

# ***PERSONALLY SPEAKING***

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## **BUREAU OF LABOR STATISTICS, YOU'VE GOT A PROBLEM**

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In addition to the official rate of unemployment the Bureau of Labor Statistics every month publishes five other measures of labor underutilization. In May 2013 those measures produced estimates that ranged from 4.1 percent to 13.8 percent. The highest estimate, known as U-6, often is referred to as the "real unemployment rate" by those who are critical of the construction of the official jobless rate.

Some of these critics have an axe to grind politically and for that reason their voices can be shrill and at times misleading, notably when they point to the difference between U-6 at 13.8 percent and the official rate at 7.6 percent. In the following our attention focuses on these two measures.

U-6 and the official rate of unemployment derive from data collected every month from a random sample of approximately 60,000 households. Persons residing in those households who are 16 years of age or older, not serving in the military or institutionalized, are classified as employed, unemployed, or not in the labor depending on what they were doing during the reference week. The civilian labor force is the sum of the number employed and the number unemployed.

Persons are employed if they worked at least one hour for pay during the reference week or worked 15 hours or more as an unpaid family worker. Persons are unemployed if they were without work for the entire week, were available for work, and looking for work. Everyone else is classified as not in the labor force.

This classification system, which dates from the very beginning of the household survey in the early 1940s, was designed to avoid the problem of double counting, of assigning the same person to more than one labor force classification. Anyone, for instance, who worked during the reference week and lost his/her job, is counted as employed. The official unemployment rate is calculated as the number of persons unemployed divided by the number in the civilian labor force.

Criticism of this classification system is nothing new. The Commissioner of Labor Statistics in the early 1970s suggested seven alternative measures of labor underutilization that form

the foundation of the present scheme of the six measures in place since the mid 1990s. However, rather than ending the criticism, the new scheme has only heightened it.

With regard to U-6, persons classified not in the labor force but are marginally attached to it, along with those who are classified as employed part time for economic reasons, are added to the number of persons unemployed. In May an estimated 10,068,000 persons were added to the number officially unemployed raising the total to 21,828,000.

The problem with U-6 begins here. The 21.8 million estimate in the U-6 numerator is based on the premise that everyone included is in some way needy. The BLS, however, offers no hard evidence to support that premise. In the alternative measures suggested in the 1970s this problem was addressed by including only one-half of the persons working part time for economic reasons. But the present U-6 scheme of including everyone working part time for economic reasons is no improvement over dropping half of those persons because in both instances the numbers used are arbitrarily chosen.

Compounding the problem with U-6 is that the estimates for the officially unemployed and for those who were working part-time for economic reasons are seasonally adjusted, while the estimates for those who were marginally attached to the labor force are NOT seasonally adjusted. Thus the 21.8 million total is a hybrid measure, which is not in line with the very long practice at the BLS of not mixing seasonally adjusted figures with unadjusted figures.

Adding further to the problem, this time with the underutilization rate itself, is that while the BLS monthly report publishes a U-6 estimate of 13.4 percent that is based entirely on unadjusted figures, nowhere in that table is there an indication that the seasonally-adjusted U-6 of 13.8 percent is not a true seasonally adjusted estimate but a mixed bag.

One other problem remains. In the denominator used to produce the U-6 rate, persons who work part time for economic reasons are classified as employed as the basic classification system requires because they had at least one hour of paid employment. However, in the numerator all of them, along with the marginally attached who officially are classified as not in the labor force and the unemployed, are now effectively re-classified as presumptively needy – a departure from the official tripartite system of employed, unemployed, and not in the labor force.

Mayo Research Institute offers a remedy that avoids the problem of (1) mixing adjusted and unadjusted numbers and (2) the unsupported premise that everyone in the numerator is needy. In the numerator the Institute uses unadjusted estimates of the number of persons unemployed along with the number not in the labor force who currently want a job. These two types are alike in that both are without a job and want to work, and differ from the current numerator of U-6 because the premise of neediness is not used. In the denominator we use unadjusted estimates of the number of persons in the civilian labor force along with the number not in the labor force who currently want a job.

**This system gets rid of the mixed bag of estimates in U-6, preserves the tripartite labor force classification system in use since the early 1940s, and results in a labor underutilization rate in May of 11.4 percent. Call it U-6 corrected.**

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