

Measuring Unemployment

The unemployment rate that is most widely reported in the media each month is just one of six measures that the government uses for assessing labor market conditions.

A middle-aged man is switched to part-time hours after years of working full time. A student working her way through college is laid off temporarily, with the promise of an eventual call-back. After months of looking for work, a mother of three decides to rely on her husband's income and stay home with the kids.

All of these circumstances could require a drastic change in spending and lifestyle habits. Depending on individual circumstances, they could even be a financial disaster. But not

all of those people would be counted as unemployed in the official U.S. unemployment rate.

So if those people aren't counted as unemployed, exactly what is the definition of unemployed? In the official U.S. unemployment rate, the unemployed include all people who are available for work, who have actively sought work in the preceding four weeks, or who have been laid off but are waiting to be called back to their jobs.

People with reduced hours, such as the middle-aged man above,

don't count as unemployed because they are still earning wages even though they want full-time work.

Parents who stay home to raise children are not counted as unemployed either, if they have given up looking for work. In addition, they would be considered unavailable for work if finding alternative child care would take more than a week. In either case, the parent would be considered outside the labor force—neither employed nor unemployed.



In the case of the temporary layoff, the student would be counted among the unemployed.

The unemployment rate, expressed as a percentage, is the proportion of the labor force that is unemployed. The U.S. labor force is the sum of all people over 16 who are either working or unemployed under the standard definition. So a 14-year-old who is hired by neighbors to mow lawns and shovel snow is not in the labor force, while a retired person who supplements income with a few hours a week working in a retail store is.

Why is Unemployment Defined This Way?

Since the government began tracking unemployment in 1940, economists, politicians and the public have been arguing over the best way to define it. Some say the unemployment rate should only include those workers who have been without work for a minimum number of weeks. Others contend that anyone facing any kind of loss of income should be counted as unemployed, since most people rely on every dollar they earn.

The current unemployment rate has been calculated essentially the same way since its inception. As a broad indicator of the state of the economy and workforce, the official unemployment

TABLE 1

Six Measures of Unemployment

Third Quarter 2008 through Second Quarter 2009

Measure	Minnesota	U.S.
U-1	2.8%	3.2%
U-2	4.2%	4.2%
U-3	7.0%	7.6%
U-4	7.3%	8.0%
U-5	8.0%	8.8%
U-6	13.0%	13.7%

NOTE:

The “civilian labor force” is the sum of the employed plus the unemployed.

The **employed** are all people who, during the reference week,

- a) did any work at all as paid employees, worked in their own business, profession or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family, and
- b) all those who were not working but who had jobs or businesses from which they were temporarily absent.

The **unemployed** are

- a) people who had no employment during the reference week, were available for work, except for temporary illness, and had made specific efforts to find work sometime during the four-week period ending with the reference week, and
- b) people who were waiting to be recalled to a job from which they had been laid off, regardless of whether they have been looking for work.

Workers who are “marginally attached” are people who wanted to work and had looked for a job sometime in the prior 12 months.

“Discouraged workers” are people who stopped looking for jobs because they believe none is available for them.

Source: U.S. Bureau of Labor Statistics
(www.bls.gov/news.release/empsit.t12.htm and www.bls.gov/lau/stalt.htm)

rate is fairly clear and easily measurable, and keeping the definition consistent makes the unemployment rate comparable over time.

Alternative Unemployment Rates

To address different needs and uses for the unemployment rate, the government began publishing supplementary measures of unemployment in the 1970s, using different definitions. Today, there are six different published measures of unemployment. These different measures range from least inclusive (U-1) to the most inclusive (U-6). The official U.S. rate—the measure that gets the heaviest media attention every month—is known as the U-3 (see Table 1).

U-6 (sometimes described as the underemployment rate) also gets strong media attention at

times. All three of our scenarios above would be counted as unemployed in this category. The person electing to do child care is counted as “marginally attached” to the labor force and among the unemployed because she wanted to work and was available and actively seeking employment at some point in the last 12 months.

The man who had his hours cut would be counted in the U-6 because his hours were reduced for economic reasons. The student on temporary layoff would be counted because she met the standard definition of unemployed.

While the U-1 through U-6 are all consistently measured and published for use by the public, the U-3 is the only official U.S. unemployment rate (see Table 2). For most government programs and allocation of funds, all states are gauged by the U-3 measure.

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TABLE 2

U-3 Unemployment Rate		
Seasonally Adjusted, 2009		
Month	Minn.	U.S.
October	7.6	10.2
September	7.4	9.8
August	8.0	9.7
July	8.1	9.4
June	8.4	9.5
May	8.1	9.4
April	8.0	8.9
March	8.2	8.5
February	8.0	8.1
January	7.5	7.6

Source: DEED Labor Market Information, Local Area Unemployment Statistics (www.deed.state.mn.us/lmi/tools/laus).

What's an ASU?

An Area of Substantial Unemployment (ASU) is a geographic region designated as suffering economic hardship disproportionately to the country as a whole. Being classified as an ASU affects an area's eligibility for aid through the Workforce Investment Act, administered by the U.S. Department of Labor. The program provides funding for workforce training programs such as the Employment Service, adult education and literacy programs, welfare-to-work, vocational education and vocational rehabilitation.

To be designated as an ASU, an area must be a political unit or combination of adjacent political

units (cities or counties) with a population of at least 10,000 that has an unemployment rate of either more than 10 percent or 120 percent of the national unemployment rate.

In the second instance, the unemployment rate must be at least 6 percent. In "exceptional circumstances"—a natural disaster, for example—the U.S. Office of Management and Budget may classify an area that doesn't otherwise meet these criteria as an ASU.

How does the government know when I'm unemployed?

The unemployment rate and related statistics are calculated by the Federal Bureau of Labor Statistics in partnership with the U.S. Census Bureau and state Labor Market Information offices.

The program uses data obtained from the Current Population Survey (CPS), also known as the household survey, which is a monthly telephone survey of households in the United States that are demographically and geographically representative of the nation as a whole and each state.

In other words, each household in the sample is chosen to represent many other households like it. This means that even if your household never has been chosen for the CPS sample, you are being represented by the set of households in your state

that were chosen. It also means that if you are chosen for the sample (a commitment of several hours at most), you should make it a priority to participate in the survey.

Because the unemployment rate is based on a survey, it isn't directly tied to the Unemployment Insurance (UI) Program. The unemployment rate includes people who are not currently receiving UI as well as those who have never applied or never qualified.

The CPS sample reflects the overall current unemployment rate without most people ever communicating with the government except when they participate in the U.S. Census every decade. The census is the basis for the CPS sample.