

Weaknesses of Unemployment Statistics

Suppose we want to classify everyone in the population as either male or female. Although the vast majority of people are very easy to classify, there are problem cases. What should be done with people who have sex-change operations? They have the genetic make-up on one sex but the physical attributes of the other. Or how should we classify people who have an extra chromosome giving them two X-s and one Y? If there are difficulties in deciding something as simple as gender, it should not surprise you that there are problems with the classifications of the unemployment statistics.

The unemployment data have a number of problems that lead to an understatement of unemployment. For example, the data count as employed all people who are working part time but who would like to work full time. Since these people represent unused labor effort that is available, the unemployment rate understates the extent of unemployed resources in the economy. Another problem that causes the unemployment rate to understate the extent of unemployed resources is the "discouraged-worker" effect. If someone wants to work, but becomes so convinced that there are no jobs available that he makes no effort to find work, he will be counted as "not in the labor force." Since there will be more discouraged workers the more severe the recession, this factor will tend to dampen the fluctuations in the unemployment rate.

Both part-time workers wanting full-time work and discouraged workers tend to make the unemployment rate lower than it would otherwise be. Working the other way, to increase the unemployment rate above what it would otherwise be, are government payments made to people only if they fit into the "unemployed" category. Unemployment compensation stops if a person announces that he no longer wants to find a job. Thus, even if a person does not want to find another job, he still may make the trip to the unemployment office because in effect the government pays him several hundred dollars to make that trip. The principle involved here is the one of [moral hazard](#). Economists have argued that the more generous unemployment compensation payments of the 1970s added about one and one half percent to the normal rate of unemployment compared to the 1950s and 1960s.

Another problem of interpreting unemployment numbers and of comparing unemployment for different years is that changes in the age structure of the population can affect the unemployment rate. There are four sources of unemployment: people enter the labor force, they reenter after temporarily dropping out, they quit jobs, and they are fired or laid off from jobs. Young people seeking their first job will of course undergo a period of unemployment, but young people are also more likely than older workers to switch jobs--which may involve a period of unemployment--and to shift in and out of the labor force as they choose between work and education. As a result, young

people have higher rates of unemployment than do those over the age of 25. If the percentage of young people in the labor force rises, one should expect the overall unemployment rate to rise as well. A reason that unemployment rates were higher in the 1970s than in the 1960s is that the percentage of young workers rose in the 1970s as a result of the post-World-War-II baby boom.

Finally, the decision about what constitutes unemployment may change. In 1983 the Labor Department experimented with a second unemployment rate that counted as employed members of armed forces stationed in the U.S. The traditional rate excludes them from the labor force. The reason for considering this alternative series was that "with the change to a volunteer system, military employment is not substantially different from civilian employment."¹ If those in the armed forces were counted as employed, unemployment rates would fall by several tenths of a percent.

The question of who is unemployed had much larger implications for the unemployment rates of the 1930s. The official Bureau of Labor Statistics (BLS) figures counted as *unemployed* all those in various government emergency work programs, such as the Civilian Conservation Corps, the Civil Works Administration, and the Works Progress Administration. In 1938 these programs "employed" 3.5 million workers. If these workers had been counted as employed, as they would be under the present way the BLS measures employment status, the unemployment rates from 1933 until 1942 would have been substantially lower.

There are difficulties with all economic statistics, but the problems do not arise because the people who designed them were stupid or lazy. The problems arise because we are trying to use a single number to summarize a phenomenon more complex than any single number can report.

Next we move to [inflation](#), the second much-reported economic measurement.



¹ *Monthly Labor Review*, Feb 1983, p. 2