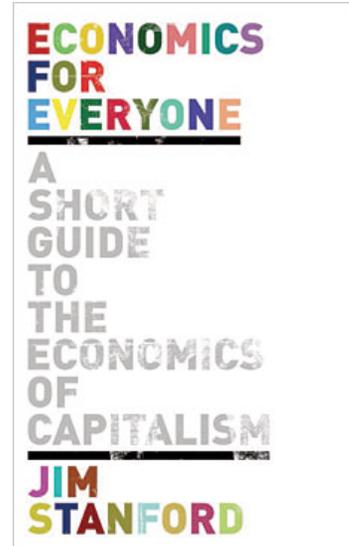


A “HOW-TO” GUIDE: LABOUR MARKET AND UNEMPLOYMENT STATISTICS

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This guide provides a simple introduction to various common measurements of the labour market: employment, unemployment, and the labour force. It also discusses some of the problems with conventional measurements of unemployment. Aggregate labour market behaviour and statistics are discussed in more detail in Chapter 13 of *Economics for Everyone*.

Definitions:

The following are simple definitions for the various terms used in the examples below:

Labour Force: The total population of working-age people who are willing and able to work, and who hence have officially “entered” the labour market. The labour force includes individuals who are employed, and those who are “actively” seeking employment. The labour force is also referred to as *labour supply*.

Participation Rate: The proportion of working-age individuals who decide to “participate” in the labour force, by either being employed or actively seeking work. The precise definition of what constitutes “actively seeking work” varies from one country to another, and this can affect measurements of the labour force and unemployment.

Employment: Employment is a specific form of work, in which the worker performs their labour for someone else in return for a money wage or salary. Employment can also be thought of as *labour demand*.

Employment Rate: This measures the share of working age adults are actually employed in a paying position. The employment rate can be a better indicator of the strength of labour markets than the unemployment rate (since the unemployment rate depends on whether or not a non-working individual is considered to be “in” the labour force).

Unemployment: Individuals who would like to be employed, and are actively seeking work, but cannot find a job, are considered “officially” unemployed. Individuals who are not working, but not actively looking for work, are considered to be outside of the labour force, and hence don’t count as “officially” unemployed.

Unemployment Rate: The number of unemployed people measured as a proportion of the labour force.

Obtaining Labour Market Data:

Data on labour markets, employment, and unemployment are readily available from the web sites of virtually all national statistical agencies, usually on a monthly basis. Here are the links to labour market data for the major Anglo-Saxon economies:

U.S.: Bureau of Labor Statistics, www.bls.gov.

U.K.: U.K. Statistics Authority, www.statistics.gov.uk.

Canada: Statistics Canada, www.statscan.ca.

Australia: Australian Bureau of Statistics, www.abs.gov.au.

Measuring Employment and Unemployment:

Measuring the level of employment in an economy (or, alternatively, labour *demand*) is relatively straightforward. Statisticians generate an estimate of the number of individuals who are working for money in the overall economy. They gather this information by conducting statistical surveys. Generally, two broad survey approaches are used. *Household surveys* involve contacting a large random sample of households and interviewing individuals about their employment activity, hours worked, wages, etc. *Establishment surveys* involve contacting employers (including all large firms, and a random sample of smaller firms) to collect information on how many workers they employ, how long they work, and how much they get paid. Household surveys are usually considered somewhat more comprehensive and accurate, but provide less industry-specific data, than establishment surveys.

Employment data can then be broken down into several categorizations: full-time and part-time; waged, salaried, or self-employed; private sector or public sector; and employment by industry.

Measuring labour supply, on the other hand, is a little bit trickier. Whereas it is fairly clear whether an individual is *employed* or not, it is harder and more arbitrary to define whether an individual is in fact supplying their labour to the market (especially if they are not employed). This creates some inherent difficulties in measuring labour supply – and hence measuring unemployment (which represents the difference between labour supply and labour demand).

Labour supply measures are based on household surveys. Individuals are asked whether they are working. If not, they are asked if they would like to be working, and if they are undertaking active efforts to find a job. If they would like to work and are looking for work, they are considered to be “in” the labour market – although not successfully employed. But that classification is necessarily arbitrary. Different statistical agencies utilize different concepts of “active” job search, and this can increase or decrease the apparent size of the labour force (and hence the apparent level of unemployment).

Official unemployment therefore depends on the strictness of the definition of whether a non-employed individual is indeed actively seeking employment. A convenient way to reduce apparent unemployment, therefore, is simply to change that definition – setting a higher hurdle for someone in order to be considered officially unemployed. (Indeed, that is exactly what statistical agencies in the U.K. and the U.S. did in the early 1980s, to defuse widespread popular anger over the very high unemployment levels that initially resulted from the implementation of neoliberal monetary policies.)

