

A Labor Market Primer

By Steven P. Zell

After remaining at or below the 5.2 per cent level for the first 6 months of 1974, the national unemployment rate began its long anticipated climb in the third quarter. In the coming months, it is reasonably certain that the economic slowdown will result in a continuing rise in the overall rate of unemployment. The furor and unease which have accompanied this increasing unemployment also are likely to continue to rise.

While the national unemployment rate has long served as an important signal for policymakers, labor economists have repeatedly stressed that this composite unemployment rate has many component parts which must be examined separately. Changes in unemployment generally vary greatly among population groups when these groups are delineated by characteristics such as age, sex, race, and education. Therefore, in assessing the impact of unemployment on the economy, it may be crucial to distinguish in which of these groups the major changes are taking place.

Beyond this, unemployment is not the only measure of the health of the U.S. labor market. Each month, the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor collects and releases statistics on a broad range of labor market characteristics. As the economy continues its struggle with inflation and recession, we may expect increased public exposure to concepts such as the civilian labor force, rates of participation, duration of unemployment, and discouraged workers. Each of these statistics, along with other key data, plays an important role in the interpretation of labor

market developments. The object of this article and a subsequent article in a later *Monthly Review* is to provide a guide for interpreting these developments.

WHERE DO THE DATA COME FROM?

Each month the BLS publishes labor market data derived from two independent sources—the household series and the establishment series.¹ Though tending to show the same underlying economic influences, the two series differ in many respects. The most crucial of these differences is that while the household series presents a picture of the work status of individuals, the payroll (or establishment) series is a count of jobs.²

The household series data are compiled for the BLS by the Bureau of the Census through its monthly Current Population Survey (CPS). The CPS provides a unique source of detailed data on the economic status and activities of the U.S. population. In addition to providing information on the broad labor market concepts such as total unemployment, the CPS is designed to provide a large amount of detailed and supplementary data necessary for the interpretation of labor market phenomena. Thus, for example:

It is the only source of monthly estimates of total employment, both farm and nonfarm; of nonfarm self-employed persons, domestics and unpaid helpers in nonfarm family enterprises as

¹The principal monthly publications of the BLS are *Employment and Earnings* and *Monthly Labor Review*.

²See Gloria P. Green, "Comparing Employment Estimates from Household and Payroll Surveys," *Monthly Labor Review*, December 1969, pp. 9-20. Because the establishment series presents only a count of nonagricultural jobs, no cross classification by personal characteristics is possible. Similarly, since only *job* data are presented, statistics on topics such as unemployment are not presented there.

well as wage and salaried employees; and of total employment, whether or not covered by unemployment insurance. It is the only comprehensive source of information on the personal characteristics of the total population (both in and out of the labor force), such as age and sex, race, marital and family status, veteran status, and educational background.³

The CPS (also known as the household survey) is the only comprehensive source of data on the occupation of workers, providing statistics on their industrial distribution as well. Furthermore, detailed information is available on the characteristics of persons who are not currently in the labor force, including information on their past work experience, their reasons for nonparticipation, and their intentions to seek work in the future.⁴ Because of the wealth of information on individuals contained in the household survey and the sharply different emphasis of the establishment series, attention in this article shall be concentrated on the household series data.

Properties of the Sample

Once each month, in the calendar week containing the 19th of that month, the interview staff of the Bureau of the Census conducts the household survey on behalf of the BLS. These monthly surveys are administered to a sample of the population scientifically selected to represent the civilian noninstitutional population of the United States. The survey is designed to ascertain the employment status during the calendar week containing the 12th of the month, of all the individuals 16 years of age and older residing in the interviewed households.⁵ Although a separate questionnaire is prepared for each individual, any adult member present in the household is requested to respond for those not at home at the time of the interview. Excluded from the regular monthly enumerations are inmates of institutions (such as prisons and men-

tal hospitals), persons under 14 years of age, and members of the armed forces. Data on this latter group are obtained from the Department of Defense and are included in the published data in the categories "total noninstitutional population" and "total labor force."⁶

As it would be financially prohibitive to conduct a complete enumeration of the entire population each month, a representative sample is scientifically selected. The first step in this process is the selection of a subset of areas from the 3,141 counties and cities in the country. The selected areas are comprised of 924 counties and independent cities which cover at least some part of every state and the District of Columbia. The sample "is designed to reflect urban and rural areas, different types of industrial and farming areas, and the major geographic divisions of the country in the same proportion as they occur in the nation as a whole."⁷

These areas are further divided into enumeration districts of about 300 households and then into small clusters of about four dwelling units each. From these clusters, the dwelling units to be surveyed are chosen by statistical selection and the households living at these addresses are interviewed. Each month approximately 47,000 households are interviewed in this manner, or approximately one household for every 1,300 in the country.

