

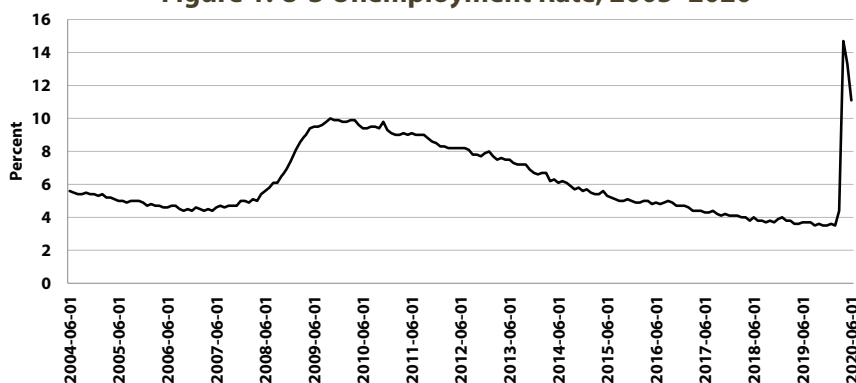
Understanding the Current Unemployment Crisis

Are the headline numbers still underestimating the real story?

BY MARK PAUL

How fast the pendulum swings. In February 2020 the U.S. economy was boasting the lowest headline unemployment rate in my lifetime, and likely yours. The last time unemployment had reached 3.5% was in 1969—the year my mother was born. While the pre-pandemic economy was still plagued by low wages, the longest economic expansion in U.S. history was in full swing. Then came the global pandemic, which led to the shuttering of economies around the globe. The massive public health crisis has helped to create an economic crisis, throwing tens of millions of Americans into the unemployment line—if their state has a functional unemployment system, that is. While the headline unemployment rate, at 11.1% in June, is absolutely devastating in and of itself, it fails to account for millions of unemployed workers. But why? And how can we gain a fuller picture of the labor market?

Figure 1: U-3 Unemployment Rate, 2005–2020



Source: U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], Federal Reserve Bank of St. Louis (fred.stlouisfed.org).

The most often cited statistic on unemployment is the official (U-3) unemployment rate—the proportion of members of the civilian labor force currently out of a job (see Figure 1). However, there are actually six different unemployment rates, and in order to paint a fuller picture of the current unemployment crisis, this article will focus on the U-6 unemployment rate, as well as the employment-to-population ratio. These rates are important because they give us a clearer understanding of who does, and does not, get counted as unemployed across the different measures.

Official unemployment, measured by the U-3 rate from the Bureau of Labor Statistics (BLS), is the percentage of individuals who are not employed but are currently looking for and available for work, as a percentage of the civilian labor force. To be counted as unemployed, the person must have applied for a job within a four-week period, which can be hard during a global pandemic. Importantly, this unemployment rate leaves out large swaths of people that should be counted among the unemployed. For example, the BLS misclassified an additional 1.2 million furloughed workers who were temporarily unemployed but who were counted as “employed not at work,” and were thus not included in the official unemployment rate. Moreover, if we include people who are marginally attached to the labor force—workers who have looked for employment in the past year, but not in the fast four weeks—and people who are only working part time despite wanting to work full time, the percentage of people who are counted as unemployed would have been 18.0% and 19.2%, respectively. The BLS does include the marginally attached and involuntary part-time workers as “unemployed” in its U-6 unemployment rate. That matched the highest U-6 unemployment rate on record, other than the yet higher figures in April

GEORGE FLOYD WOULD NOT BE PLEASED

The U-3 unemployment rate fell from 14.7% in April to 13.3% in May as employment picked up with more workers returning to their jobs. Ever the carnival barker, President Donald Trump sold the drop in the unemployment rate as the harbinger of a rapid economic recovery instead of what it was, one of the two worst monthly unemployment rates since the Great Depression.

He didn't stop there. Referring to George Floyd, who had been brutally killed by four Minneapolis policemen in late May, he added, according to Business Insider, “Hopefully, George is looking down right now [from heaven] and saying, ‘This is a great thing happening for our country.’ It’s a great day for him. It’s a great day for everybody. This is a great, great day in terms of equality.” Trump’s remarks were rightly condemned as revolting, enraging, and disrespectful. Nor were they accurate. Along with the overall rate, the white unemployment rate declined from April to May, but the black (or African-American) unemployment rate rose from 16.7% to 16.8%. The 16.8% rate matched the highest black unemployment rate in the wake of the Great Depression. That’s hardly a great day for equality, or for the economy.

SOURCE: “The Employment Situation—June 2020,” Bureau of Labor Statistics, July 6, 2020.



