

# Unemployment Rates from the Household Survey-- Definitions, Uses, and Limitations

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## The Overall Rate

The rate of unemployment is one of the most widely quoted economic statistics compiled and published by the Federal Government. It is a measure of the proportion of the civilian labor force that is not working but seeking work during a specific calendar week. It provides a composite measure of unemployment for all kinds of workers--those in service activities as well as those in goods-producing industries, white-collar and blue-collar workers, farm and nonfarm workers, the self-employed as well as wage and salary workers. It is an average rate of unemployment among many different population groups--young and old, men and women, white and nonwhite, married and single--and among the different sections of the country.

The overall rate provides a standard by which to evaluate the situation among particular worker groups or geographic areas. For comparisons over long periods of time, it is a more meaningful index than the number of unemployed since the latter tends to rise along with growth in the population and labor force. For comparisons over shorter periods of time, such as over the course of a business cycle, the value of the rate as an economic indicator has been considerably enhanced in recent years by techniques of seasonal adjustment. Of course, no single statistic can be expected to describe fully the complex phenomenon of unemployment or to meet all the analytical and other specialized needs of users of labor market data. Because of its very comprehensiveness, the unemployment rate necessarily masks significant differences among the various occupations, industries, population groups, and areas. The overall rate, therefore, needs to be supplemented with considerable auxiliary information about the various sectors of the labor force. Moreover, the fact that the rate is such a comprehensive or global figure means that in some months it may be affected by factors that are not directly related to economic conditions, and will be a less diagnostic indicator than the rates for particular, more homogeneous worker groups within the labor force such as adult men or married men. It should also be noted that the unemployment rate does not reflect working time lost on part-time workweeks (since part-time workers are counted as employed regardless of how few hours they worked or the reasons for their short workweeks); nor does it reflect the fact that some of the unemployed are seeking only part-time work.<sup>1</sup>

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<sup>1</sup> On the basis of past data, this group of workers has been estimated to range between 10 and 20 percent of the total jobless. Beginning in March, separate data will be shown monthly for those seeking part-time jobs.

Despite these limitations, however, the overall seasonally adjusted rate of unemployment still stands as an exceedingly important and useful measure of immediately available, and completely idle, manpower resources. By itself it does not reveal who the unemployed are, and it is not designed to show whether they are in need of jobs. But it does indicate the overall incidence of joblessness in a changing economy and provides an essential standard (although not the only one) by which the performance of our economy can be measured. Its chief value lies in its use for comparative purposes. If we are troubled by a rate of unemployment close to 6 percent today, it is because we know that we have done better during most of the past 20 years. We are concerned because in the past an unemployment rate of 6 percent was usually associated with business recessions. If such a high rate persisted in a labor market area during nonrecessionary periods, that area was considered to be in a depressed condition. And more recently, studies have shown that the unemployment rate is much higher than that of most western European countries and Japan, even after allowing for differences in measurement techniques. These conclusions would not be materially changed by altering the method for calculating the unemployment rate. Various alternatives have been proposed through the years--some yielding a higher result, some a lower one--but their adoption would not have changed the basic picture that has emerged from the trends in the present rate, namely a greater degree of unemployment during the 1957-62 period than during the 1947-57 decade, and a creeping upward movement in unemployment, with each of the past three business cycles showing a higher rate during the recovery period than that prevailing before the downturn phase began.

### Auxiliary Rates of Unemployment

For some time, various rates of unemployment have been published to show the impact of unemployment on particular population groups, and occupation and industry groups (defined for the unemployed in terms of their last full-time job of at least 2 weeks duration). The base for these rates is in each case the civilian labor force (employed plus unemployed) for the particular group involved. Unemployment rates computed from household survey data have the advantage of greater statistical reliability than the corresponding absolute numbers.

