

Discouraged and Other Marginally Attached Workers: Evidence on Their Role in the Labor Market

The combination of very low unemployment rates and somewhat limited wage and salary pressures has called into question our ability to measure labor market tightness. One issue is the extent to which labor availability is understated, given the existence of people who are not actively looking for work but express interest in working. This note examines the evidence on discouraged and other marginally attached workers and concludes the following:

- The number of discouraged and other marginally attached workers is extremely low. Although historical comparisons are somewhat imprecise given definitional changes in 1994, the inclusion of marginally attached workers in an expanded measure of unemployment is unlikely to change the conclusion that the current jobless rate is the lowest in three decades.
- Marginally attached workers are more concentrated than the unemployed in demographic groups whose employment–population ratios are low. Thus, as a group, they are less likely to become employed or remain employed.
- The sharp reduction in the number of marginally attached workers during the past several years has been due in large measure to the success of unemployed workers in finding jobs. Favorable economic conditions serve to limit the number who drop out of the officially measured work force.

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1. How does current unemployment compare with historical data if we expand the definition to include discouraged workers and others who are marginally attached to the labor force?

The April 2000 unemployment rate of 3.9 percent was the lowest since January 1970 and the May reading of 4.1 percent was barely higher. Yet, in addition to the 5.8 million unemployed, 1.1 million more people

indicate that they want a job and have searched for one sometime in the past year (but not the past four weeks). This latter group is termed “marginally attached” to the labor force and is divided into two categories. There are 282,000 “discouraged workers” whose reasons for not currently looking included “no work available, could not find work, lacks schooling or training, employer thinks too young or old, or other types of discrimination.” The 834,000 people with “other reasons” for not seeking work in the prior four

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weeks gave reasons such as child care and transportation problems. The unemployment rate rises by 0.2 percent if discouraged workers are included and by 0.8 percent if all marginally attached workers (discouraged plus other reasons) are included.¹

The marginally attached worker concepts were developed as part of a redesign of the Current Population Survey in 1994. However, an alternative measure of discouraged workers was issued quarterly as far back as 1967. The old definition referred to people who want a job but “think they cannot get one”—for reasons that are essentially the same as those used currently to categorize discouraged workers. The difference in the old definition was that it was *not limited to people who had searched for work in the past year*. As a result of the change in concept, the number of discouraged workers in early 1994 was only about one-half as

¹ The U.S. Bureau of Labor Statistics publishes six alternative measures of unemployment. U-4 is defined as total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers. U-5 is total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers. The most comprehensive measure, not discussed in this note, is U-6, which also includes people who were employed part-time “for economic reasons” (that is, because of a perceived lack of full-time work). U-6 was 7.1 percent in May 2000. The alternative measures are not seasonally adjusted.

large as the number of people who wanted a job but thought they could not get one in late 1993.²

Figure 1 shows the official unemployment rate and an estimate of the expanded unemployment rate including discouraged workers (U-4) on a quarterly basis starting in 1967.³ Prior to 1994, the number of workers who wanted a job but thought they could not get one was multiplied by 0.474 to approximate the current discouraged worker concept. The number of discouraged workers in the first quarter of 2000 was 251,000, the lowest ever recorded. According to the approximation method used, the previous low was 254,000 ($535,000 \times .474$) in the second quarter of 1969. Moreover, because the labor force is now almost twice as large as in 1967, the inclusion of discouraged workers now would raise the measured unemployment rate much less than it would have three decades ago.

The expanded unemployment rate including all marginally attached (U-5) is also included in the upper panel of Figure 1, starting in 1994. Unfortunately, no data exist prior to 1994 that are at all similar to the current definition of marginally attached for other reasons. However, the most recent quarterly value for U-5, 4.9 percent, is lower than the official unemployment rate at any time between 1973 and 1994 and lower than the estimated U-4 at any time between the first quarter of 1970 and 1994.

