

Alternate Measures of Unemployment

Six rates measure different underemployed groups

The unemployment rate reported each month measures the number of jobless people who are available to work and have actively sought employment in the past four weeks, as a proportion of the civilian labor force.

This rate is one of the most important national economic indicators, with widespread application for policy makers, the business community, and the public. Its popularity is due to its reliability as a gauge of overall labor market conditions and its historical performance as a business cycle indicator. It's also relatively straightforward compared to other indicators, such as gross domestic product or trade measures, because most people have been affected by unemployment at some point.

How the rate was developed

Despite its prevalence, the modern definition of unemployment is a relatively new economic concept. During the Great Depression, there was no official standard for unemployment, but the federal government hired an abundance of out-of-work statisticians to work for New Deal programs. The Works Progress Administration and the U.S. Census Bureau developed the modern concept of unemployed to mean both “willing and able to work” and “actively seeking work.”

The inclusion of the requirement that an unem-

Labor force = employed plus unemployed

employed person be seeking work was controversial because it was without basis in traditional economic theory, but it allowed statisticians to easily distinguish between different kinds of nonworkers. It also allowed for the definition of the “civilian labor force” to be determined by a person’s actions – either working or seeking work.

During the late 1930s and early 1940s, the Census Bureau and the WPA developed and refined the survey methods for estimating the size of the labor force, aided by concurrent developments in the field of statistics. With the dissolution of the WPA, the Census Bureau took over the survey, now known as the Current Population Survey, or CPS.

In 1959, the Bureau of Labor Statistics assumed responsibility for content, analysis, and reporting of the CPS, although the Census Bureau still conducts the survey. Since the development of the CPS, there have been numerous reviews of the concept and definition of unemployment, but those studies only resulted in minor refinements to the official measure.

The alternate rates

Despite widespread acceptance of the concept of

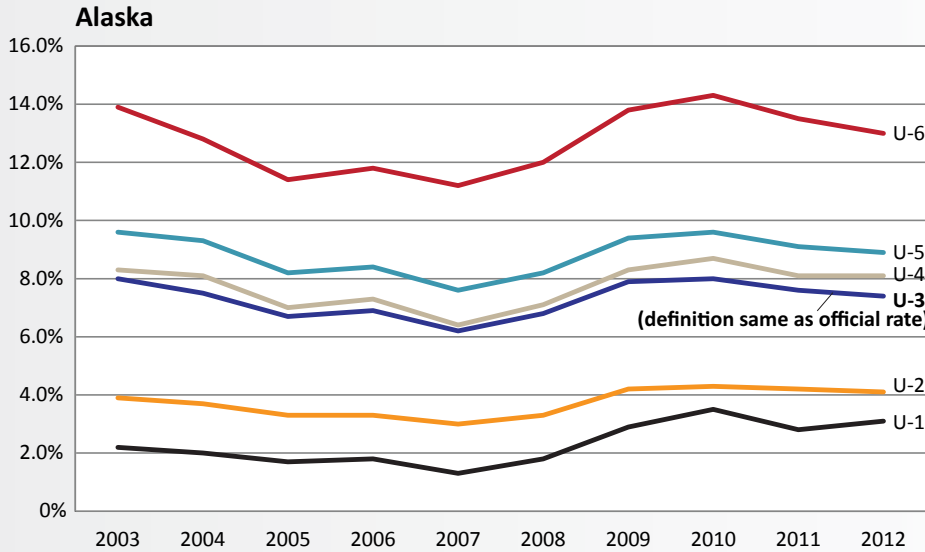
How the Bureau of Labor Statistics defines the six alternate measures

- **U-1 (narrowest measure):** Those unemployed 15 weeks or longer, as a percentage of the civilian labor force
- **U-2:** Job-losers and people who completed temporary jobs, as a percentage of the civilian labor force
- **U-3 (definition used for reported unemployment rate):** Total unemployed, as a percentage of the civilian labor force
- **U-4:** Total unemployed plus discouraged workers, as a percentage of the civilian labor force plus discouraged workers
- **U-5:** Total unemployed plus discouraged workers and all other marginally attached workers, as a percentage of the civilian labor force plus all marginally attached workers
- **U-6 (broadest measure):** Total unemployed plus all marginally attached workers, plus total employed part time for economic reasons, as a percentage of the civilian labor force plus all marginally attached workers

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The Other Measures of Labor Underutilization