A development of fairly recent origin has been the application of seasonal adjustment techniques to the auxiliary rates of unemployment. In 1961, this procedure was extended to many of the groups that make up the unemployed and was also applied to a newly developed measure of labor force time lost through unemployment and part time for economic reasons (slack work, material shortages, job turnover). For the most part, however, these new data were used for analytical purposes only in the regular monthly reports on the labor force, although some of the more important rates were charted and considerable detail was published in a special study for the Subcommittee on Economic Statistics of the Joint Economic Committee.<sup>2</sup>

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<sup>2</sup> See "Unemployment: Terminology, Measurement, and Analysis," prepared for the Subcommittee on Economic Statistics, Joint Economic Committee, 87th Cong., 1st sess., 1961.

The latest step in this process of developing and publishing seasonally adjusted unemployment rates was stimulated by the report of the President's Committee to Appraise Employment and Unemployment Statistics<sup>3</sup> in September 1962. One of the recommendations of that committee was that the monthly press releases should feature several different unemployment rates, all seasonally adjusted, to serve various purposes. In recent months, the advance release has included such rates for adult men, adult women, and teenagers. Starting next month, three additional seasonally adjusted rates will be included; a discussion of these is presented below.

1. Married Men. Married men have a much lower unemployment rate than other workers. Since 1947, this has been true during periods of economic expansion and contraction, during wartime and peacetime, and irrespective of the level of the overall rate of unemployment (which ranged from a low of 2-1/2 percent to a high of 7-1/2 percent during the past 15 years).<sup>4</sup> One reason is that most men do not get married until they feel they have a steady job. Moreover, because of their responsibilities as heads of families and principal earners, married men are strongly attached to their jobs and are not free (as are unmarried men and many women) to quit without having an immediate prospect of another job.

Thus, the unemployment rate for all married men is even lower than the rate for all adult men 20 years and over, despite the fact that about 80 percent of these adults are also married. The 1962 annual average unemployment rates for all adult men and for married men were 4.6 and 3.6 percent, respectively. Age is a factor in this difference; unemployment rates are higher among young men 20 to 24 years of age, a smaller proportion of whom are married. Moreover, married men are more concentrated in those occupations requiring relatively more skill, training, or capital, being thus less liable to unemployment and more likely to be reemployed at an earlier date. The strong motivations of married men to remain in the labor force and to stay at a particular job in order to maintain employment and income are reflected in their higher rate of labor force participation, their lower proportion of part-time or part-year employment and the greater percentage working longer work-weeks, their shorter average duration of unemployment, and their lower rate of unemployment in every age group.

The series on unemployment rates among married men is of particular interest because unemployment for married men nearly always results from the loss of jobs (disemployment) rather than entry into the labor force (which is more common among married women and teenagers), and most of the disemployment probably represents layoffs rather than voluntary job changing. The series is especially useful as an economic indicator, since the unemployment rate for married men tends to

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<sup>3</sup> See Chapters II and IX of "Measuring Employment and Unemployment," report of the President's Committee to Appraise Employment and Unemployment Statistics, Washington, Government Printing Office, 1962.

<sup>4</sup> Data on the unemployment rates for married men and other marital groups were collected once a year (in April or March) from 1947 through 1954, and monthly from January 1955 to date.

respond rather quickly to changes in business conditions. This is true partly because they are mostly "primary" workers in the sense of having a steady attachment to the labor force, and partly because there are relatively more of them in manufacturing, construction, and other volatile sectors of employment. In a purely statistical sense, the rate for married men is fairly reliable because they are a large group (making up over 50 percent of the civilian labor force) and their enumeration is less subject to error; the employment status of most married men is usually rather clear-cut and easy to report with a high degree of accuracy.

