

Accounting for Discouraged Workers in the Unemployment Rate

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The Bureau of Labor Statistics (BLS) reports several alternative measures of labor market conditions.

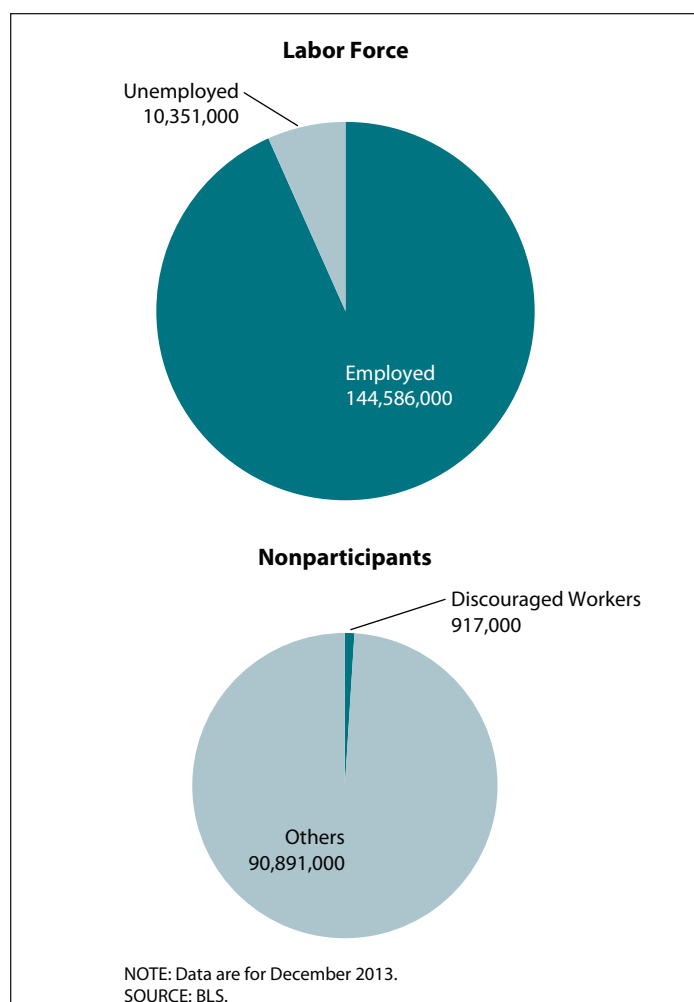
These measures supplement the official unemployment rate by providing a more comprehensive picture of the labor market.

The unemployment rate is officially defined as unemployed workers as a percent of the labor force. An alternative measure of the unemployment rate reported by the BLS is the U-4 rate, which is defined as unemployed workers plus discouraged workers as a percent of the labor force plus discouraged workers.

The BLS defines discouraged workers as those who want a job but are not actively searching for one because they believe there are no jobs available for them. Since discouraged workers are not actively searching for a job, they are considered nonparticipants in the labor market—that is, they are neither counted as unemployed nor included in the labor force. The two pie charts indicate the number of workers in various categories in December 2013. Discouraged workers, for instance, represent less than 9 percent of the unemployed workers and less than six-tenths of 1 percent of the labor force (see Ravikumar and Shao, 2014, for a discussion of discouraged workers).

Unlike the official unemployment rate, the U-4 rate includes all of the discouraged workers in the unemployed category as well as the labor force. As a result, the U-4 rate is always higher than the official unemployment rate.¹ For instance, the official unemployment rate in October 2009 was 10 percent, while the U-4 rate was 10.5 percent.

In this essay, we construct a measure of “potential labor market participants” based on discouraged workers who might be expected to reenter the labor force, which we then use to construct a new measure of the unemployment rate. We define potential labor market participants as the number of discouraged workers who reenter the labor force. As noted, in official unemployment rate calculations *none* of



the discouraged workers are considered part of the labor force, whereas in U-4 rate calculations *all* of the discouraged workers are considered part of the labor force. Our measure of potential labor market participants is based on a plausible assumption that some, but not all, of the discouraged workers reenter the labor force. We then define the new unemployment rate measure as unemployed workers plus

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potential labor market participants as a percent of the labor force plus the potential labor market participants.²

The first chart shows the fraction of discouraged workers in a given month who reenter the labor force in the following month. Since December 2007, on average, roughly 40 percent of discouraged workers reenter the labor force every month.

