

# *PERSONALLY SPEAKING*

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## **DYNAMIC LABOR FORCE DEVELOPMENTS OFTEN OVERLOOKED**

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*Permission to quote is granted when the source is acknowledged.*

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Dynamic labor force developments are largely overlooked in the monthly household survey reports of the Bureau of Labor Statistics that by and large are based on the premise of a closed system in which persons 16 years of age or older are uniquely classified as either employed, unemployed, or not in the labor force (NILF). The total number of persons in all three classifications is referred to as the civilian noninstitutional population (CNP).

In Paul Davidson's comments in *USA Today* on March 28 labor force developments are reported as if they occur only within that system. Persons enter the labor force or leave. When they enter they are classified as either employed or unemployed. When they leave they are counted among those who are NILF.

However, CNP does NOT take into account persons below the age of 16, active-duty military personnel, and persons who are incarcerated or institutionalized.

- When a 15 year old reaches age 16, that person is counted in CNP and is classified as employed, unemployed, or NILF (the latest Census Bureau estimate for 15 years olds is 4.1 million).

- When a person is called to active duty he/she is **not** counted in CNP and therefore is not classified as employed, unemployed, or NILF (1.4 million persons are active-duty military personnel).

- When an able-bodied person on active duty returns to civilian life that person is counted in CNP and classified accordingly.

- When a person with an injury while on active duty is institutionalized in the health care facility such as a VA hospital or a specialized rehabilitation facility, he/she is **not** included in CNP.

- When a person is incarcerated he/she is **not** counted in CNP (about 2.2 million persons are currently incarcerated in federal and state prisons). However, when that person is released from incarceration he/she is counted in CNP and is classified as employed, unemployed, or NILF. The same applies to a civilian who has been released from an institution for treatment of a mental illness or an addiction.

Consider these two scenarios. A person released from active duty returns to a job that was being held for him/her. CNP, number employed, and number in the civilian labor force increase. There is no change in number unemployed or NILF. Another person returning from military service decides to take several months to readjust to civilian life. CNP and NILF increase; there is no change in number employed or unemployed. The same two scenarios apply to a person released from prison or released from long-term hospitalization or rehabilitation.

Other labor force dynamics relate to immigrants who have just been awarded a green card (of late roughly 1 million permanent residents are awarded green cards annually), and persons with labor force attachments who die (about 2.5 million persons die every year).

It follows that the labor force participation rate can change for reasons other than developments within the closed system. To demonstrate that point, assume that there are 100 persons in the civilian labor force and 150 CNP. The participation rate is 66.7 percent. With the incarceration of one person who was unemployed, civilian labor force drops to 99 and CNP to 149, producing a participation rate of 66.4 percent.

Consider a woman on active military duty who returns to civilian life and finds a job quickly. Employment, civilian labor force, and CNP all increase. Participation in this case increases but not for the usual closed-system reasons.

Using the same numbers as before, her employment as a civilian increases civilian labor force to 101 and CNP to 151. The participation rate rises from 66.7 to 66.9 percent.

Scaling up these numbers to align them with the actual numbers in the labor force and CNP would not change the outcome: participation falls in the first instance and rises in the second.

Commentators who report what's happening in the labor market need to know and take into account the persons who are included in CNP and those who are not. And they ought to pay more attention to the standard errors associated with CNP and its various components especially NILF. For instance, the 206,000 decrease in NILF between February and March is **not** statistically significant because it is well *below* the 487,000 needed for statistical significance. Further, the one-month change in the participation rate from 62.9 percent to 63.0 percent is **not** statistically significant.

All relevant information on statistical significance is readily available in a one-page table at <http://www.bls.gov/web/empsit/cpssigsuma.pdf>

Once again Mayo Research Institute urges the BLS to include that table prominently in its reporting on the monthly household survey.

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