Recession Pushes More Into Part-Time Work, Discouragement

By Frank Ahrens | August 13, 2009; 12:27 PM ET

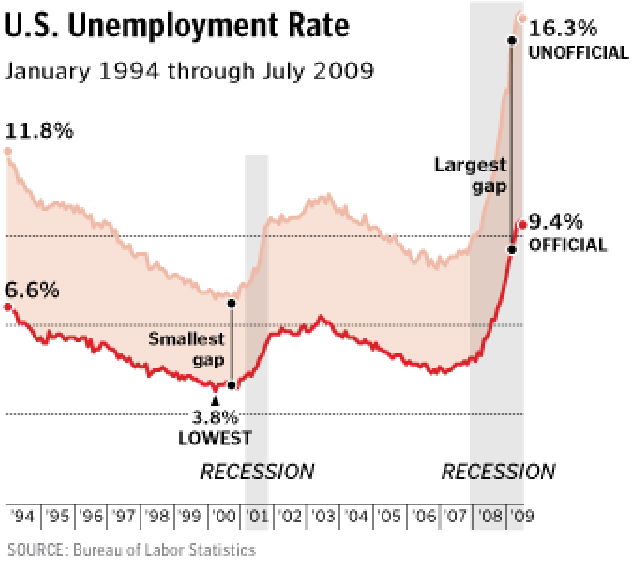
Unemployed Americans are so discouraged about the prospect of finding a new job that they're checking out of the labor force at the highest and fastest rate in nearly 10 years. Further, the recession has forced more full-time workers into part-time slots than at any time over the past 15 years.

Those are the sobering conclusions drawn from some data analysis we did here at **The Ticker**, pegged to last week's unemployment report that showed July joblessness actually ticked down a little.

Despite this small reduction in the unemployment rate, our data show that things are no better for Americans who want full-time jobs but can't find them.

For this analysis, we compared two unemployment rates over the past several years: the official rate and the unofficial rate, which we write about every month here at The Ticker.

The resulting chart shows the gap between these two rates has widened to its highest level since 1994 during the current recession:



First, a word on the difference between the two rates:

-- The official rate -- which dropped to 9.4 percent in July from 9.5 percent in June -- is determined by a rotating monthly survey of 60,000 U.S. households performed by the Labor Department's Bureau of Labor Statistics, combined with jobs data sent in by employers. According to this measure, you are marked as "unemployed" if you're jobless and you meet certain criteria, including whether you looked for work in the previous four weeks.

-- The unofficial rate starts with the official rate and then adds in everyone else who should be working full-time but is not, including those whose hours have been reduced from full-time to part-time, those who have become so discouraged they have given up looking for work and others who are "marginally attached to the labor force." Many economists believe this rate is a truer measure of the health of the economy. In July, the rate dipped to 16.3 percent from its historic high (since 1994) of 16.5 percent in June.

Notice that the chart only goes back to 1994, so it covers only the two most recent recessions. I wanted to go back to 1970, which would have covered seven recessions, but the BLS changed the way it counts the unofficially unemployed in 1994, so that's as far back as I could go with a strict, apples-to-apples comparison.

Based on that, here's what our chart shows: The gap between the officially and unofficially employed in 2000 -- just before the recession caused by the dot-com crash and 9/11 -- was at its smallest. This means that if you were unemployed at this time, you were the most encouraged you'd been since 1994 that you'd find a new job.

That gap peaked in March of this year, and has backed off just a little since then. This means that more people who are unemployed now have checked out of the labor force and just given up looking for work. It also means that more full-time employees have been reduced to part-time workers, as we will see in a moment.

Official unemployment has risen swiftly from the beginning of the recession in December 2007 to now: From 4.9 percent to 9.4 percent in July.

But the rise in unofficial unemployment has been jaw-dropping: From 8.7 percent in December 2007 to 16.3 percent in July.

The rate has nearly doubled and the gap between the two measures has increased more swiftly than it did during the previous recession.

(The main reason I wanted this chart to go back farther was to capture the 1982-83 recession, when the official unemployment rate shot up to nearly 11 percent, the highest in nearly 40 years.)

So this chart is startling, to be sure. But what does it mean?

We pinged **Harvard** economist Lawrence Katz, a former chief economist at the Labor Department, to get his take on the data.

His takeaway: This recession has been so bad, that even after businesses have laid off workers, they've been forced to reduce many of their remaining employees from full-time to part-time status. That's what happens when you have to cut to the bone. And then keep cutting.

"Workers on short hours (the underemployed or the involuntary part-time) account for 5.6 percentage points of the 6.9 percentage point gap between the unofficial and official unemployment rate measure," he wrote us by e-mail, "while those who have dropped out (discouraged and other marginally attached workers) account for only 1.3 percentage points in the gap."

While it may be "only 1.3 percentage points," that still translates to 796,000 people, an increase of 335,000 from last year. That's a lot of people checking out of the labor force.

This number "is larger than the 2001 recession," Katz writes, "but we don't have comparable data for the 1982-83 recession since BLS tightened up on the definition of what is a discouraged worker" in 1994.

He did add, however, that if you look at the unofficial data from the 1982-83 recession (not an apples-to-apples comparison) it indicates that there were "much larger levels and increases" in discouraged workers in that recession than in this one. So, at least we've got that going for us.

As you may remember, unemployment benefits were extended earlier this year as part of the $787 billion stimulus bill. We wondered if this would disincentivize the jobless from looking for work because the unemployment checks keep rolling in.

But Katz says just the opposite is true.

"The increase in the length of unemployment benefits actually leads more people to continue to call themselves unemployed [as opposed to "discouraged"] and to stay connected to the labor force and searching for jobs," Katz writes. The unemployment benefit "extensions seem to be succeeding in keeping the unemployed attached to the labor force and not dropping out and going onto, say, disability programs."

Even if the recession ends in this quarter -- meaning positive growth in GDP -- unemployment is likely to continue to climb to at least 10 percent, economists and the White House say. Unemployment has continued to rise for several months after six of the past seven recessions. That's just what it does as a lagging indicator.

What we'll be watching for, however, is whether the gap between the officially and unofficially unemployed continues to grow. If it does, this recovery will take even longer than people think.

http://voices.washingtonpost.com/economy-watch/2009/08/unemployed_americans_are_so_di.html?hpid=sec-business