



# Slip and Drift in Labor Statistics Since 2007

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[LINK TO ABSTRACT](#)

*We must preserve not only the bodies of the unemployed from destitution but also their self-respect, their self-reliance and courage and determination.*

—Franklin D. Roosevelt (1935)

The U.S. Department of Labor perhaps more than any other agency of government is susceptible to propagandizing through statistics. The agency has its roots in the provision of statistics, a few of which remain focal points for attention from economists and the press. A key responsibility for the Department is to help the public interpret the data that it produces, and such interpretations are often provided by the Secretary of Labor.

Here I focus on the statistics concerning unemployment produced by the Department of Labor, finding some indications that they might not be fully reflecting changes in labor market conditions. Labor force participation has slipped since the recession, even after controlling for demographic changes in the population; and, the official unemployment rate has drifted a bit from other measures of the performance of the labor market—measures that are not produced by the Department. I suggest that, if the Department's statistics alone are becoming less adequate for understanding and assessing labor market performance, that the Department's interpretations and statements should correspondingly be considered less adequate for such purposes. Perhaps economists should make greater

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use of additional sources of data on the labor market. In the final section of this paper I reflect on the importance of long-term unemployment as a social problem.

## **A brief history of the Department of Labor**

The U.S. Department of Labor could be said to have had its origins in the labor movement of the mid-19th Century (Lombardi 1942; Grossman 1973). By the end of the century, there were several dozen state bureaus of labor statistics, most prominent among them Massachusetts (Keyssar 1986), as well as a U.S. Bureau of Labor Statistics (BLS). The mission of these bureaus was to collect and publish information on labor and employment. The BLS initially pursued this mission through annual reports and periodic studies. By the early 20th century, the BLS began publishing price indexes on a monthly basis, first wholesale (today, producer) and then retail. By the mid-20th century, the bureau began to collect data and publish monthly statistics on labor market conditions, plus an expanding array of other statistics of various periodicities.

In 1913, when the modern day, cabinet-level Department of Labor was formed, it consisted of four disparate agencies (BLS, Immigration, Naturalization, and the Women's Bureau). Secretaries of Labor formerly tended to come from the ranks of the private-sector unions of the country, or were lawyers for these unions or academics specializing in labor relations. During the past several decades, they have been career public servants, having previously served in either appointive or elective offices.

Over the years, the department gained responsibility over the regulation of wages and hours of employment and occupational safety, for the federal government's role in the nation's system of unemployment insurance, and for the administration of various manpower and training programs, while losing immigration and naturalization to the Department of Justice.<sup>2</sup> Even with its expanded responsibilities, the release of the Employment Situation Summary on the first Friday of the month is a signature event for the department. The Employment Situation Summary covers the findings of two very large surveys: the Household Survey (or, Current Population Survey) and the Establishment Survey (Current Employment Survey; referred to by journalists as Jobs Report). It is from the former that statistics on unemployment and labor force participation are developed.

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2. Immigration and naturalization were subsequently moved to the Department of Homeland Security.

## Communication of facts and statistics on the current recovery

Two of the statistics published monthly by the Department, job growth and the official unemployment rate, have long tended to receive the lion's share of public attention.<sup>3</sup> But as a great deal of research has found—as do I, later in this paper—that in the years following the recession of 2007–2009, those two statistics have failed to reflect an important change in the labor market, namely a weak recovery in labor force participation. The unemployment rate has recovered comparably better, and that, I contend, has created an unfortunate alignment of incentives regarding communications from the Department: Continuing, routine placement of emphasis on the two traditional headline statistics projects the image of a recovery stronger than is really justified, which of course is the image any incumbent administration would like to foster.

Not surprisingly, Secretary of Labor Thomas E. Perez has consistently and repeatedly invoked the traditional headline statistics, while facts about labor force participation tend to appear in his discourse much less often. As an illustration, I reviewed the last twelve of the blog posts that Perez made on the Department website each month upon the release of the new figures. Perez references each of the two headline statistics in all twelve posts. I find that Perez conveyed a fact or statistic about labor force participation in only three of the twelve posts. By comparison, Perez conveyed information about new jobless claims in eleven of the posts, about earnings or wages in six posts, and about job openings in five posts. And he frequently conveyed economic statistics or facts unrelated to labor markets, invoking auto sales in six posts and consumer confidence in six posts.<sup>4</sup>

To be sure, the Secretary of Labor is a political appointee, and can be presumed to serve the interests of the administration. Furthermore, the Democratic Party, being the center-left party of this country, is disposed to attribute poor economic performance to the marketplace and good economic performance to government activism. To some extent, then, the emphasis of certain statistics and de-emphasis of others, and the attribution of cause variously to the marketplace or

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3. “Official unemployment rate” is a term the BLS itself uses; see, e.g., the U-3 row in Table A-15 of the Employment Situation news release ([link](#)).

