



Discouraged Workers: What Do We Know?

B. Ravikumar, *Vice President and Economist*

Lin Shao, *Technical Research Associate*

The Federal Open Market Committee routinely assesses labor market conditions during its monetary policy decisionmaking process.¹ While the unemployment rate has been used as the main indicator of labor market conditions, the decline in the unemployment rate over the past two years has recently highlighted other aspects of the labor market. For instance, several authors have included the number of “discouraged workers” in their assessments of labor market conditions.²

The number of discouraged workers is small relative to the rest of the working-age population, and most discouraged workers do not stay in that category too long.

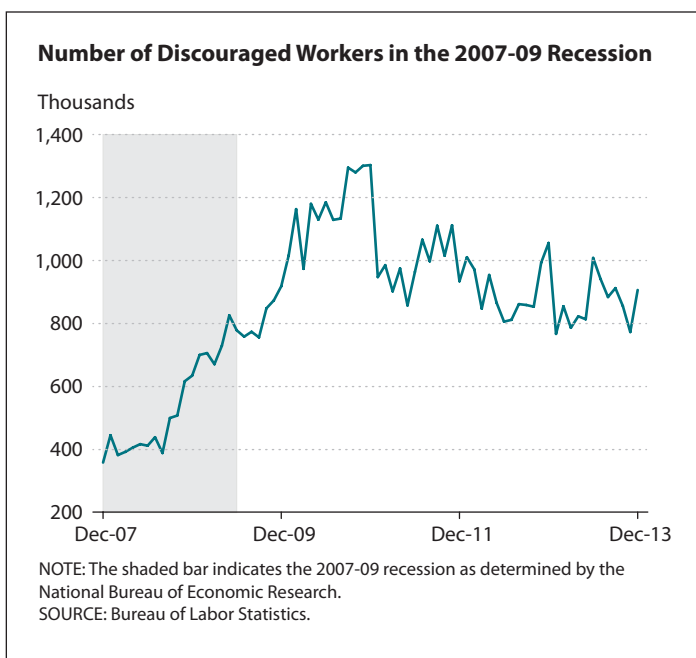
The U.S. Bureau of Labor Statistics (BLS) divides the working-age population into three broad categories: employed, unemployed, and nonparticipants.³ Discouraged workers are a subset of the nonparticipants. According to the official BLS definition, discouraged workers are people who want a job but are not currently looking for one because they believe there are no jobs available for them.⁴ The first chart shows there were about 300,000 discouraged workers right before the 2007-09 recession; their ranks started to rise after the recession began and peaked at 1.3 million around December 2010. The increase in the number of discouraged workers has been interpreted by some as indicative of weaker labor market conditions.⁵ In this essay, we argue that the statistics on discouraged workers should be interpreted with care.

