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Wednesday, January 13, 2010



**Re: Unemployment and Underemployment** [Rea Hederman Jr.]

The current [debate](#) over the correct measure of [unemployment](#) is a mirror image of the debate in 2003. Back then, Republicans touted the official unemployment rate, while liberals such as Paul Krugman, in an effort to indict President Bush, argued that the alternative rates are a more accurate measure of unemployment.

It's a mistake to focus on alternative unemployment measures as a better reading of the unemployment picture. The [unemployment rate](#) is based on the Household Survey, which asks people about their job search and motivation. Even in the late 1990s, when the United States had one of its tightest labor markets ever, with unemployment at 4 percent, there were still “discouraged workers” who told surveyors that they had looked for a job in the last year but felt that their prospects for finding one were dim.

There are similar problems with using “marginally attached workers” to expand the definition of unemployment. A student who has returned to school could be considered unemployed under the “marginally attached” definition if the student had looked for work in the summer. Someone does not have to be looking — or even be available — for a job to be considered “unemployed” under an alternative measure of unemployment.

A study by the Bureau of Labor Statistics found that individuals in the official unemployment figure are likely to remain in the labor force, even if they have not found a job. Less than half of the “marginally attached” workers were in the labor force in the next year, compared with three-fourths of those workers in the official unemployment measure. It could be that some “marginally attached” workers felt so discouraged that they stopped even wanting a job. It is also likely that some of them were full-time students or perhaps had family obligations that kept them out of the [workforce](#).

So I echo [Alan Reynolds's skepticism](#) of using these alternative unemployment measures to estimate that the true rate of unemployment is closer to 20 percent.

However, I do think you can focus on the rate of change and spread between the

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alternative measures of unemployment and the official rate of unemployment. There are several alternative measures that look at discouraged workers and marginally attached workers. After the 2001 recession, the difference between the official unemployment rate and the rate with discouraged workers averaged about 0.3 percentage points and peaked at 0.4 percentage points for just a few months. Right now, the difference between the two rates has been 0.5 percentage points for several months, indicating that the discouragement of workers about to leave the labor force is much more of a concern now than it was during the Bush administration. There are similar results with the other alternative measures.

People should be careful about counting everyone in the alternative measures of unemployment as being truly unemployed. The evidence seems pretty clear that people who might someday want a job or are thinking about looking for a job are not as connected to the labor force as those who are actively trying to find work. History shows that some of today's marginally attached workers will have little interest in entering the labor force even during better economic times. Ten percent unemployment is bad enough; conservatives should not misrepresent the labor statistics to make the economy seem even worse than it really is.

— *Rea Hederman Jr. is assistant director of the Center for Data Analysis and senior policy analyst at the Heritage Foundation.*

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