In order to avoid placing too heavy a burden on the selected families, one-fourth of the sample is replaced each month. The procedure consists of interviewing a household for 4 consecutive months, dropping it for 8 months, and then interviewing it for 4 more months before permanently dropping it from the sample. This procedure also facilitates year-to-year data comparisons and month-to-month continuity of the sample.⁸

3/"Concepts and Methods Used in Manpower Statistics from the Current Population Survey," BLS Report 313, June 1967, pp. 1-2.

4/*Ibid.*

5/Statistics are collected and published separately for persons 14 and 15 years of age in these same households. This separation was one of the changes introduced in January 1967. See "Recent Developments . . .," page 14.

6/*Employment and Earnings*, September 1974, p. 117.

7/"How the Government Measures Unemployment," Report 418, U.S. Department of Labor, Bureau of Labor Statistics, 1973, p. 2.

8/*Ibid.* For a more detailed description of the sample design and other technical phases, see "Concepts and Methods . . .," pp. 7-9, and especially U.S. Bureau of the Census, Technical Paper No. 7, "The Current Population Survey—A Report on Methodology," Washington, D.C., 1963.

The questionnaires obtained from these interviews are transferred to the Washington office of the BLS by the end of the week following enumeration. There the data are put on computer tape, checked for consistency and completeness, and adjusted for the fact that no response was received from some of the occupied households. The proportion of sample households for which interviews are not obtained varies between 3 and 5 per cent depending on factors such as weather, vacations, and simple refusal to respond. Following other procedures to improve their **reliability**,⁹ the data are tabulated and released by the Department of Labor in its monthly publication, *Employment and Earnings*.

The Current Population Survey: Origin and Evolution

The CPS was begun in 1940 as a direct result of the mass unemployment of the Great Depression. Prior to the 1930's, there was no direct measurement of unemployment. However, as labor market conditions continued to worsen in the early 1930's, many *ad hoc* measures of unemployment, frequently at great variance with each other, began to emerge. Dissatisfaction with these results, in turn, led research groups and some state and local governments to experiment with direct survey techniques.

In these early surveys, the unemployed were generally identified as those persons who responded that they were not currently working but were "willing and able to work." This definition, however, was judged to be too dependent on the interpretation and attitude of the interviewee and further experimentation continued. In the late 1930's, new concepts were developed which sought to meet these criticisms. Under these new concepts, an individual's classification depended principally upon his actual labor market activity during a specified time period. Some examples of labor market activity were whether he was working, looking for work, or doing something else. In 1940,

⁹*Employment and Earnings*, September 1974, pp. 120-21 and February 1974, pp. 6-9.

these concepts were adopted by the Works Progress Administration for the national sample survey initiated in that year.¹⁰

Since the survey's inception in 1940, a continuing effort has been under way to clarify and refine the various manpower concepts and to improve available labor market data. Most of the changes which have been introduced to date are a direct outgrowth of suggestions made by the President's Committee to Appraise Employment and Unemployment Statistics (The Gordon Committee) in 1962. The committee was appointed principally due to public pressure to examine labor market concepts in the light of high unemployment and a second recession within 3 years. In its final report, it gave unanimous approval of the scientific objectivity, reliability, and professionalism of the concepts and organizations involved in the collection and publication of U.S. labor market statistics. It further made a number of recommendations for improving these statistics, most of which have already been incorporated by the BLS.¹¹

THE HOUSEHOLD SURVEY: CURRENT CLASSIFICATION METHODOLOGY AND DEFINITIONS

As noted above, each month the Department of Labor releases statistics derived from the household survey (CPS) conducted in the previous month. The most widely quoted of these data pertain, of course, to the number of persons employed or unemployed and to the rate of unemployment. These and other important concepts can best be understood in terms of how they are generated from the survey itself.

Perhaps the most important point to emphasize is that interviewees are never asked to classify themselves nor, in fact, are they directly classified by the interviewer. Instead, a carefully structured questionnaire is filled out for each eligible person, with the final classification done by computer according to official cri-

¹⁰"Concepts and Methods...", p. 4.