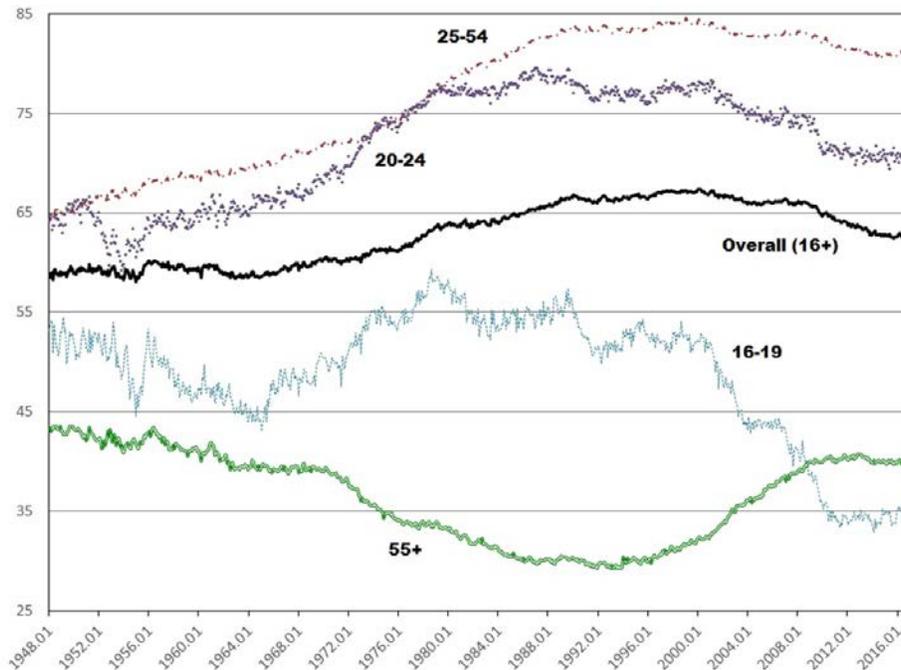
4. A spreadsheet documenting my investigation is available for download ([link](#)). I emphasize Perez's monthly blog posts because they lend themselves to systematic review, but I do see the pattern elsewhere. For example, in his March 16, 2016, testimony before Congress ([link](#)), Perez summarized the post-recession “turnaround” with his third paragraph. The statistics and facts he included are the unemployment rate, job growth, auto sales, unemployment insurance claims, and job openings.

to the government, is fair game in politics. Continued economic growth over a long period of time at a moderate rate can be looked at two ways. Some can say, pointing to the growth part, that the glass is half full. Others, pointing to the performance of the economy relative to prior trends, that it is half empty.

## Official unemployment rate versus labor participation rate

From a peak of 10 percent during October 2009, the unemployment rate fell to 5 percent during October 2015 and has since stayed at about this level. The reported fall in unemployment has been criticized for being driven by a fall in labor force participation, as opposed to being driven by vigorous job growth.

**Figure 1.** Civilian labor force participation rates by age and overall (percent)



Writing in the Department’s *Monthly Labor Review*, Steven F. Hipple (2016) presents a comprehensive picture. Since 2000 (a starting point prior to the focus of this paper), labor force participation has been falling among almost all age groups:

- *Teenagers (16–19)*. Participation declined both among those who are in school and among those who are out of school, as well as because school enrollment has increased.
- *Young adults (20–24)*. Participation declined among those who are in school, a group which made up an increasing share of young adults. Among young adults out of school, participation has been steady.
- *Prime-age adults (25–54)*. Participation declined among both males and females.
- *Older adults (55+)*. Participation rose from 2000 to 2007 and has been steady since then.