2. Are the marginally attached as “employable” as the unemployed?

In adding the number of marginally attached to the number of unemployed and interpreting the total as a measure of labor availability, an implicit assumption is that the two groups are similar. However, the marginally attached may not be as employable as the unemployed.⁴ For example, suppose marginally at-

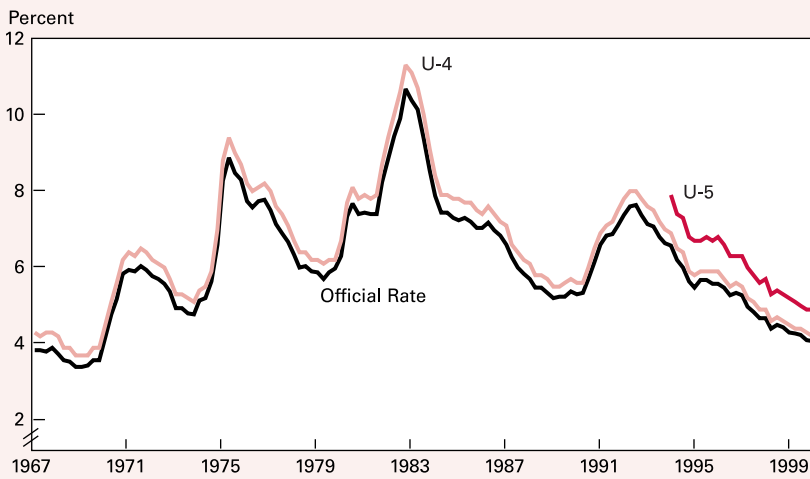
² There were 540,600 discouraged workers in 1994 Q1, equal to 0.814 percent of the total number of people not in the labor force. In 1993 Q4, there were 1.126 million people who thought they could not get a job, equal to 1.716 percent of the number not in the labor force. Thus, the ratio of the number of discouraged workers in 1994 Q1 to the number who thought they could not find work in 1993 Q4 is 0.480. Normalized by the number of people not in the labor force, the ratio is 0.474.

³ To facilitate comparisons with the seasonally adjusted unemployment rate, the U-4 and U-5 measures shown in Figure 1 are based on seasonally adjusted unemployment and labor force data. Therefore, they are slightly different from the published measures, which are based entirely on unadjusted data.

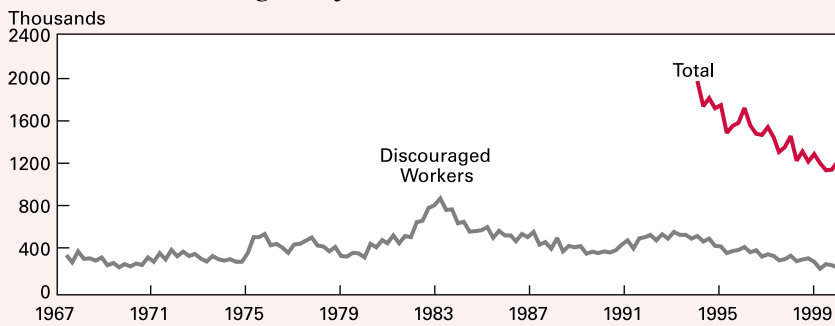
⁴ More fundamentally, the standard unemployment rate is not a comprehensive measure of labor market slack, since the composition of the unemployed changes over time. As noted by Bleakley,

Figure 1

Alternative Unemployment Rates



Marginally Attached Workers (NSA)



Note: The official unemployment rate shown is seasonally adjusted. U-4 and U-5 were constructed using seasonally adjusted measures of unemployment and labor force, but not seasonally adjusted measures of marginally attached workers. The series for U-4 and U-5 published by the BLS are based entirely on data that are not seasonally adjusted.

Source: U.S. Bureau of Labor Statistics and author's calculations.

tached workers generally lack the requisite skills or other attributes needed to fill existing job vacancies. Then the existence of marginally attached workers

Ferris, and Fuhrer ("New Data on Worker Flows During Business Cycles," *New England Economic Review* July/August 1999, p. 68), "[I]f the unemployment rate rises because of a large inflow of reentrants to the labor market who are optimistic about job prospects, this might signal very different wage and price pressures from the case in which the unemployment rate rises because jobs are destroyed, workers are terminated, and the escape rate from unemployment to employment falls dramatically." The authors confirm this view by estimating Phillips curve regressions that include several measures of the sources of unemployment.

would not tend to diminish the employment cost pressures associated with a given unemployment rate.