The President's Committee report on measuring employment and unemployment expresses a preference for a series on the unemployment rates of household heads rather than of married men. This would indeed be a more comprehensive measure since it includes female heads of families and individuals who are heads of households but not living with any persons who are related to them; most of these individuals would presumably have responsibility for supporting themselves, and possibly for some persons not living in the household. In addition, the household head series would exclude subfamily heads (e.g., husbands of married couples living with parents) who generally have less financial responsibility. Unemployment data for heads of households will be published regularly in the "Monthly Report on the Labor Force" starting with the report to be issued in March. However, such data have not been compiled long enough on a monthly basis to permit seasonal adjustment. The series for married men should be a reasonable approximation of that for heads of households since there is a high degree of overlap between these two groups. In 1962, for example, about 75 percent of all unemployed household heads were also married men.

The President's Committee report also notes that the rate for household heads would be a better measure than the overall rate of the hardship imposed on families by unemployment. Even the figures for household heads would still represent an incomplete measure of hardship resulting from unemployment since the contribution of married women and other family members to family income can be substantial and in some cases crucial, and their need for jobs may be very great in particular situations. In general, however, the need of most household heads for employment and income is greater than that of most other members of the labor force.

2. Experienced Wage and Salary Workers. The unemployment rate for wage and salary workers with some previous work experience tends to run very close to the rate for all civilian workers. In 1962, this group comprised about 61 million of the 72 million in the civilian labor force. On the one hand, the exclusion of the more than 10 million self-employed and unpaid family workers tends to pull the unemployment rate up (by 0.8 percentage point in 1962) since it omits from the base a large number of workers who have very low rates of unemployment. In 1962, for example, the unemployment rate for self-employed and unpaid family workers in farm and nonfarm activities combined was only 1 percent. On the other hand, the exclusion of unemployed persons with no previous work experience would tend to reduce the rate (by 0.7 percentage point in 1962). The number of such persons is increasing (it was about 540,000 in 1962), and their impact on the rate is strong because the individuals in this are all unemployed.

This kind of unemployment rate is purported to be more meaningful than the overall rate because it measures unemployment in that part of the labor force that

is most exposed to it (wage and salary workers) and because it comes closer to measuring loss of jobs by being limited to experienced workers. Unemployment is not considered to be a satisfactory indicator of economic well-being for the self-employed since they generally continue to operate their enterprises even when declining business brings their earnings down to low levels. Moreover, the self-employed cannot be separated from employment by the decisions of others, but only by the failure of their own businesses or farms or by their own decisions to quit and seek other work. As for persons who have never worked, they obviously cannot be laid off or lose a job, and the loss of jobs by experienced workers is considered to be a more serious problem than the inability of new workers to find them. The latter can, under certain circumstances, delay their entry into the labor market. More often than not, they do not have family responsibilities and, in fact, are being supported by others. Although they lose potential earnings, they do not face a lowering in their standard of living through the loss of employment.

In actual practice, however, the unemployment rate for experienced wage and salary workers does not entirely achieve its objective of measuring loss of jobs among those subject to unemployment. All members of the civilian labor force are exposed to unemployment in some degree. And no doubt some of the self-employed in marginal or highly seasonal activities are more vulnerable than are many salaried groups, such as professional and managerial workers and government workers in almost all occupations. Moreover, the measure does not exclude those reentering the labor force. Some of the latter may not have worked for many years, but would still be defined as experienced workers even though their last job was long before their current spell of unemployment. To the extent that reentrants are included, this rate is not purely a measure of disemployment.<sup>5</sup> It is impossible to get a precise estimate of the number of reentrants among the unemployed each month, but during the year 1962 it averaged at least 600,000.

3. Labor Force Time Lost. This is an entirely different kind of rate than those described previously for a number of reasons. First of all, it is a measure of manhours lost as a percent of manhours potentially available to the civilian labor force and is not a measure of the status of individual workers. Secondly, it is broader than the conventional unemployment rate because it also reflects time lost by workers on part time for economic reasons (such as slack work as distinct from noneconomic reasons such as illness or bad weather). And finally, it is not entirely a direct measurement since it requires certain assumptions as to what constitutes a standard full-time workweek and certain imputations as to how many hours of work the unemployed and economic part-time workers would have had if they had been fully employed.