¹¹John E. Bregger. "The Gordon Committee 10 Years Later," *Statistical Reporter*, August 1974, No. 75-2, pp. 17-19. See also "Recent Developments . . .," page 14.

teria. What then, are the criteria for this classification?

The survey is designed to ascertain the principle activity or labor market status during the week containing the 12th of the month (the survey week) for all noninstitutionalized civilians 16 years of age or older. The central goal is to delineate persons as either Employed, Unemployed, or Not in the Labor Force. The sum of these three categories constitutes the Civilian Population while the sum of the Employed and the Unemployed comprises the Civilian Labor Force. Thus, the Civilian Population consists of persons either in the Civilian Labor Force or **Not** in the Labor Force. Those in the labor force are also said to be labor force participants and the ratio of the number of participants to those in the population is referred to as the Participation Rate. Similarly, the Unemployment Rate represents the number Unemployed as a per cent of the Civilian Labor Force.¹²

At the simplest level, employed persons are individuals with jobs, while unemployed persons did not work during the survey week but are both looking for and available for work. Clearly, many people are easily classified under these definitions. For example, a person who reported working 40 hours as a carpenter for a construction company in the week of the 12th was clearly employed. Similarly, an assembly line worker who lost his job when the factory he worked at closed and who has been visiting other local factories recently seeking employment can be classified as unemployed. Finally, a woman who reports that she worked as a housewife and did not seek outside employment is thus not in the labor force.

However, a great many cases are not so easily classified. Some persons have more than one "labor market status" during the survey week, as for example, a man who works part-time and attends school the rest of the week. How are such persons classified?

The Employed

The method used is one which sorts people *not* by hours spent in a particular status but, rather, by a pre-established priority system. Thus, people who did *any* work at all during the survey week for pay or profit, irrespective of time spent in any other status, are counted as employed. Similarly counted as employed are persons who worked 15 hours or more without pay in a family-operated enterprise. These persons are known as "unpaid family workers" if they held no other paying job. If a person worked less than 15 hours in this activity and was otherwise neither employed nor unemployed (see below for definition), he is counted as outside the labor force.

Finally, five other categories of persons are counted as employed. These are individuals who held a job but did not work during the survey week because they were either (1) on vacation, (2) temporarily ill, (3) involved in a labor dispute, (4) prevented from working due to inclement weather, or (5) taking time off for various personal reasons. These persons are both counted among the employed and tabulated in the category "with a job but not at work," which is presented separately in BLS publications.

Persons who are not employed must be classified as either Unemployed or Not in the Labor Force, and it is the first of these categories which has the higher classification priority.

The Unemployed

The unemployed may be divided into two basic groups. The first consists of persons who are either waiting to start a new job within 30 days or workers waiting to be recalled from lay-off. Each of these criteria alone is sufficient to classify a person as unemployed.

The second and far larger group consists of individuals neither on layoff nor waiting for a job to start who satisfy three specific criteria

¹²For example, in September 1974, the following seasonally adjusted data were reported by the BLS:

Civilian (Noninstitutional) Population =	149,150,000	
Civilian Labor Force =	91,850,000	
Employed =	86,538,000	
Unemployed =	5,312,000	
Not in the Labor Force =	57,300,000	
Participation Rate = $\frac{\text{Labor Force}}{\text{Population}} \times 100 =$		61.6%
Unemployment Rate = $\frac{\text{Unemployed}}{\text{Labor Force}} \times 100 =$		5.8%

which are identified through a series of questions on the household questionnaire. These criteria are first, not having a job during the survey week; second, actively looking for work during the past 4 weeks; and third, being available during the survey week to accept employment. Actively seeking work consists of at least one of the following specific activities: (1) registering at a public or private employment office, (2) meeting with prospective employers, (3) checking with friends or relatives, (4) placing or answering advertisements, (5) writing letters of application, and (6) being on a union or professional register.¹³ If a person is found to have searched for work through one of these specific activities within the past 4 weeks, he is then asked whether there was any reason he could not have accepted a job during the survey week. If no reason (other than temporary illness) is given, the person is then counted as unemployed. The process of classifying a person as unemployed is therefore seen as consisting of a series of questions, all of which must be answered appropriately. If any of these conditions are violated, the person is counted as Not in the Labor Force.

