

What the Unemployment Rate Really Is

Fred Maidment

Western Connecticut State University

ABSTRACT

In the current recession, unemployment is up sharply reaching 9.8 % in September of 2009. But that 9.8 % figure does not represent true unemployment. Using the Bureau of Labor Statistics' own figures, this article calculates what true unemployment is and compares the true unemployment rate to unemployment rates during the Great Depression of the 1930's and the Reagan Recession of the early 1980's.

INTRODUCTION

The Bureau of Labor Statistics announced that for the month of September, the unemployment rate reached 9.8 percent with 15.142 million Americans unemployed (Bureau of Labor Statistics, 2009b). This represents more Americans unemployed than at any time in the nation's history, more even than during the Great Depression when the unemployment rate reached 25 percent or the Reagan Recession when the rate reached 10.8 percent (Maidment, 1983). The reason is because the labor force during those two economic downturns was much smaller than it is today.

THE CURRENT ECONOMIC DOWNTURN

During the past year, according to the Bureau of Labor Statistics, from September 2008 to September 2009, the civilian, non-institutional population grew by just under 2 million people. The civilian labor force declined by just a little over 600,000. As a percent of the population, the civilian labor force declined from 66 percent to 65.2 percent. The number of employed people declined from 145.029 to 138.864 million, or from a 61.9 percent level of participation to 58.8 percent. The number of unemployed increased from 9.592 million to 15.142 million, or from 6.2 percent to 9.8 percent (Bureau of Labor Statistics, 2009c).

But, these figures do not accurately reflect the true nature or the extent of the current economic downturn. Today, unemployment is calculated very differently than it was in the 1930's or the early 1980's. Today, the 9.8 percent figure represents only the number of people receiving unemployment compensation. It does not include the 5.4 million who have exhausted their unemployment compensation benefits but are still looking for a job (Bureau of Labor Statistics, 2009e), nor does it include the 2.219 million who are "marginal workers," including "discouraged workers" who have simply ceased looking for work (Bureau of Labor Statistics, 2009d). These individuals are not a part of the labor force as defined by the Bureau of Labor Statistics. If these people are

included in the labor force, then the labor force increases from 154.006 to 161.625 million people and the number of unemployed increases from 15.142 million to 22.761 million for an unemployment rate of 14.08 percent.

There is the additional problem of people who currently hold part-time jobs but who would like to have full-time jobs. According to the Bureau of Labor Statistics (Bureau of Labor Statistics, 2009e), there are 9.2 million people who currently hold part-time jobs who would accept full-time jobs if they could find them. This would mean that there are a combined 31.961 million people, or a little more than one out of every ten Americans, who are “unemployed/under-employed.” This results in a rate of 19.774 percent of the labor force that is currently being underutilized in the economy as of September, 2009.

THE REAGAN RECESSION AND THE GREAT DEPRESSION

During the Reagan Recession, if marginal workers were added to the unemployment rate, the top rate would increase from 10.8 percent to 11.8 percent (Maidment, 1983). During the second half of the Great Depression, 1936-1940, the unemployment rate averaged 16.4 percent. However, during this period, the people in the “make-work” projects, the alphabet soup of the federal agencies of the WPA, CCC and the like, were counted as unemployed. These “unemployed workers” built the Hoover Dam, TVA, many state and national parks, much of the original US highway system as well as water, sewer and other infrastructure projects now taken for granted. If they were counted as employed, the rate would drop to around 10 percent. In the 1930’s, the unemployment rate was determined by a stratified sample where anyone could be picked-up as a part of the study, and people either had a job or they didn’t. It was not until the establishment of unemployment insurance that the government had an actual count of the number of people who had lost their jobs and were receiving benefits

WHAT IS “UNEMPLOYED”?

In today’s labor force, people have to have a job before they can be counted in the labor force which means that many recent graduates who have not yet obtained work are not counted in the Labor Department’s calculations, and the formally self-employed and small business owners who have had to close their businesses are also excluded.

Many of the workers who have opted out of the labor force include people who have gone back to school, increasing from 207,000 in September of 2008 to 400,000 in September of 2009, an increase of 93 percent. Discouraged workers have increased 51 percent in the past year to 706,000 (Bureau of Labor Statistics, 2009d). Together, this represents just about 450,000 workers who, in better times, might be working instead of opting out of the workforce.

These are just estimates because once a worker loses his or her unemployment benefits, the Bureau of Labor Statistics has no real way to track them. No-one knows how many of the “People looking for a job” may actually have found work or how many

of the recent graduates may already have lost their first job. Even in the worst economies, people continue to find work and the 214,000 jobs lost in the month of September, 2009 is a net figure (Bureau of Labor Statistics, 2009b). It would seem, however, that real unemployment will continue to rise, even if the official unemployment rate drops as it did in July of 2009 when fewer net people lost their jobs than lost their unemployment benefits, resulting in a relatively larger workforce and a slightly smaller number of people receiving unemployment benefits upon which to calculate the official unemployment rate. This explains the 0.1 percent drop in unemployment for the month. More people were actually unemployed in July, but based on the number of people receiving benefits versus the official size of the labor force, the official unemployment rate dropped (Bureau of Labor Statistics, 2009a).

The unemployment aspects of the recession will not be over until new jobs are added to the economy at a rate that will equal the number of new people entering the workforce, people currently receiving benefits, plus a sufficient number to address the needs of the “Marginal” and “People looking for a job”.

Dr. Fred Maidment is Professor of Management at Western Connecticut State University. His doctorate is from the University of South Carolina and he has done post-graduate work at the University of Florida. He is the editor of *Annual Editions: Management*, *Annual Editions: Human Resources*, and *Annual Editions: Human Resources*. Contact: Fhm4@juno.com.

REFERENCES

- Bureau of Labor Statistics (2009a). *Current Population Survey*, [Electronic Version]. Department of Commerce, Retrieved August 15, 2009, from <http://www.bls.gov/CPS/>
- Bureau of Labor Statistics (2009b) *Current Population Survey*, [Electronic Version]. Department of Commerce, Retrieved October 8, 2009, from <http://www.bls.gov/CPS/>
- Bureau of Labor Statistics, (2009c). *Chart A-1, Employment Status of the civilian noninstitutional population 16 years and over, 1970 to date*, [Electronic Version]. Department of Commerce, Retrieved October 8, 2009 from <http://www.bls.gov/web/cpseea1.pdf>.
- Bureau of Labor Statistics, (2009d). *Chart A-38, Persons not in labor force by desire and availability for work, age and sex*, [Electronic Version]. Department of Commerce, Retrieved October 8, 2009, from <http://www.bls.gov/web/cpseea38.pdf>.
- Bureau of Labor Statistics (2009e). *Employment Situation Survey*, [Electronic Version]. Department of Commerce, Retrieved October 8, 2009, from <http://www.bls.gov/news.release/empisit.nr0.htm>.

Maidment, F., (1983). Unemployment to rival the depression, *The Sunday New York Times*, January 30, Section III, p. 21.