The demographic characteristics of the marginally attached suggest that they are relatively unlikely to work. Figure 2, based on data from 1994 to 1999, compares the composition of discouraged and other marginally attached workers to that of the unemployed.⁵ A disproportionate share of discouraged workers are 55 years and over. Older men and women comprise 16.8 percent of discouraged workers, but only 8.1 percent of the unemployed. A far greater share of discouraged workers are black—32.9 percent, versus 21.3 percent for the unemployed, and a greater share have not had postsecondary schooling—75.3 percent, versus 67.2 percent. Other marginally attached workers also are disproportionately black, although to a lesser degree than is the case for discouraged workers. More of the other marginally attached are teenagers—24.5 percent, versus 16.1 percent for the unemployed—and more are adult women. A greater share of the other marginally attached lack a high school diploma

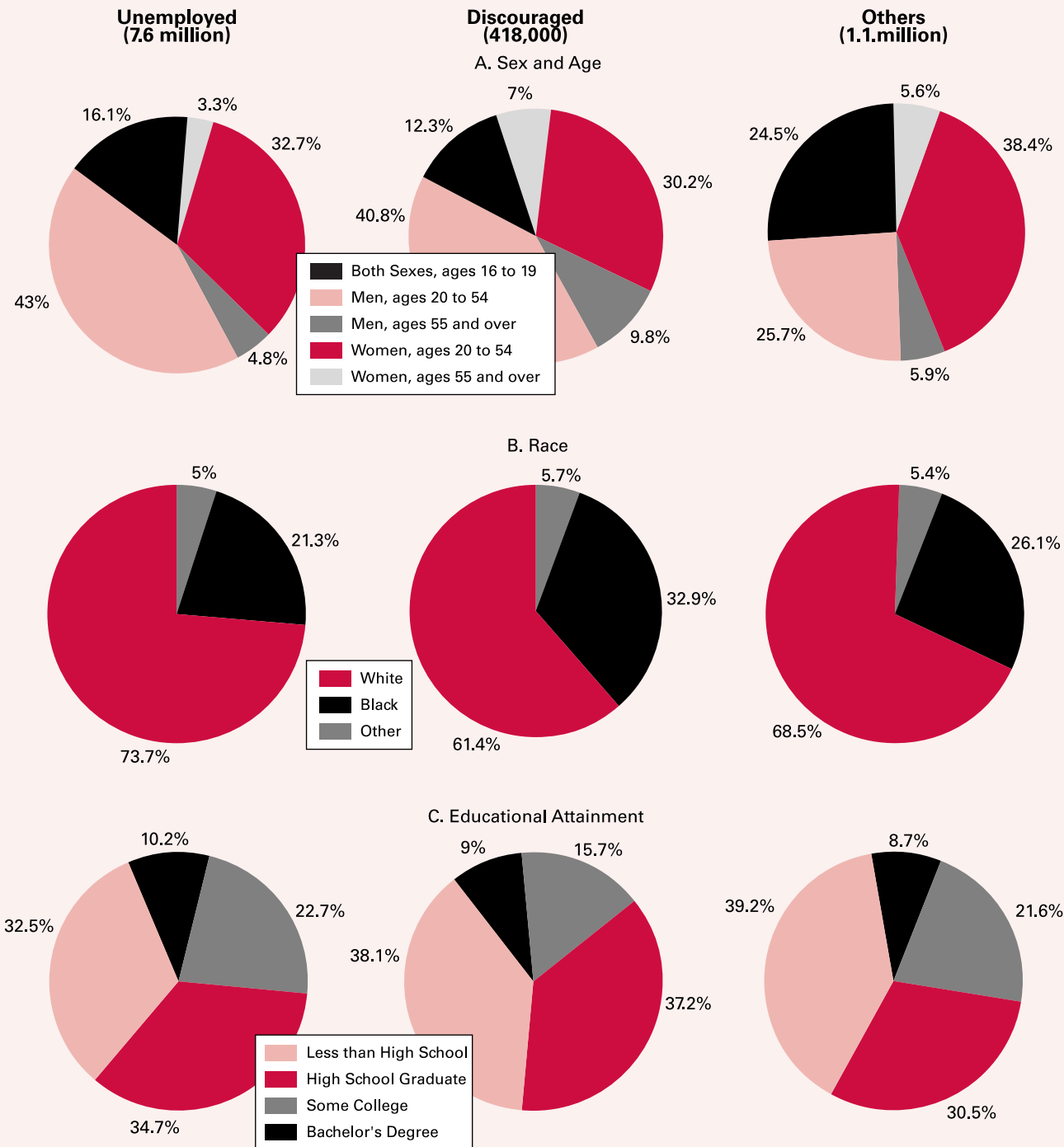
than is true for the unemployed, but this may be the result of a relatively high share of teenagers (who are still in school); the shares of the two groups who have completed at least some college are similar.

