

LABOR FORCE PARTICIPATION AND UNEMPLOYMENT

INTRODUCTION

According to the Bureau of Labor Statistics (BLS), the labor force is defined as the sum of employed and unemployed persons. Labor force participation is the rate at which the population as a whole, excluding institutionalized civilians and active military, participate as members of the labor force. Labor force participation and the unemployment rate are often cited as an indicator of the strength of the economy, income mobility, and the prospect of finding a job.

WHAT DO “EMPLOYED AND “UNEMPLOYED” REALLY MEAN?

The terms “employed” and “unemployed” both come with caveats. “Employed” refers not only to those people holding steady full-time or part-time jobs, but also to anyone who worked at least 1 paid hour during the week, or at least 15 unpaid hours in a family business.

When the media and policymakers discuss the unemployment rate, they are referring to a measurement the BLS calls U-3. Under U-3, the term “Unemployed” refers only to people who are out of work but also have actively searched for a job within the past four weeks. As a result, the unemployment rate we are most familiar with does not count anyone who is out of work and gave up looking more than four weeks ago. It also does not count anyone who is underemployed and works in a job inferior to their skill set or level of education for economic reasons.

Therefore, the labor force includes any person in the country who either falls under the loose definition of “employed” or is actively looking for work – leaving out a significant portion of the population.

U-6 UNEMPLOYMENT: A MORE ACCURATE MEASURE

A more comprehensive assessment of unemployment as it relates to the strength of the economy is the “U-6” unemployment rate. U-6 unemployment counts all the people measured in U-3, plus the underemployed, plus all people “marginally attached to the labor force” (1).

“Marginally attached” people are not usually counted in the labor force because they are without a job and have not looked within the past four weeks, but did search actively at some point within the past year. By including the marginally attached and the underemployed, U-6 accounts for an entire subset of the population that is commonly left out of employment statistics.

At the height of the recession, the “unemployment rate” was around 10%, but the U-6 unemployment rate was over 17% (2).

QUICK FACTS

- The unemployment rate mentioned in the media only includes people that have actively looked for a job in the last 4 weeks.
- U-6 is a more comprehensive unemployment rate that includes people who are underemployed and who have looked for a job in the last year.
- The unemployment rate (U-3) has fallen fairly consistently since the end of the Recession in 2009. However, in December 2013, the labor force participation rate hit its lowest point since 1978- when women were not in the workforce.

UNEMPLOYMENT AND LABOR FORCE OVER TIME

A consistently shrinking labor force has been a trend throughout the past several years. After reaching its peak in 2000, the rate fell steadily until 2009 when the decline steepened drastically, even as the nation recovers from Recession. In December of 2013, the labor force participation rate reached its lowest point since 1978. In 1978, women had not yet joined the labor force (3).

At the same time, the national unemployment rate has fallen fairly consistently since the end of the Recession in 2009. While some may tout this as a sign of economic recovery and growth, when it is seen in the context of the declining labor force participation rate, the number is far less encouraging. For example, from April to May of 2015, despite the fact that only 38,000 jobs were created, unemployment fell from 5% to 4.7%- thanks in large part to 374,000 people leaving the labor force (4). Meanwhile, U-6 unemployment rate was nearly 10%. Clearly, the drop in the unemployment rate does not tell the whole story (5).

WHY DO PEOPLE LEAVE THE LABOR FORCE?

People leave the labor force for a variety of reasons. For instance, during a recession, poor job prospects encourage more young people to further their education in hopes of a better career after graduation. Also, with the Baby Boomers reaching retirement age, more and more older people are retiring and leaving the workforce. These changes represent rational, voluntary economic decisions, but it's not the whole story. Unfortunately, another prominent reason labor participation is shrinking is that the job market simply is not providing enough opportunity. Thus, people stop actively looking for work and settle for collecting benefits from the government in the form of welfare or disability. In fact, more people than ever before are receiving government entitlements. The number of people receiving food stamps nearly doubled in five years – from 32.2 million in January 2009 to a record 47.7 million in January 2013.

CONCLUSION

The labor force participation rate and U-6 unemployment can often be better indicators of economic strength than the commonly cited unemployment rate, which leaves out important sections of the population. When the economy is weak, the labor force participation rate decreases, as increasing numbers of people give up looking for work and accept government entitlements. This can cause a drop in the unemployment rate, but does not equate to significant economic growth or a strong economy.

Endnotes:

1. Federal Reserve Economic Data, U6Rate (online at <http://research.stlouisfed.org/fred2/series/U6RATE>)
2. National Labor Relations Board, "National Labor Relations Act" (online at <https://www.nlr.gov/national-labor-relations-act>)
3. Business Insider, The Labor Force Participation Rate is Now a 35-year low (online at <http://www.businessinsider.com/american-labor-force-in-one-chart-2013-9>)
4. Bureau of Labor Statistics, Overview of BLS Statistics on Unemployment (online at <http://www.bls.gov/bls/unemployment.htm>)
5. <http://data.bls.gov/timeseries/LNS14000000>
5. Manhattan Institute, Who is Dropping Out of the Labor Force and Why? (online at <http://www.economics21.org/commentary/who-dropping-out-labor-force-and-why>)

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