Not in the Labor Force

Persons identified as Not in the Labor Force are further divided into four groups: "in school," "keeping house," "unable to work due to disability," and "other." This last category includes mostly retired persons or persons reported as too old to work; seasonal workers who are not reported as unemployed and are in the "off" season; unpaid family workers who worked less than 15 hours in the survey week; and persons who choose not to work, referred to as the voluntary idle. The significance of this latter group shall be discussed later in the section entitled "Discouraged Workers . . .".

13/"How the Government..." p. 4. Clearly, persons waiting for a new job to start, or waiting to be recalled from temporary layoff, would have no reason to seek another job and are thus not required to have been engaged in one of these activities in order to be classified as unemployed.

Recent Developments in the Household Survey

This multi-step determination of unemployment was one of several important changes in the CPS introduced in January 1967 as an outgrowth of recommendations made by the Gordon Committee. Prior to this time, a single question, "Was . . . looking for work?" was asked to interviewees about persons who were not employed. An affirmative answer was sufficient for the person to be counted as unemployed.

The new procedure introduces three new elements into this process. Not only must a person be looking for work, but he must have done so during a specific time period of 4 weeks. Furthermore, he must have *actively* attempted to find work and lastly, he must have been *available* for work if a job had materialized.

These changes were introduced for several reasons, but most generally, they were introduced in order to eliminate some of the ambiguity from the classification process. For example, the 4-week period was included because respondents to the previous single question "could have interpreted 'looking for work' to imply either 'last week' or some vague earlier period. Similarly, the introduction of the specific jobseeking method requirement (not asked, of course, of persons on layoff or those waiting to begin a new job within 30 days) [was designed to screen out] those for whom *jobseeking* is more a state of mind rather than an overt action."¹⁴ Finally, the "availability" criterion was introduced principally to correct for the fact that a number of high school and college students who began to look for summer work in April or May were counted as unemployed at that time although they were not available for employment until June or July.

Some of the other important additions and changes introduced in the January 1967 *Employment and Earnings* were as follows:

1. Persons with a job during the survey week who were absent because of strikes, bad weather, etc., are now classified as **em-**

14/John E. Bregger, "Unemployment Statistics and What They Mean," *Monthly Labor Review*, November 1971, p. 27.

ployed even if they were looking for other employment at this time. Previously they were classified as unemployed.

New probing questions are asked to increase the reliability of information obtained on duration of unemployment, number of hours worked, and self-employment status.

Additional information is now being obtained which permits in-depth analysis of several important characteristics of persons both within and outside of the labor force.

- a. A new question collects information on the reason for unemployment, i.e., whether the person lost his job, quit, or entered the labor force either in search of employment for the first time or after a period of nonparticipation.
 - b. Much more information is obtained for persons not in the labor force. Data are now collected on when they last worked; their reasons for leaving employment, and the industry and occupation in that last job; whether they want to work at the present time and, if so, why they are not seeking employment; and their intentions for seeking work in the next 12 months.
4. Finally, the new definition of unemployment *excludes* individuals who report that they would have looked for employment except for their belief that none was available in their line of work in the community. Previously, though no specific question was asked, persons who volunteered this information were included as unemployed in an attempt to capture what was referred to as "discouraged workers." Now recorded among the "voluntarily idle," this group is excluded from the unemployed by means of the 4-week and active search criteria discussed above.

This is done because of the very subjective nature of worker "discouragement." Instead they are included among persons

Not in the Labor Force, while information on the reason for nonparticipation is collected and analyzed.¹⁵

DISCOURAGED WORKERS AMONG THE VOLUNTARILY IDLE: THE HIDDEN UNEMPLOYED

The special survey questions probing the reasons why persons outside the labor force did not participate in the job market were introduced in response to one of the Gordon Committee's strongest recommendations. The committee noted in 1962 that "the relatively simple dichotomy between those in and out of the labor force... [no longer provides]... a satisfactory measure of the labor supply."¹⁶

This conclusion was based on empirical evidence for the post-World War II period which showed that millions of persons entered and left the labor force each year and that the labor force expanded more slowly during economic downturns than it did over the long run. This slowdown in labor force growth, the result of an increased number of dropouts or a decreased number of entrants into the labor force, or some combination of the two, was interpreted as the "discouragement" effect of the cyclical downturn.¹⁷ The possibility that vast numbers of "discouraged workers" languished outside of the labor force in a pool of "hidden unemployment" caused the committee to recommend that special efforts be made to collect detailed information on persons not in the labor force, with emphasis on the so-called "discouraged workers."