As shown in Table 1, teenagers, adult women, blacks, and people without a high school diploma have relatively low employment-population ratios. All of these groups except adult women have unem-

⁵ The findings are qualitatively similar using only March 1999 data rather than the averages of March 1994 to March 1999.

Figure 2

Composition of the Unemployed, Discouraged Workers, and Other Marginally Attached Workers, Averages for March, 1994 to 1999



Source: Current Population Survey using CPS Utilities.

Table 1
Labor Force Status, by Sex, Age, Race, and Educational Attainment

Averages for March, 1994 to 1999

	Unemployment Rate	Labor Force Participation Rate	Employment-Population Ratio
Overall	5.7	66.4	62.7
Sex and Age			
Both Sexes, ages 16–19	16.6	49.1	40.9
Men, ages 20–54	5.5	89.8	84.8
Men, ages 55 and over	4.8	75.8	71.9
Women, ages 20–54	4.8	38.6	37.1
Women, ages 55 and over	3.4	24.9	24.0
Race			
White	4.9	66.9	63.5
Black	10.7	63.9	56.7
Other	6.5	66.3	62.0
Educational Attainment			
Less than High School	13.0	43.3	37.6
High School	6.0	67.0	62.9
Some College	4.6	73.6	70.3
Bachelor's Degree	2.3	81.0	79.2

Source: Current Population Survey using CPS Utilities.

employment rates that are substantially above the overall average. Adult women have favorable unemployment rates, but lower than average labor force participation.

This conclusion about the relatively limited employability of the marginally attached is borne out by examining their actual labor market experiences since 1994. Table 2 indicates the average monthly “escape rates” into employment of the unemployed, the discouraged, and the other marginally attached. Specifically, the escape rate is defined as the percentage of persons in each category who are employed one month later. Also shown are the average proportions remaining (or becoming) unemployed and exiting (or remaining out of) the labor force.⁶ For the unemployed, about 28 percent indicated that they were employed one month later.

For discouraged and other marginally attached workers, the proportion was only about 12 to 13 percent. The majority of marginally attached workers—some 60 percent—indicated that they remained out of the labor force the following month, and only about one-quarter indicated that they were actively searching for work.⁷

3. So why has the number of marginally attached workers fallen sharply in recent years?

Despite their relatively low rates of employment, the number of marginally attached workers has shrunk dramatically in recent years. The number of

Table 2
Percentages of the Unemployed, Discouraged Workers, and Other Marginally Attached Workers by Labor Force Status One Month Later

January 1994 to February 2000

Labor Market Status One Month Later ^a	Current Labor Market Status		Other Marginally Attached
	Unemployed	Discouraged	
Employed	28.2	11.8	12.8
Unemployed	46.8	26.3	24.8
Not in Labor Force:			
Discouraged or Other Marginally Attached	6.1	20.0	18.7
Not Marginally Attached	17.9	40.1	42.4

^aThe columns do not add exactly to 100 percent because of technical issues related to sample weights.

Source: Current Population Survey.

⁶ The author is grateful to Hoyt Bleakley, Ann Ferris, and Jeff Fuhrer for making their matched CPS data set available, and specifically to Ann Ferris for performing the indicated calculations.

⁷ Some of the apparent flows from one form of non-employment to another probably are the result of the difficulties people have in recollecting their job search activity, especially those whose search is sporadic. It is remarkable that about 40 percent of marginally attached workers report one month later that they are not even marginally attached to the labor force. These reports may vary also because different household members respond to the survey in different months, and their perceptions of labor market attachment may differ.

discouraged workers in the first quarter of 2000 was less than half of what it was six years earlier; the number of other marginally attached was 38 percent lower. During the same period, the number unemployed dropped by 33 percent.

A key reason for the reduction in the number of marginally attached workers since the mid 1990s is that fewer people are *entering* this category. In terms of the concepts shown in Table 2, the average monthly escape rate from unemployed to marginally attached fell only very slightly between 1994–1996 and 1997–

2000. However, these escapes occurred from an ever-decreasing pool of unemployed.

In addition, a greater share of the marginally attached in 1997–2000 reported finding a job the following month than was the case during 1994–1996. The monthly job-finding rate for discouraged workers increased from 10 percent to about 14 percent, and that for other marginally attached workers increased from almost 11 percent to almost 16 percent. Nevertheless, their employment-finding rates remained less than half those of the unemployed.