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<sup>5</sup> This problem, incidentally, extends to unemployment rates for particular industry and occupation groups. Especially for such categories as trade, finance, service, clerical workers, sales workers, and service workers, the unemployment rate is not entirely a measure of disemployment from a job in that industry or occupation. And for occupations and industries, the problem is further complicated by mobility between groups. For the unemployed, occupation and industry refer to the last job held, which may not necessarily have been the most important job in the perspective of a longer work history.

The computation of the numerator for this rate involves the assumptions that unemployed persons lose 37.5 potential manhours of work each week they are unemployed<sup>6</sup> and that economic part-time workers lose the difference between 37.5 and the hours they actually work (generally close to 20 for the combined group). The denominator--total manhours potentially available to the civilian labor force--is the sum of manhours actually worked, manhours imputed to employed persons with a job but not at work (assuming a 37.5 hour workweek), and manhours lost by the unemployed and economic part-time workers.

This measure of labor force time lost averages about 1 percentage point above the regular unemployment rate. It provides a comprehensive measure of labor input lost to the economy and to the labor force through the inability of the economy to provide full-time jobs to those who are seeking them. It is an attempt to overcome the employment status classification problems posed by involuntary part-time workers who cannot be counted as either fully employed nor fully unemployed; in effect, it allocates only their unutilized time to the total of manhours lost and avoids the issue as to how individual workers should be classified.

The time lost measure takes account of measurable underemployment in terms of hours, but obviously it does not reflect the many other forms of underutilization of manpower it does not reflect. Other limitations derive from the various assumptions that are required, and from the fact that data are not available to permit computation of this index for subgroups within the labor force.

### Comparison of Alternative Rates

In general, these auxiliary rates follow the same seasonal and cyclical patterns as the overall rate, although there are some differences. A comparison of five rates--the overall rate, and the rates for men 20 years and over, married men, experienced wage and salary workers, and labor force time lost--reveals the following:

#### Seasonal Patterns

1. They all have a seasonal peak in the first quarter, with February the highest month, from 15 to 30 percent above the annual average.
2. They all have a seasonal low point in October or September, about 20 percent below the annual average.
3. Married men and adult men show the largest seasonal increase during the winter months.

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<sup>6</sup>In the future, as monthly data are accumulated, it will be possible to introduce a refinement into the computation to reflect the percentage of unemployed who are seeking only part-time jobs.

## Cyclical Patterns

1. In the 1957-59 cycle, all five rates (seasonally adjusted) showed a definite upward trend after August 1957, reached a peak in April 1958, remained on a plateau for about 4 months, and then showed a definite downward trend by September 1958.

2. In the 1960-62 cycle, all five rates turned upward after May 1960 and reached a peak by February 1961. In the recovery phase, the rates for married men and adult men seemed to start down about 2 months before the other (September rather than November 1961).

3. All five rates started upward in 1960 from a higher level than where they had been at the start of the 1957-58 recession. All five moved up much less sharply in 1960-61 than in 1957-58, but all remained at their recession peaks for a much longer period. And in each case, the recovery after the 1961 recession did not bring the rates back fully to their lowest prerecession levels in 1959 and 1960.

4. The rate for married men showed the sharpest cyclical movement, followed by the series for adult men. On the other hand, the cyclical changes in the rate for experienced wage and salary workers and for the percent of labor force time lost were no greater than for the overall rate.

In conclusion, any one of these five measures could have been used as a general economic indicator during the postwar period, although the series for married men and adult men appear to be somewhat more sensitive to cyclical change. Because of the more limited coverage or specialized nature of these measures, however, it would seem undesirable to replace the overall rate with any of the others described here. Rather, with full knowledge of the uses and limitations of each, it would be preferable to extend the range of analysis by examining all of them. Under present concepts, however, the overall unemployment situation must continue to be characterized by the overall rate.