CALCULATING THE U-6 UNEMPLOYMENT RATE

The BLS calculates the official unemployment rate, U-3, as the number of unemployed as a percentage of the civilian labor force. The civilian labor force consists of employed workers plus the officially unemployed. According to the BLS, the unemployed includes those without jobs who are available to work, and those have looked for a job in the last four weeks. Applying the data found in Figure 1 yields an official unemployment rate of 11.2%, or a seasonally adjusted rate of 11.1% for June 2020, or about 12.3% after correcting for the miscalculations in the BLS survey.

But these headline unemployment rates dramatically understate the true extent of unemployment. First, they exclude anyone without a job who is ready to work but has not actively looked for a job in the previous four weeks. The BLS classifies such workers as “marginally attached to the labor force” so long as they have looked for work within the last year. Marginally attached workers include so-called discouraged workers who have given up looking work for because they can’t find a suitable job, plus others who have given up for reasons such as school and family responsibilities, ill health, or transportation problems.

Second, the official unemployment rate leaves out part-time workers looking for full-time work: Part-time workers are counted as “employed” even if they work as little as one hour a week. The vast majority of people involuntarily working part time have had their hours cut due to slack in the labor market or unfavorable business conditions. The rest are working part time because they could only find part-time work.

Accounting for the large number of marginally attached workers and those involuntarily working part time raises the count of unemployed workers to 29.9 million for June 2020. It also expands the labor force by the number of marginally attached workers. Those numbers together push up the U-6 unemployment rate to 18.3%, or a seasonally adjusted rate of 18.0%, or about 19.2% after correcting for the miscalculations in the BLS survey. —John Miller

SOURCE: “The Employment Situation—June 2020,” Bureau of Labor Statistics, July 6, 2020.

Table 1: The June 2020 Unemployment Picture
(Data in millions, not seasonally adjusted)

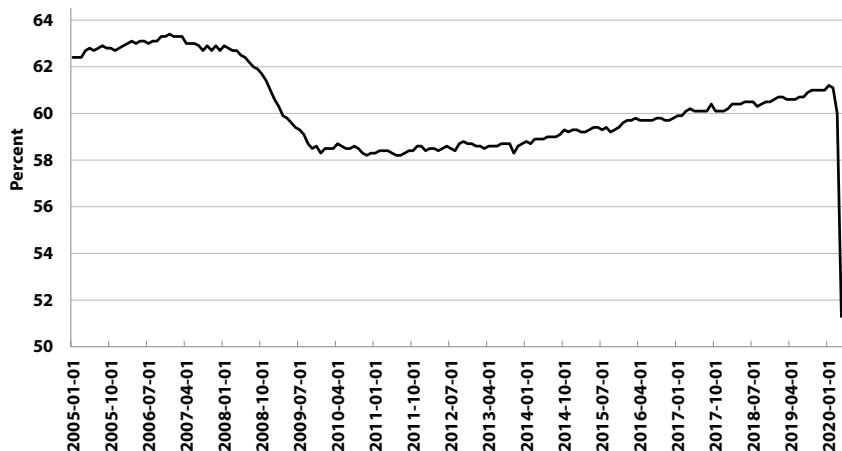
Employed	142.811
Unemployed	18.072
Civilian Labor Force	160.883
Marginally Attached Workers	2.486
Discouraged Workers	.684
Other reasons	1.803
Part time for Economic Reasons	9.306
Slack work or business conditions	8.043
Could only find part-time work	.978

Sources: Bureau of Labor Statistics, Table A-1, A-5, A-8, A-15, A-16. The data are not seasonally adjusted because seasonally adjusted data for marginally attached workers are not available.

and May, and the 18% rate recorded in January 2010 following the Great Recession. (See sidebar.)

Other measures add to the complex story that is the labor market. The employment-to-population ratio answers the question “what percentage of the working-age population is employed?” (See Figure 2.) Here, we see that employment fell off a cliff. In April just 51.3% of people were employed—the lowest rate since record keeping began in 1948. But even that’s an understatement, since during the 1940s and 1950s only about a third of women were in the labor force. Since April, the numbers have recovered slightly, with 54.6% of the population employed as of June. Regardless, any way you cut it, we’re dealing with the worst unemployment crisis since the Great Depression. **D&S**

Figure 2: Employment-To-Population Ratio, 2006-2020



Source: U.S. Bureau of Labor Statistics, Employment-Population Ratio, Seasonally Adjusted (bls.gov).

MARK PAUL is an assistant professor of economics at New College of Florida and a Fellow at the Roosevelt Institute.