitions have changed in a notable way in recent years. Let’s start by noting (arbitrarily) that in July 1994, the official U-3 unemployment rate was 6.1%. It was again 6.1% in May 2003 and in once again in August 2008. The table below shows each of the U rates at those three dates:

	July 1994	May 2003	August 2008
U-1	2.2%	2.3%	2.2%
U-2	2.9%	3.5%	3.2%
U-3	6.1%	6.1%	6.1%
U-4	6.4%	6.4%	6.3%
U-5	7.3%	7.0%	7.1%
U-6	10.7%	10.1%	10.8%

A more formal analysis would factor in such variables as the direction in which the unemployment rate was trending on those dates (up or down) or other factors that might affect the various relationships differentially. Even so, the table suggests that over a period of fourteen years (1994-2008), there was a pretty stable relation between the alternative U rates and U-3, the official rate. Put another way, once you know what the relationships are, there is

¹In the household survey from which the unemployment data are derived, people are classified as unemployed if they meet all of the following criteria: they had no employment during the reference week; they were available for work at that time; and they made specific efforts to find employment sometime during the 4-week period ending with the reference week. Persons laid off from a job and expecting recall need not be looking for work to be counted as unemployed. The unemployment data derived from the household survey in no way depend upon the eligibility for or receipt of unemployment insurance benefits. (Source: The March press release cited on page 2 of this musing.)

little economic information to be gained by departing from the official rate and its definition of unemployment.

While it turns out that there would be nothing gained from switching from the official U-3 unemployment definition to some alternative, the practice of showing alternative measures might be informative for other economic indexes put out by BLS. For example, there are three versions of the Consumer Price Index (CPI) routinely made available but these differ in weighting of the many price series that go into the overall index or the formula through which the prices series are combined. Of greater interest and concern is the quality adjustment made to the individual price series that comprise the CPI as the nature of products changes over time. “Aggressive” adjustments for quality will reduce the measured inflation rate and - especially with the advent of computers and computer-related devices whose characteristics are in flux - BLS has become more aggressive in adjusting for quality.

The official CPI is used for such purposes as indexing Social Security and other government papers as well as union-sector wage escalator clauses. What measure is used for indexing thus matters to many Americans directly, perhaps more so than the official definition of the unemployment rate.² Unfortunately, BLS does not make available alternative CPIs that would show the impact of alternative degrees of quality adjustment.

Bottom line for this musing: What BLS does for unemployment is a model for what it ought to be doing for the CPI and other price indexes. We don’t need a law to compel such a change. It should just be done.

² Quality adjustments for pricing also affect such other important economic measures used for judging macroeconomic policy and trends such as real wages, real output, and productivity.