Hold The Celebration Over May's 3.8% Unemployment Rate! There Is More Here (Unemployment) Than Meets the Eye.

By Guy V.G. Stevens

The announcement on June 1 of a 3.8% unemployment rate for May 2018 – the lowest since 2000 – was greeted with near-euphoria by the White House and key members of the media. The rate in question, however, denoted as U-3 by the Bureau of Labor Statistics (BLS), is only one of six official rates, one long known by experts to be a considerable underestimate of "true" unemployment.

The 3.8% value for U-3 is calculated as the ratio of the number of unemployed for the nation (6.065 million in May) divided by the total of those employed and unemployed (161.539 million). But as other alternative unemployment rates calculated by BLS show (U-4, U-5, and U-6), the number of unemployed used for U-3 captures only **some** of the people who are either involuntarily unemployed or underemployed. The total number that U-3 misses is far from trivial – at a minimum another 6 million people in May.

To be included in the unemployed total in U-3, one must not only be unemployed during the "reference week" that data are collected, but **also** have made specific efforts to find work during the prior month. The problem, fully recognized by BLS, is that each part of the definition of U-3 excludes millions of potential full-time workers who want to work, but were either too discouraged to look for work in the past month (1.5 million) or who were forced to work part time despite a desire to work full time (4.9 million). When these two categories of potential full time workers are added to the unemployed in U-3, BLS derives what it denotes as U-6, a measure that economists and other experts see as a truer measure of the percentage of the workforce that is unemployed or underemployed. In May, U-6 stood at 7.6%, exactly **double** the 3.8% rate that led to the general euphoria (as shown in Table A-15 in the May report).

I would go further and argue that even U-6 is an underestimate of the depth of unemployment. The BLS figure for "marginally attached" workers in U-6 does not include **all** those who have dropped out of the labor force and still want a job; it includes only the subset of this class that has looked for work in the past year. But in May 2018 there were another 3.35 million people who wanted a job but had not looked for work in over a year. One might call these "very" discouraged workers, but they nevertheless professed to want a job, just as those included in U-6 did. (See the BLS table A-38.) If we add this 3.35 million into both the numerator and denominator of U-6 we get a still more realistic rate of unemployment of **9.5%** -- a rate (call it U-7) almost 2 points higher than U-6 and 2 ½ times the 3.8% rate so praised in the May report.

The above is a commentary limited to the aggregate national unemployment statistics. When we break the data down by categories such as race and age, the picture often becomes even darker. Breakdowns of U-6 by race and age are not published monthly, but the BLS has kindly provided me annual data that can give a fairly clear picture of the current situation. The published official

U-3 rate of unemployment for African Americans fell dramatically to 5.9% in May. As far as the U-6 rate for African Americans is concerned, the rate for the year 2017 was 13.4%, 1.79 times the 7.5% U-3 rate. Assuming that the ratio for the May rates was not markedly different from the 1.79 for 2017, we have an **estimated U-6 unemployment rate of 10.6% for African Americans in May 2018**. If we had the data, my constructed U-7 rate would be considerably higher.

As a final example, consider May's already high official U-3 rate for teenagers between 16 and 19: 12.8%. As it turns out, the unpublished ratios of U-6 to U-3 turned out to be near 2.0 for all the BLS age breakdowns in 2017. Using that ratio, our **estimated U-6 unemployment rate for teenagers in May would be almost 26%.**

The White House can be expected to emphasize only the positive in the May Jobs Report. But when reading and responding to such articles as that entitled "How Good? Words Fail Us" in the June 2nd *New York Times*, we must object and say: "Not That Good!" This is not to say that the Jobs Report was bad: the steadily improving trend for U-3 is very good and, just as important, mirrors the improving trend in U-6, the rate argued here as a much more realistic measure of "true" unemployment in the U.S. economy. But we must not mistake a good trend for a good level. And I have argued here that a focus on the **level** of U-3 leads to serious underestimates of the true level of unemployment, both for the economy as a whole and for critical groups in the economy. We must not let euphoria over May's U-3 value blind us to the critical unemployment problems that still face us.

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