The introduction of the probing questions in the January 1967 CPS and their quarterly publication since late 1969 provided an important opportunity to examine this issue directly, through use of the survey technique. Though

15/Robert L. Stein, "New Definitions for Employment and Unemployment," *Employment and Earnings*, February 1967, pp. 5-8. For a discussion of the effect of all of these changes on the historical comparability of labor force data, see *ibid.*, pp. 10-13. Also see *Employment and Earnings*, October 1974, pp. 135-36, for a brief discussion of changes made in the CPS both before and after 1967 and their effect on statistical comparability.

16/Paul O. Flaim, "Discouraged Workers and Changes in Unemployment," *Monthly Labor Review*, March 1973, p. 8.
17/Jacob Mincer, "Determining who are the 'hidden unemployed,'" *Monthly Labor Review*, March 1973, p. 27.

major difficulties exist in the identification of subjective phenomena like "worker discouragement," the methodology adopted by the BLS has provided much useful information since the initial publication of these data in late 1969. Basically, a person not in the labor force is identified as a discouraged worker if he "wants a regular job now, either full time or part time" and if his principal reason for not looking for work is that he either (1) believes that no work is available in his line of work or area, (2) had tried but could not find work, (3) lacks necessary schooling, training, skills, or experience, (4) employers think he is too young or too old, or (5) has other personal handicaps in finding a job.¹⁸

The first two of these factors are generally referred to as "job market factors" and the remainder as "personal factors," and, as might be expected, it is this first series which appears to be directly related to cyclical changes in the labor market. In particular, a high correlation has been found between this series and changes in the rate of **unemployment**.¹⁹ Contrary to conclusions drawn from earlier econometric analyses, however, the survey results do not indicate the existence of large numbers of discouraged workers.²⁰ Furthermore, only a small percentage of discouraged workers are adult males, with the great majority consisting, instead, of teenagers, housewives, and the elderly.²¹

Research into the phenomenon of worker discouragement has revealed some interesting results for the interpretation of labor market behavior. Studies have shown that in the face

18/Paul O. Flaim, "Discouraged Workers..." p. 9.

19/*Ibid.*, pp. 9-12.

20/For examples of the early econometric analyses, see A. Tella, "The Relation of Labor Force to Employment," *Industrial and Labor Relations Review*, April 1964, pp. 454-69, and T. Demburg and K. Strand, "Cyclical Variation in Labor Force Participation," *Review of Economics and Statistics*, November 1964. See also Joseph L. Gastwirth, "Estimating the number of hidden unemployed," and Jacob Mincer, "Determining who . . .," *Monthly Labor Review*, March 1973, for discussions of the contrast between the econometric and survey results.

21/In the third quarter of 1974, there were 57.6 million persons outside the labor force and 5.0 million unemployed. Of the non-participants, only 592,000, or 1 per cent, were discouraged workers with only 383,000 of these discouraged for job market reasons. Finally, adult males, 25-59, represented only 52,000 or less than 1 per cent of all discouraged workers.

of cyclical downturns, the growth of the labor force has slowed while the number of discouraged workers has risen. Contrary to expectations, however, this shrinkage or slowdown in labor force growth has been due primarily to reductions in labor force entries and reentries rather than to increases in labor force withdrawals. Furthermore, while the number of discouraged workers generally increases in cyclical downturns, a countercyclical flow of "added workers" is always present. For example, in families whose heads are unemployed, the rate of participation of other family members increases more than in households whose heads are employed.²² Generally, though, the discouragement effect is the dominant one.

If economic conditions develop, however, where this cyclical behavior is changed, and participation remains high in the face of recession, the rate of unemployment can be expected to worsen relative to previous experience. This, in fact, appears to be the case with the present "stagflation." In the present economic downturn, as in the past, increased unemployment of household heads has stimulated some "added" secondary worker participation. In addition to this, the high rate of inflation has also stimulated greater participation as families attempt to maintain their level of real income. In a period when employment is falling, however, this increased participation can only result in greater unemployment. One important indicator of the existence of this trend is continuing high rates of participation among women and teenagers in the face of high and rising unemployment. Another is the atypically small number of persons currently classified as discouraged workers. Thus many persons who, under ordinary recessionary conditions would be outside of the labor force, possibly as discouraged workers, now appear to be entering or remaining in the labor force in an attempt to circumvent the negative effects of recession and inflation on real family income.

22/Jacob Mincer, "Determining . . .," pp. 27-30.