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Taking the 'Un' Out of Unemployment

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Bureau of Labor Statistics

An unemployment rate stuck at **9.6 percent** does not make for a happy **Labor Day**.

The latest estimates for August of this year suggest that wage and salary employment is stuck in the mud.

While estimates of unemployment provide a vital indicator of economic health (or in the current case, ill health), these estimates are more complicated – and more vulnerable to political bombast – than estimates of employment.

The employment trends in the chart above, based on figures for August released on Friday by the Bureau of Labor Statistics, call attention to the need to create more jobs – fast.

You might think that unemployment is simply the mirror image of employment, but it's not that simple. Unemployment is a somewhat more subjective measure, because it relies on **survey respondents' reports** that they are actively seeking paid employment.

Some conservatives seize on this subjective element to argue that many of the unemployed aren't really seeking work, but rather taking advantage of unemployment benefits to slack off.

Professor Robert Barro of Harvard University asserts that the unemployment rate is overstated for this reason.

On the other hand, many workers do get discouraged and give up looking for work until labor-market conditions improve. Others, looking for full-time work, are only able to find part-time work. In either case, they are not counted as unemployed in the most commonly followed reports, so these factors understate the unemployment rate.

Recognizing these and other measurement problems, the **Bureau of Labor Statistics** offers no less than **six measures of unemployment**, labeled U-1 through U-6. The broadest measure, U-6, includes discouraged workers, those involuntarily working part-time and others who are “marginally attached” because family, health or transportation problems

are making it difficult for them to find jobs. That is, they can't find jobs that they can take, given the constraints they face.

Alan Reynolds of the **Cato Institute** **ridicules** inclusion of this last group on the grounds that they must not be serious job searchers. In any case, this group is quite small.

Moreover, as **Professor David Howell** of the **New School** explains in a **new policy brief**, U-6 misses many individuals who lost jobs in the **recession**. He advocates a more inclusive U-7 measure that would include plausible estimates of all those not currently in the labor force who want a job.

A focus on employment, rather than unemployment, provides additional perspective. Think of musical chairs: employment is the number of chairs occupied by workers (some occupy more than one); unemployment is the number of people trying to find an empty chair.

The employment measure is unaffected by assumptions regarding the character, motives or incentives facing the unemployed.

And trends in this measure, as shown above, could discourage even the most optimistic among us, if they would just pay attention to it.

As Steven Hipple, a Bureau of Labor Statistics economist, **puts it** in a more detailed analysis of trends through the end of 2009, "Economic decision-makers might not understand the depth of the economic hole in the labor market."

Republican fury over the extension of unemployment benefits this summer **has derailed discussion** of policies aimed at direct job creation.

But, like me, many economists believe that the **need for such policies** is becoming painfully apparent. Without them, we may not be able to significantly reduce unemployment.