Across age cohorts, those whose labor force participation fell the most were less educated persons. Participation also declined because there was a shift of persons from the prime-age to the older cohort.

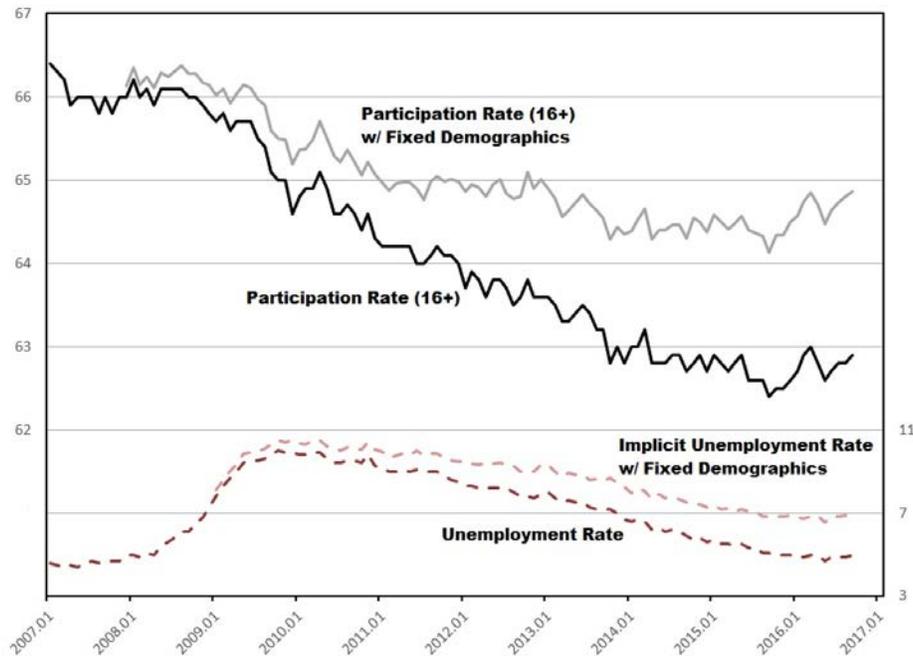
These trends in labor force participation can be seen in Figure 1. Because of these changes and shifts between age cohorts, the overall participation rate (thick black line in the middle) has fallen by 3 points from 2007 to 2016.

To isolate changes in participation within age groups from the shift of people from one to another age group, Figure 2 presents re-calculations of the overall participation rate as the weighted average of the participation rates of these four age groups, with the weights frozen at their 2007 levels. Instead of  $P_t = \sum_{i=1,4} w_{it} P_{it}$  where  $P_t$  is the overall participation rate at time  $t$ ,  $w_{it}$  is the weight and  $P_{it}$  is the participation rate of the  $i$ th age group at time  $t$ , participation is calculated as  $P_t = \sum_{i=1,4} w_{i2007} P_{it}$ . This calculation suggests that about half of the decline in participation over the period 2007–2016 was due to demographics, and about half to other reasons.<sup>5</sup>

This fixed-demographics measure of participation fell over the period, but not by as much as the reported participation rate. The decline of participation due to reasons other than demographic changes I will call ‘the slip.’ Were the slip to be added to the reported unemployment rate, the fall in unemployment from its peak would be only to 7 percent, as is shown in Figure 2.

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5. Conducting the exercise over 1999–2007 reveals no such slip in participation. Basically, rising participation by older persons offset falling participation by younger persons.

**Figure 2.** Participation and unemployment with fixed demographics (percent)

Other analysts have offered similar findings. Willem Van Zandweghe (2016) focuses on the “rapid decline” in labor force participation from 2007 to 2011. Demographic changes, changes in the culture, and so forth, he says, are likely to result in gradual changes in participation. The dramatic changes he finds during 2007–2011 are “cyclical” in the sense that they occurred during the downturn in the economy and its immediate aftermath (and yet he demonstrates that labor force participation is usually only modestly procyclical). In addition, the several extensions of unemployment benefits during the period masked the eventual fall in participation, as many people who lost their jobs during the downturn remained in the labor force, looking for work as is required to receive unemployment benefits, until their benefits expired, at which time they exited the labor force. Shigeru Fujita (2014), examining the reasons people cited for not being in the labor force, attributes about 1.5 points of the fall in participation to reasons other than retirement or disability. He also finds that retirement and disability rose.

