

Understanding the unemployment debate

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What is the unemployment rate?

Simply put, the unemployment rate represents the number of jobless people as a percentage of the total labor force.

Yet it is not that simple, and not just because the government is involved.

The Bureau of Labor Statistics, the federal agency in charge of the count, has precise definitions for:

- **Labor force.** This is the count of people 16 and older who work, as well as unemployed people looking for work. If you are neither working nor looking for work, you are not in the labor force. If you are in the military or a mental institution, you are not part of the civilian labor force. In South Carolina, about a third of adults are not in the labor force.
- **Unemployed.** This term means more than not having a job. You also had to be available for work and to have tried at least once in the past four weeks to find a job. But you are not officially unemployed if you are jobless while waiting to be called back from a layoff.
- **Employed.** You worked at least an hour for pay somewhere or for 15 unpaid hours in a family-run business. You count as employed even if you did not work because of bad weather, a strike or vacation or because you just had a baby. But you are not employed if you work on your own house or volunteer for church or charitable work.

How is the rate calculated?

Two federal agencies and a state agency team up to create the statistics that derive South Carolina's unemployment rate.

It starts with a survey the government will take this week. In weeks that include the 12th of each month, the Census Bureau contacts 60,000 households nationwide as part of its Current Population Survey. Nearly 1,000 S.C. households are asked to answer questions that include employment status.

That data goes to the Local Area Unemployment Statistics program, which is run by states in conjunction with the federal Bureau of Labor Statistics.

Thrown into the analysis are surveys of business establishments to track how many people they employ.

The S.C. Employment Security Commission adds its expertise about local employment conditions to the equation. The agency considers the number of people who have filed for unemployment benefits, checks plant-closing filings and even reads newspapers to find job announcements and plant closings.

How many types of unemployment exist?

Economists describe three types:

- Cyclical, caused by a general downturn in business
- Structural, which often occurs during a fundamental change in business. As cars replaced horses as the key means of transportation, people who made buggy whips had to find another job. Today, manufacturing employment is falling as producers find cheaper labor offshore and find ways to produce more goods with fewer workers. People who have neither the skills nor education to find a job are considered “structurally unemployed.”
- Frictional, which is temporary joblessness as people try to find a better job. It exists in any economy, and it is not altogether a bad thing as people try to improve their standard of living.

How reliable is the unemployment rate as an economic barometer?

First, a joke: Three economists go deer hunting. One shoots and misses by three feet to the left. The second misses by three feet to the right. The third shouts: “We got him!”

Like most economic statistics, the unemployment rate is based on statistics, educated guesses and incomplete information. It is a survey, which leaves it open to error. Officials provide a precise rate (to a 10th of a percent), but the published rate actually rests in the middle of a range.

The smaller the geography, the more likely the unemployment rate is wrong. Small counties can see a huge month-to-month swing for statistical reasons.

“Pick a county — Abbeville, McCormick or any of the small counties — and you see freaky things from month to month with the numbers,” said Sam McClary, program coordinator for the S.C. Employment Security Commission. “If a 50-person plant has a layoff in some of the small counties, you can see the rate jump by 1percent.”

The government recognizes the problem, so it is fond of revisions. From time to time, it updates the statistics as more information becomes available and to eliminate wild swings in the rate. It also considers expected changes, such as a rise in the work force when school is out and a fall in the work force after retailers trim Christmas-season workers.

Another problem with the rate is more fundamental. Because it excludes “discouraged workers” — people who want to work but have given up trying — the rate can make the situation seem rosier than it really is. The rate also does not account for “underemployment” — people with part-time jobs who want to work full time, or people in jobs well below their skilllevels.

What is the “natural” unemployment rate?

Related to what is known as the “full” unemployment rate, it is a nod to the fact that some people will not have jobs even when the economy is going like gangbusters. Economists differ about the precise “natural” rate, but it assumes that a small percentage of the work force cannot find work because of structural and frictional joblessness.

Why is the rate so important?

Bill Clinton, for better or worse, summed it up in four words: “It’s the economy, stupid.”

In other words:

- For a jobless person, the financial and mental stress of unemployment can be overwhelming. Not

knowing how you'll put food on the table can put a powerful burden on your psyche.

- For society, unemployment comes at a high cost. People with jobs typically do not rob banks.
- For taxpayers, unemployment costs millions of dollars a year. State and federal programs provide compensation to out-of-work people, but that money essentially comes from taxpayers who put a part of their pay into unemployment taxes. In December 2003 alone, the state paid \$36.8 million to jobless people.
- For the economy, unemployed people are inefficient. They waste a scarce commodity — labor — that could be used to raise the standard of living.
- For economists, the rate is a key indicator that suggests whether the economy is improving or worsening. But government officials say the rate is designed mostly for allocating money for job training and other programs, not necessarily as a single measure of the economy.
- And for politicians, the unemployment rate is a battlefield. Since government decisions play a role in the economy, elected officials are quick to seek credit for good news and disown bad news. Their opponents are quick to accent the negative. A sour economy has derailed many a president seeking a second term, from Herbert Hoover in 1932 to George Bush in 1992.

What is a jobless recovery?

The Gross Domestic Product — the value of all goods and services produced in the United States — grew at a healthy 4.1 percent annual pace in the fourth quarter of 2003, the government said last week.

But an improving economy does not seem to be translating into more jobs. The nation has 2.2 million fewer jobs than in January 2001. South Carolina has lost jobs in each of the past three years. Such a string of losses hadn't happened since the Great Depression.

Economists point to several reasons for a jobless recovery:

- Technological advances mean companies are reaching high productivity levels without hiring more people.
- Some companies are moving jobs — from manufacturing to some traditionally “white collar” jobs — to cheaper labor sources abroad.
- Companies do not want to add to their payrolls until they are convinced the economic slide is over.
- The data might be wrong. Some companies may be using more contract workers, who might not show up in payroll data used to calculate employment rates.

Sources include the National Council on Economic Education, U.S. Bureau of Labor Statistics, S.C. Employment Security Commission and www.nationmaster.com.