

JARGON ALERT

Underemployment

BY DAVID VAN DEN BERG

The monthly unemployment rate most people are familiar with tracks people who are out of work and searching for new jobs. However, it's only one of six measures of unemployment published by the Bureau of Labor Statistics (BLS). The BLS also produces a broader measurement, sometimes referred to as the "underemployment rate" or the "U-6 rate" after the dataset on which it is based. The U-6 rate, according to the BLS, includes the officially unemployed plus all marginally attached workers and people employed part-time for economic reasons as a share of the civilian labor force plus all marginally attached workers. Through June 2009, the underemployment rate reached 16.5 percent, the highest since the BLS redesigned its unemployment figures and created the U-6 in 1994. In 1993 the BLS stopped the U-7 data set, which was previously its broadest measure of unemployment.

Workers classified as "marginally attached" and "discouraged workers" are included in the underemployment calculation. They are typically just a small portion of the people outside the labor force as measured by the BLS, which defines the labor force as the sum of all employed and unemployed people. Employed people performed any work for pay or profit during the survey week, did at least 15 hours of unpaid work in a family-owned business, or were absent from work because of bad weather, illness, vacation, industrial disputes, or various personal reasons. People who do not have a job but have actively searched for one in the last four weeks and are immediately available for work are counted as unemployed.

Typically most people not in the labor force do not seek employment because they're retired, attending to family responsibilities, going to school, or are physically unable work. The marginally attached are neither employed nor looking for work but have sought work in the past year and are available immediately. Family responsibilities or transportation concerns can keep marginally attached workers out of the work force. Discouraged workers are not employed and not seeking work because they believe nothing is available for them.

All six unemployment measures the Bureau of Labor Statistics publishes follow a similar pattern: Both the underemployment and unemployment rates move in the same direction. What is perhaps most relevant to economic researchers is how these measures move relative to each other, says Jason Faberman, an economist at the Federal

Reserve Bank of Philadelphia. For general audiences, the fact that the official unemployment rate follows the same trend as alternative unemployment figures makes things easy, says Faberman. "For a lay person, what this tells you is that looking at the unemployment number is going to give you the same story in relative terms as looking at the underemployment number." Because they move in the same direction, both numbers will tell the same general story over time, Faberman says.

Unemployment measures and other labor market indicators are derived from data generated by the Current Population Survey (CPS), sent to 60,000 households a month. Before the 1994 changes to the survey, the BLS sent the old and new versions of the questionnaire simultaneously between July 1992 and December 1993. The new questionnaire produced an unemployment rate half a percentage point higher for 1993.

Survey participants faced more extensive questioning under the new questionnaire, which generally registered more labor force activity, especially for workers who traditionally have more part-time or irregular work force participation. That's why the new survey yielded a higher labor force participation rate. It also revealed longer durations of unemployment, a higher proportion of unemployed people re-entering the work force, and a lower proportion of new entrants.

Because the U-6 was first published in 1996, it is not possible to compare recent underemployment rates to those in earlier severe downturns such as the 1982 recession. For instance, marginally attached workers were not included in unemployment measures prior to the 1994 redesign. The BLS also tightened the definition of discouraged workers, which reduced their numbers considerably after the CPS redesign. However, one element of the underemployment rate can be compared to earlier downturns — the level of involuntary part-time workers. That figure, which can be traced back to 1955, is higher today than at any point since then.

Over time, the gap between unemployment and underemployment rates has remained fairly constant in percentage terms, according to BLS data. However, the severity of the current recession could produce some significant short-term structural changes in the labor market. Monitoring the unemployment and underemployment rates will be important both during the current downturn and the recovery following it.