## Alternative measures of unemployment

Since 1991, the BLS has been publishing expanded measures of unemployment. Among these is the “U6” measure that counts as unemployed persons who

are without work who are discouraged and marginally attached to the labor force, and those who are working part-time but would like to work full-time, in addition to those who are (completely) without work and actively looking for work. When promulgated, the U6 measure was about twice the size of the “official” concept. The high correlation exhibited between the two measures supports the use of the standard concept at least as an index of the underutilization of labor. While the official measure has returned to its level at the onset of the 2007–2009 recession (5 percent), the U6 measure remains above that level (10 versus 9 percent).

Jim Clifton (2015), chairman and CEO of the Gallup Organization, has been a blunt critic of reliance on the official unemployment rate: “There’s no other way to say this. The official unemployment rate, which cruelly overlooks the suffering of the long-term and often permanently unemployed as well as the depressingly underemployed, amounts to a Big Lie.” Every month, Gallup interviews about 30,000 people in its ongoing omnibus survey, which includes questions sufficient to construct a measure of unemployment similar to the official unemployment rate, as well as an expanded measure, which is described as an underemployment rate, roughly similar to the U6 unemployment rate.

Figure 3 shows that the unemployment statistics produced by the BLS have been drifting away from these comparable statistics produced since 2010 by Gallup. During the first two years, BLS unemployment rate was lower than the Gallup figure by an average of only 0.1 percentage points. But, during the two years ending August 2016 the BLS unemployment rate has been on average lower by 0.7 percentage points. As for the expanded measures of unemployment, they have drifted apart to a greater extent. During the first two years, the Gallup figure was on average 2.4 percentage points higher. This initial difference probably reflects differences in the definitions of the BLS U6 unemployment rate and the Gallup underemployment rate. During the past two years, the Gallup figure has been on average 4.1 percentage points higher, a drift of 1.7 percentage points.<sup>6</sup>

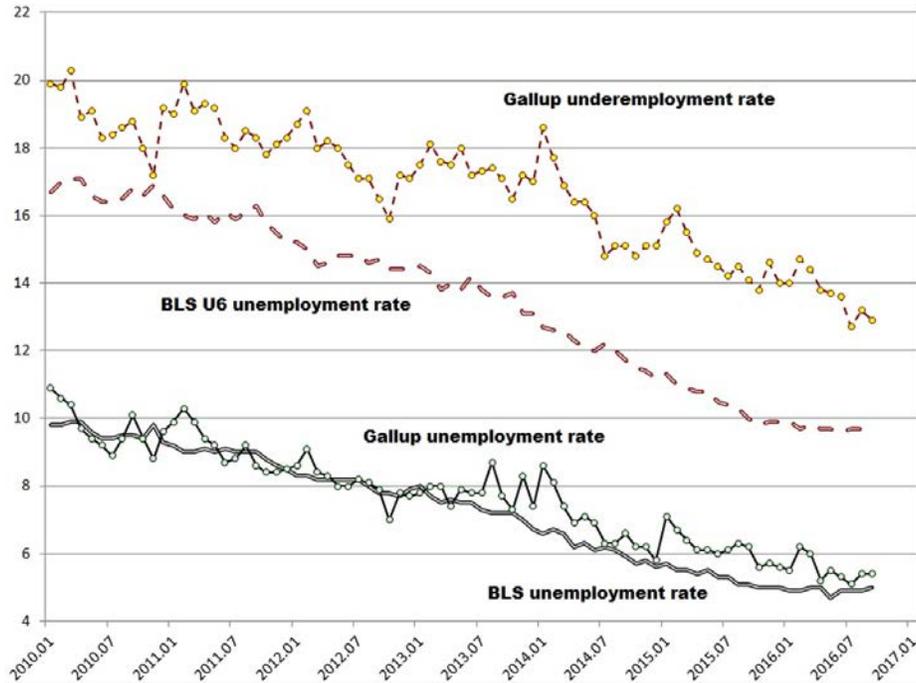
The BLS and Gallup survey approaches do differ. In the Current Population Survey, respondents are not directly asked if they are “unemployed.” Rather, unemployment is inferred from whether—if they were not working during the reference week—they were actively looking for a job. Gallup, in determining unemployment, does rely on respondents’ colloquial understanding of “unemployed” (Jacobe 2012). The initial similarity of the BLS and Gallup measures of unemployment, and the rough similarity of their trends since Gallup began to track the unemployment rate, can be taken as validation of both approaches. The

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6. Regressions of the spread of the Gallup and BLS figures against time are highly significant for both the official unemployment rate ( $t = 4.21$ ) and the expanded measure ( $7.64$ ).

apparent drifting apart of these measures, then, might be a meaningful phenomenon, worthy of investigation.