The second chart plots the official unemployment rate and our new measure since December 2007; both increased during the 2007-09 recession and have been declining since November 2009. Similar to the U-4 rate, our measure is always higher than the official unemployment rate. For instance, in October 2009, the official rate was 10 percent, while ours was 10.2 percent. By around April 2010, the gap had widened from 20 to 36 basis points. By the fourth quarter of 2013, the gap had narrowed to about 20 basis points.³

In summary, our measure of the unemployment rate is only slightly higher than the official unemployment rate and has been following the same trend as the official rate: Both rates increased from December 2007 to the fourth quarter of 2009 and have been declining ever since. ■

NOTES

¹ Along the same lines, Boesler (2014) and Davig and Mustre-del-Río (2013) look at a different group of labor market nonparticipants: the nonparticipants who want a job. By the BLS definition, members of this group are not actively searching for a job. This group also includes members who are *not discouraged*. Thus, the group of discouraged workers is a subset of the group studied by Boesler (2014) and Davig and Mustre-del-Río (2013).

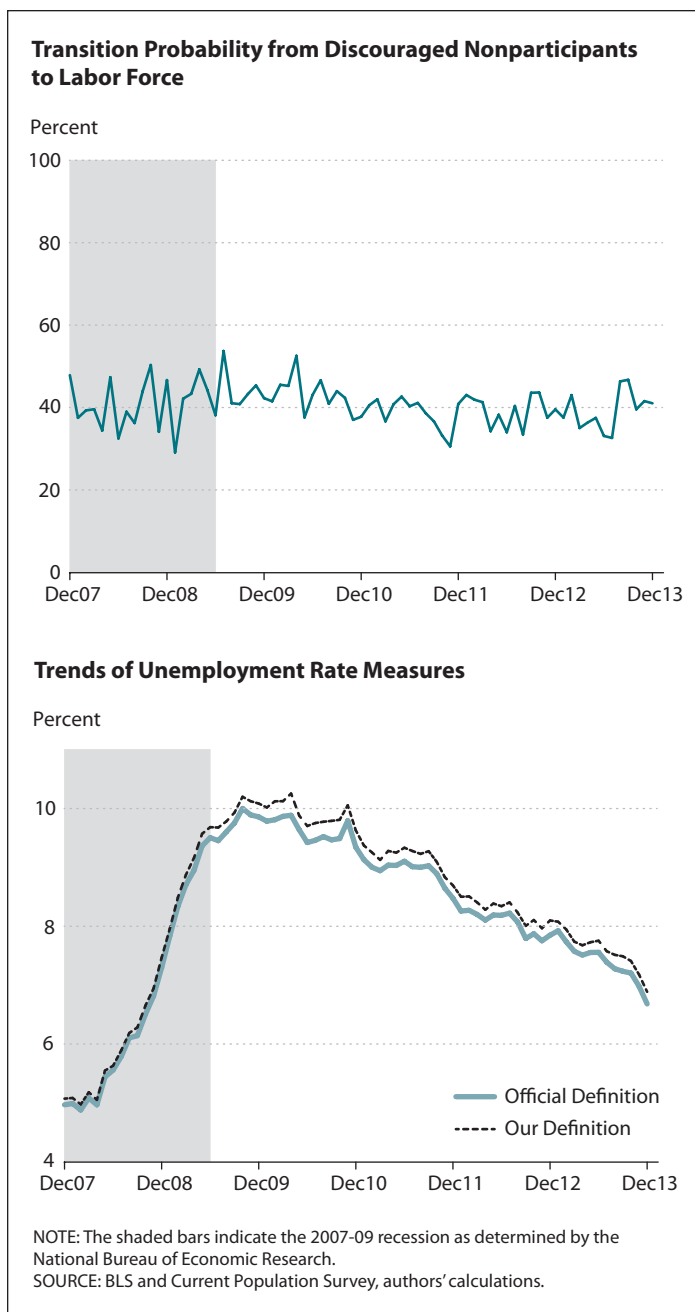
² See Mui (2014) for a discussion of related issues.

³ However, the gap has not narrowed to the levels seen before the 2007-09 recession, when the gap was around 10 basis points.

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