



## **What the Unemployment Rate Doesn't Tell: Measurement Effects of Alternative Definitions of Labor Force Attachment**

Erich Battistin, Enrico Rettore, Ugo Trivellato, Nadir Zanini

Martedì 24 Febbraio 2015, ore 12.00 Aula della Scuola di Dottorato, Palazzo Cà Borin, Via del Santo 22

The official unemployment rate is computed from data collected in national labour force surveys. People aged 15 and over are classified as *Unemployed* if they are (1) not at work, (2) immediately available to start working, (3) actively searching for a job. As a result, population officially classified as *out of the labour force* turns out to be a composite aggregate. In particular, the pool of job seekers whose last search action occurred *more than four weeks before* the interview - in some literature named *Potentials* - is both sizeable in most European countries and with a clear attachment to the labour market. A standard way in the literature to evaluate labour market classification rules is to compare transition probabilities between different states. If transition probabilities from two states - *Potentials* and *Unemployed* in our case - toward all others are statistically similar, then the two states cannot be regarded as truly distinct. We revise this way of tackling the problem pointing out its potential weakness. As applied to CPS data our method confirms that a fraction from non negligible to relevant of the *Potentials* exhibits a dynamics close to the one observed for the *Unemployed*.