**Figure 3.** BLS unemployment rates versus Gallup Poll unemployment rates (percent)



The Council of Economic Advisers recently released an admirable report that attempts to assess the usefulness of different BLS-produced statistics. The CEA concludes that one of the two major surveys used by BLS, the Establishment Survey, produces information on monthly changes in employment that is far more useful than the information produced by the other, the Household Survey (2017, 2–5). I hope that economists will mount similar investigations of the usefulness of other sources of data on the labor market, such as the Gallup survey.

## Beyond discouraged

The earliest statistics we have of unemployment concern persons with “gainful occupations” who were not at work (Moen 1988; see also James and Thomas 2003; Vedder and Gallaway 1992). By the 1930s, unemployment became redefined as persons not working who are looking for work, with concern for persons not working who are not looking because they are discouraged (Card

2011). The earlier, “gainful occupation” approach basically presumed that prime-aged men sought work, along with some women perhaps because they were without male support, and that not working was caused by sickness or injury, strike activity, bad weather, industrial recession or some other such cause. The new, search-based definition of unemployment better fits an increasingly diverse work force, especially in terms of age and gender, so that a person’s choice to look for work is determinative.<sup>7</sup> There remains, in the search-based definition of unemployment, a presumption that those who should work will seek to work, except those who are discouraged.

For various reasons, labor-force attachment appears to be on the wane in the United States. Workers may be less inclined to work or to work full-time because income security programs raise the reservation wage, and taxes and the means-testing of income security programs make work unprofitable for some low-wage workers (Mulligan 2012; Thies 2012).

Erik Hurst (2016, 27:30) discusses trends in employment, cohabitation, leisure activities, and happiness of less educated males, out of school, aged 21 to 30. He finds substantial decreases in employment and marriage, increases in living with parents or other close relatives, and increased playing of video games. Russ Roberts, conversing with Hurst, finds it difficult to believe that young men are choosing a lifestyle of living in their parents’ basements playing video games instead of seeking employment and marriage (*ibid.*, 43:30). But, according to Hurst, these young men describe themselves as happy.

Although we economists describe the sentiment of failure in finding acceptable work merely as being discouraged, some fellow social scientists are more descriptive, using terms such as “learned helplessness” (e.g., Beck 1990, 253–267). Early work distinguished the effects of short-term unemployment from those of long-term unemployment, the latter of which is more corrosive (Harrison 1976; Hill 1977).<sup>8</sup> Learned helplessness can explain continued non-participation even following a vigorous recovery (Zippay 1995). Among the consequences of learned helplessness, especially among those who identify themselves as disadvantaged, are the loss of self (or, self-identity) and distrust of others. Some individuals may externalize their continued failure, indulging themselves in self-righteousness, while others may internalize their continued failure, indulging themselves in self-blame (McClure 1985, 1537).

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7. To be sure, from time to time, complications arise as to whether to count persons participating in work projects and other manpower programs as employed, unemployed or out of the labor force (e.g., Darby 1978).

8. Perhaps the earliest investigation in this genre was Eisenberg and Lazarsfeld (1938).

While increased unemployment represents the loss of a wasting asset and thus a true social loss, reduced labor force participation may represent something more terrible. The focus on the official unemployment rate to the exclusion of other measures of the performance of the labor market tends toward a focus exclusively on output lost from the underutilization of labor. It tends to obscure the idea that, for many, work earns one respect and organizes and gives meaning to life. There is a sense in which hidden unemployment, from discouragement, is a worse problem, and that the real justification in using the official measure of unemployment is its correlation with broader concepts. But, it appears, such correlation has not been entirely steady. Let's keep watching, with a mind to reconsider our habits in interpreting labor statistics.

## Appendix

Data used to construct the three figures is available for [download \(.xlsx format\)](#).

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