2003 to 2012



Source: U.S. Bureau of Labor Statistics

Alaska			
Rate	2010	2011	2012
U-1	3.5%	2.8%	3.1%
U-2	4.3%	4.2%	4.1%
U-3	8.0%	7.6%	7.4%
U-4	8.7%	8.1%	8.1%
U-5	9.6%	9.1%	8.9%
U-6	14.3%	13.5%	13.0%

U.S.			
Rate	2010	2011	2012
U-1	5.7%	5.3%	4.5%
U-2	6.0%	5.3%	4.4%
U-3	9.6%	8.9%	8.1%
U-4	10.3%	9.5%	8.6%
U-5	11.1%	10.4%	9.5%
U-6	16.7%	15.9%	14.7%

unemployment, it was not without its detractors. Most critics claimed the requirement that an unemployed person must have recently sought work was too restrictive and excluded what are now known as “discouraged workers” — people who want to work but have stopped searching because of a perceived lack of jobs. Other critics desired a better measure of the degree of hardship the unemployed faced.

In response, BLS first developed seven alternate measures of labor underutilization in the 1970s, known as the U-1 through U-7 indicators. A major overhaul of the CPS in 1994 led to a revised set of alternative indicators, which were released in 1995. The new alternative indicators ranged from U-1 through U-6, with the official national unemployment rate as U-3. (See the sidebar on page 14 for more detail on each.)

The official concept of unemployment, used in U-3, includes everyone without a job who is available and has looked for work in the past four weeks. The unemployed population is divided by the labor force, which is the sum of the employed and unemployed. Many people who do not work are considered outside the labor force, including full-time students, the incarcerated, retirees, and

those who haven’t sought work in the past month.

The U-1 and U-2 rates are narrower measures than U-3 and were designed to reflect the significance of unemployment and possible degrees of financial hardship.

U-1 includes anyone unemployed 15 weeks or longer. This subset of the U-3 population was thought to face greater financial hardship because of the extended period without work.

The U-2 rate was also developed to measure hardship, but was limited to the subset of the unemployed population who lost their jobs. Job-losers were also thought to suffer greater financial hardship than those who willingly quit or were new entrants into the labor force. U-2 is typically larger than U-1, but because it measures a different subset of the unemployed population, it could theoretically be smaller than the U-1 rate.

The broader measures of labor underutilization, U-4 through U-6, include people outside the labor force. These rates are calculated as percentages of the civilian labor force plus other groups, including discouraged and marginally attached workers.

Discouraged workers (included in U-4, U-5, and U-6) are those who are not in the labor force, want and are available for work, and had looked for a job sometime in the prior 12 months. They are not counted as unemployed because they had not searched for work in the past four weeks, specifically because they believed no jobs were available.

Marginally attached workers (included in U-5 and U-6) are a broader group that includes discouraged workers. Those considered marginally attached are willing to work but have not looked for work in the previous four weeks for any reason, not just because of a perceived lack of available jobs.

Workers employed part-time for economic reasons, included in U-6, are those working less than 35 hours per week who want to work full time, are available to do so, and gave an economic reason for working part-time — for example, their hours had been cut or they were unable to find a full-time job. This group is also referred to as “involuntary part-time workers.” The U-6 rate differs from the others because it includes people who are working, making it a measure of underemployment rather than unemployment.

States’ measures

BLS began producing official unemployment estimates for states in 1976 but didn’t start releasing alternate measures of labor underutilization at the state level until 2003. Because CPS results alone are not statistically suitable for monthly release for states, BLS releases the U-1 through U-6 rates on a four-quarter moving-average basis.

The way Alaska’s monthly unemployment rate is calculated differs from the national U-3 rate because it isn’t based solely on the CPS sample; rather, the model also incorporates data from monthly employment estimates and unemployment insurance claims. This model-based estimate reduces volatility and improves the accuracy of the state’s unemployment rate. Because it’s calculated differently, the state’s official unemployment rate can differ slightly from the U-3 rate even though it uses the same definition of unemployment.

Alaska’s U-1 through U-6 rates have tracked historically with the official unemployment rate, but at higher and lower levels. (See Exhibit 1.) Before the recession, Alaska’s underutilization rates were higher than the equivalent U.S. rates. In 2003, Alaska had the second-highest U-3 through U-6 rates among all states, after Oregon. Things changed during the recession as many states’ unemployment increased faster than Alaska’s, and by 2012, Alaska’s labor underutilization rates fell somewhere in the middle.