The “Real” Story of Unemployment

The national unemployment rate provided by the U.S. is often a misleading statistic. Numerous economic, social, and individual aspects combine to affect both the labor force participation rate (LFPR) and the unemployment rate. Consequently, these rates may be misleading to the public. To understand why unemployment and workforce participation rates are inaccurate, criteria for those groups must be known. Most statistics in this paper were gathered through the Bureau of Labor Statistics (BLS) which is a federal government organization.

Qualifications of Unemployment and LFPR

Unemployment is mathematically calculated by taking the number of unemployed people, divided by the total workforce (BLS, 2015). To be counted in the “workforce,” workers must be at least sixteen years of age and U.S. citizens. If they are not citizens, they must have a permanent visa with permission to work (Zandweghe, 2012). To qualify as “unemployed,” they must be currently without a job and actively seeking employment within the last four weeks. A healthy unemployment rate is generally accepted to be around five percent (Pologeorgis, 2014).

As for unemployment, actively searching for a job is the most critical component. Continued searching and failing to find a job may lead to discouragement from searching. When individuals stop searching, they are no longer counted in the published unemployment statistic. Many different elements affect this government derived statistic.

Factors of Unemployment

When calculating the national published unemployment rate, there are many influential factors. These factors can be broken into four categories; economic, legal, social, and individual.

Economic Factors

The current state of the economy can have significant impacts on businesses’ ability to hire. When the overall economy is doing well, businesses typically take more risks financially and often hire more employees. Conversely, a
recessive economy leads to a higher unemployment level. For instance, the stock market crash in 1929 led to a near 25 percent unemployment rate, which to this day is a record high (Goldberg, 2015). The stock market crash is an extreme example of how the economy impacts businesses and unemployment, but recent recessions have spiked unemployment as well. As demonstrated, economic factors affect unemployment rates.

Legal Factors

Minimum wage laws and the Civil Rights Act of 1964 are government policies that affect unemployment levels. The minimum wage can influence unemployment rates. People who are unable to live on minimum wage earnings are likely to remain unemployed, because unemployment benefits are greater than the income they would make. According to a Wall Street Journal article in 2014, “People who were receiving more than 50% of their previous wages tended to remain on unemployment until their benefits were nearly or completely exhausted” (Link between, 2014, p.1). With no greater benefits to rejoin the workforce, people are much more likely to remain home and receive “free” money.

The Civil Rights Act of 1964 prohibited businesses from discriminating based on race or gender. Consequently, female workforce participation increased. At the same time, male workforce participation decreased.

Social Factors

There are some social factors that change unemployment rates as well. The necessity of job relocation could affect the unemployment level. If workers are unable to relocate for a job, for financial or personal reasons, then they are subject to termination. Other factors such as illegal immigration can affect job numbers and unemployment levels.

Illegal immigrants take jobs away from citizens and this increases the unemployment rate. This does not mean illegal immigrants are bad or good for society, it simply means they are taking jobs that unemployed citizens could have, resulting in a higher unemployment rate. Most illegal immigrants work low-wage jobs that the majority of citizen workers do not want. Even so, potential jobs are lost as a result, ultimately inflating the unemployment rate.

Individual Factors

Individually, there are various reasons that keep people out of work. Dedication to finding a job has an impact on the unemployment rate. As stated before, those who are not actively looking for a job are not counted as “unemployed” therefore lowering the unemployment rate. Although the unemployment rate looks better statistically, the number of workers employed is not growing.

Education level determines what jobs individuals qualify for. Businesses will not hire people who are not qualified. Contrarily, just because one
has a higher education does not guarantee a job. Living in an area where businesses are not hiring will significantly decrease the likelihood of getting a job. In addition, going into a competitive job market with limited jobs could result in unemployment. Factors vary on a person to person basis. Parents who want to stay at home with their children could leave the workforce. An individual who has been out of the workforce a while may not care to reenter the workforce. There are many extrapolating factors on the individual basis, all of which, affect the unemployment rate.

Labor Force Participation Rate

LFPR directly impacts unemployment rates because it is part of the mathematical equation. Government intervention has affected LFPR. The Civil Rights Act of 1964 is also known as the equal employment act. It states that businesses are not allowed to discriminate based on race or gender (Civil Rights Act, 2015). This means many more women had the opportunity to enter the workforce. From the mid 1960’s until 2000 the women’s LFPR grew from 40 percent to 60 percent. Over the same period, male LFPR decreased significantly from almost 90 percent to 75 percent (Zandweghe, 2012). This is an example of how the government has significantly impacted LFPR and, ultimately, unemployment rates.

Discouraged and Marginally Attached Workers

Along with overall labor participation rates decreasing, the number of marginally attached and discouraged workers is increasing. Marginally attached workers are those who do not currently have a job, but are searching, and would like a job. Discouraged workers are those who have given up the search for a job. From 2009 to 2012, both marginally attached and discouraged workers nearly doubled from 1.5 million to 2.5 million and 500,000 to 1 million respectively (Zandweghe, 2012). As a result, discouraged workers stop searching and the unemployment rate decreases.

Recent LFPR

Over the last ten years, LFPRs have decreased about three percent. The current LFPR of 62.9 percent, is the lowest percentage since 1978 (BLS, 2015). Some economists have attributed the drop in workforce participation rate to the retirement of the baby boomer generation (Hubbard, 2014). This could account for some of the decline in LFPR, yet this still reveals serious flaws in the government’s unemployment definition.

The Real Unemployment

When defining unemployment, what does “actively” searching for work mean? Why are individuals who have stopped looking for work no longer counted as unemployed? These vague and undescriptive terms lead to inaccurate data. As people leave the workforce, those previously considered un-
employed are no longer counted as unemployed, giving a false unemployment rate. To put that in perspective, “If the LFPR were at its pre-recession level, the unemployment rate in October 2014 would have been 9.1% instead of 5.8%!" (Goldberg, 2015, p. 11). Clearly a 5.8 percent unemployment rate seems much better, but the “real” unemployment rate cannot be ignored.

Analyzing unemployment rates over the last ten years, there was a substantial spike from 2008 to 2010. The unemployment rate went from about five percent to ten percent during this time. Most of this was due to the major recession that began in 2009. In the last five years, unemployment rates have fallen to the current 5.7 percent (BLS, 2015). Although unemployment rates appear low, discrepancies in the definition of the “unemployed” lead to inaccurate statistics.

A significant direct correlation between LFPR and unemployment rates does not exist, but periodical trends are noticeable. As labor force participation rates have declined over the last ten years, unemployment rates have similarly fallen. There is no doubt that the two are related, but a change in one does not proportionately affect the other. With LFPR’s recent decrease, continued trends could mean even lower unemployment rates. However, workers will still have trouble finding jobs.

Conclusion

Overall, so many factors affect the unemployment rate, it is very hard to calculate a true unemployment rate. The “real” unemployment rate is not published, but still felt throughout the national economy. A vague definition of the “unemployed” leads to misleading statistics and misinterpreted data. For example, the decline in LFPR to 62.9 percent has consequently caused a drop in unemployment rate to 5.7 percent. Although the unemployment rate has fallen, people leaving the labor force are partially responsible for this lower, misleading rate. Regardless, the true unemployment rate is not accurately shown through current statistics and definitions.
References
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