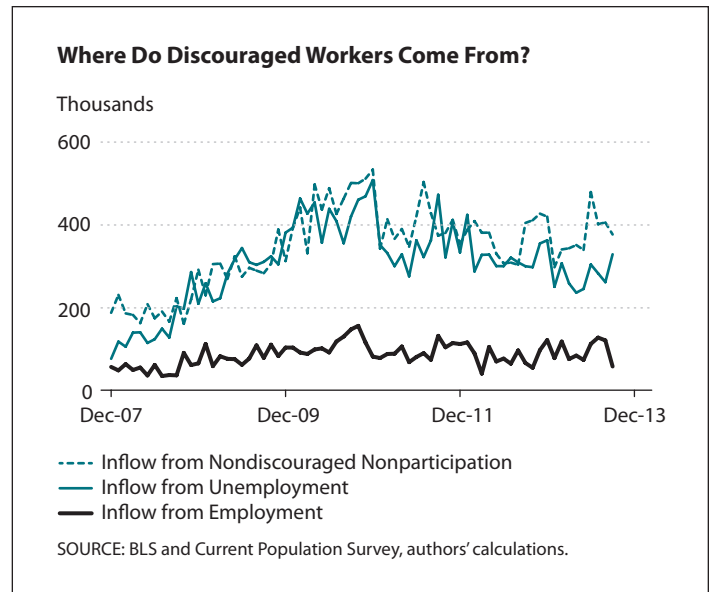
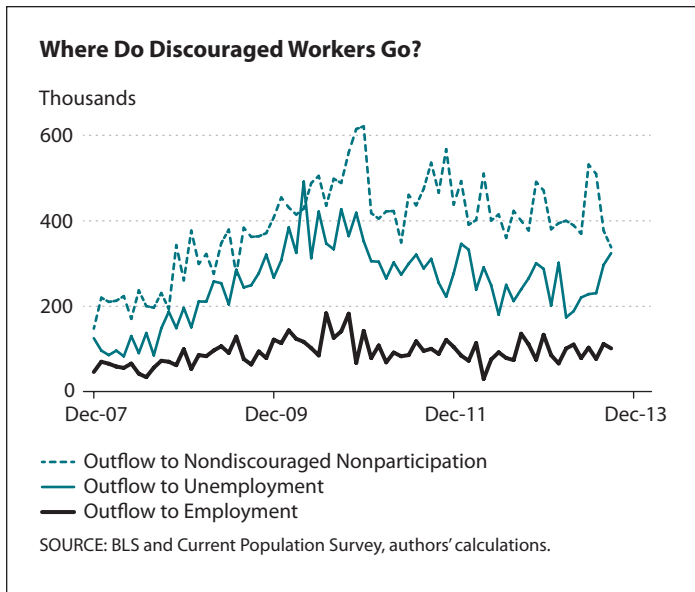
First, the number of discouraged workers is small relative to the other categories of the working-age population. On average, since the start of the recession in December 2007, discouraged workers are less than one-tenth of the number of unemployed workers and less than one-hundredth of either the number of employed workers or the number of

nondiscouraged nonparticipants. Even at its peak of 1.3 million during the Great Recession, the number of discouraged workers was less than one-tenth of the number of unemployed workers.

Second, most discouraged workers do not stay in that category too long. That is, members of the working-age population flow in and out of the discouraged worker category rather frequently.

The second chart shows the outflows of discouraged workers since December 2007. Where do they go? Only about 10 percent of discouraged workers in a given month are still in the discouraged category the following month. In other words, nearly 90 percent of the discouraged workers in a given month have moved on to the category of employed, unemployed, or nondiscouraged nonparticipants. In fact, roughly 50 percent of the discouraged workers have become employed or are actively looking for employment.





The third chart shows the inflows into the discouraged workers category. Where do these newly discouraged workers come from? Again, about 90 percent of discouraged workers in a given month are newcomers to the category; they were not in the discouraged category during the previous month. Roughly 13 percent of the new inflows were employed in the previous month, 38 percent were unemployed, and the rest were nondiscouraged nonparticipants.

In summary, the number of discouraged workers is small relative to the rest of the working-age population, and the category of discouraged workers is a transitory category, not an absorbing and permanent one. ■

NOTES

¹ For example, see the Federal Open Market Committee's press release on January 29, 2014; <http://www.federalreserve.gov/newsevents/press/monetary/20140129a.htm>.

² For a discussion of the effect of discouraged workers on the labor force participation rate, see *Economist*. "Closing the Gap." *Economist*, February 15, 2014; <http://www.economist.com/news/finance-and-economics/21596529-americas-labour-market-has-suffered-permanent-harm-closing-gap>; and Sanctis, Matt. "Shrinking Labor Force a Sign of Discouraged Workers." *Dayton Daily News*, November 30, 2013; <http://www.daytondailynews.com/news/news/local/shrinking-labor-force-a-sign-of-discouraged-worker/nb7Td/>.

³ The working-age population refers to the population between 16 and 65 years of age.

⁴ See the BLS glossary for the official definition; <http://www.bls.gov/bls/glossary.htm>.

⁵ See, for example, Boesler, Matthew. "What the Unemployment and Labor Force Participation Rates Would Be If All of the Discouraged Workers Came Back." *Business Insider*, January 19, 2014; <http://www.businessinsider.com/unemployment-rate-if-discouraged-workers-came-back-2014-1>.