Once measures have been attained of total labour supply and total labour demand, the following important variables can be calculated:

- **Participation Rate:** Labour supply as a proportion of the working age population.
- **Unemployment:** Labour supply minus labour demand.
- **Unemployment Rate:** Unemployment as a proportion of the labour force (ie. labour supply).
- **Employment Rate:** Employment as a proportion of the working age population.

When unemployment (and hence the unemployment rate) is high, the labour market is considered “slack,” with abundant numbers of unutilized workers. Large numbers of people who want to work cannot find jobs. Competition for scarce jobs will tend to drive down wages, and make workers feel more insecure (and hence enhance the sense of labour “discipline” in the workplace – as described in more detail in Chapter 8 of *Economics for Everyone*, on the employment relationship).

A Numerical Example:

To see concretely how these labour market concepts fit together, consider U.S. labour market data for the year 2007, as summarized by the Bureau of Labor Statistics:

1. Working Age Population (civilians, aged 16 and over)	231,867,000
2. Labour Force (working or actively seeking work)	153,124,000
3. Participation Rate ($2 \div 3$)	66.0%
4. Employed	146,047,000
5. Employment Rate ($4 \div 1$)	63.0%
6. Unemployed ($2 - 4$)	7,078,000
7. Unemployment Rate ($6 \div 2$)	4.6%

Disguised Unemployment:

As discussed in Chapter 13 of *Economics for Everyone*, official unemployment statistics may not accurately reflect the tightness of the labour market, because of the arbitrary nature of the household labour force surveys discussed above. Someone may “fail” the statisticians’ test of “actively” seeking work. They are hence excluded from official measurements of the labour market. Yet they are still not working, and may very well be willing to work if there was a realistic chance of obtaining suitable employment.

In this manner, official unemployment statistics clearly understate the true degree of slackness in labour markets. And central bankers and other policy-makers who wring their hands over unemployment rates that are “too low” (hence sparking their fears of accelerating wage inflation) are overlooking (perhaps deliberately) these “disguised” pools of unemployment. Significant unemployment almost always exists in capitalism – indeed, it is an explicit aim of neoliberal policy to maintain a certain, “desirable” cushion of unemployment in order to discipline workers and suppress wage demands. And labour markets almost always embody pools of unemployed or underemployed labour, that are much larger than implied in official labour market statistics:

- **Discouraged Workers:** Individuals with no realistic chance of finding a job, will naturally give up actively seeking one. They thus magically “disappear” from the official unemployment rolls! The extent of discouraged workers can be seen, especially during times of recession, in the decline in participation rates which typically accompanies prolonged labour market weakness. To adjust unemployment statistics for this effect, we can calculate an adjusted measure of the labour force by applying the *pre-recession peak* in labour force

participation to the current working age population. The difference between that adjusted labour force, and the “officially” measured labour force, is an indication of the extent to which individuals have given up looking – and hence provides a rough indicator of the pool of discouraged workers. We can apply this methodology to the U.S. labour market data for 2007 summarized above. Labour force participation in 2007 was 66.0 percent. That was lower than the peak levels of 67.1 percent attained in 2000 (before the recession that began in 2001, and the subsequent slow and uneven recovery). If the participation rate had regained its peak by 2007, an additional 2.6 million workers would be officially part of the labour force. Unemployment would equal almost 10 million, instead of 7 million, and the unemployment rate would equal 6.3% instead of 4.6%. (Another way to estimate the number of discouraged workers is to include a question on the household labour force survey asking if non-participating individuals would be willing to work if jobs were available; a few national statistical agencies do this.)

- ***Involuntary Part-time Workers:*** Some workers would prefer to hold a steady full-time job, but are forced (out of necessity) to accept part-time work. This represents another underutilized segment of the labour market – since their collective actual hours of work are far less than their desired hours of work. Household labour force surveys in some countries ask part-time workers if they would prefer to be working full-time.
- ***Other Underutilized Workers:*** There are other groups of workers who may be considered officially employed, but whose work situation does not at all reflect their full employment potential. This would include workers occupying positions that do not utilize their skills and training, as well as many nominally self-employed workers – who undertake marginal, poorly-paid ventures in order to support themselves through periods of unemployment. Many of these individuals could be mobilized to fill more appropriate job vacancies should they arise.
- ***Untapped Labour Supplies:*** In many cases there are additional pools of potential wage labour that have not yet been integrated into the formal labour market (such as women, whose labour force participation in many countries is still far lower than for men). A genuinely tight labour market would find ways of integrating these workers into paid employment.

The Centre of Full Employment and Equity (CofFEE) in Australia has done some particularly interesting work to quantify the hidden underutilization of labour in that country. See their alternative measures of unemployment at www.fullemployment.net.

For all of these reasons, the official unemployment rate does not provide an accurate indicator of the true degree of labour market slackness. And changes in the true tightness of labour markets are often better captured by changes in the employment rate (which simply measures whether individuals are employed or not, and is not dependent on whether non-employed individuals qualify as “actively” seeking work) than by changes in the unemployment rate.