

PERSONALLY SPEAKING

Number 90

January 17, 2012

DECEMBER UNEMPLOYMENT FOR PERSONS 18 YEARS AND OLDER – 8.2 PERCENT

Edward J. O'Boyle, Ph. D.

Mayo Research Institute

Permission to quote is granted when the source is acknowledged.

In the late 1960s the age of persons included in the civilian labor force was raised from 14+ years of age to 16+. No one at that time argued that because 14 and 15 year olds sometimes find paid work as babysitters, delivery boys, farm hands, and the like they should remain included in the labor force estimates. Rather, excluding them would send a message that their primary role in life is not in the workplace but in the classroom as publicly reinforced by the new higher mandatory school attendance age.

Raising the labor force age today to 18+ years, which would be justified on the same general argument applied in a much more technologically advanced workplace, coupled with the relatively poor science and math scores of American students compared to students in other countries, would reduce the official jobless rate in December from 8.5 percent to 8.2 percent.

In the mid 1970s the Bureau of Labor Statistics, concerned that the official rate of unemployment was not accurately reflecting the performance of the U.S. labor market launched several new performance indicators. Today, five alternative measures of labor underutilization are published every month along with the official rate of unemployment. Two of these measures, known as U-1 and U-2, are more restrictive than the official rate, and therefore result in a lower labor underutilization rate. The other three, called U-4, U-5, U-6, are less restrictive and result in a higher underutilization rate. Critics of current economic policy often cite the less restrictive rates as evidence of the failure of that policy.

All five of the alternative measures of labor underutilization tweak the official jobless rate -- calculated as the number of persons unemployed divided by civilian labor force -- by juggling the types of persons included in the numerator and the denominator that yields the new measures. For example, U-4 adds the discouraged worker to the standard definitions of both unemployment and the labor force. This change boosted the December rate of unemployment from 8.5 percent to 9.1 percent. U-6, the least restrictive alternative measure, adds all persons marginally attached to the labor force plus those employed part time for economic reasons to unemployment and the labor force, raising the underutilization rate to 15.2 percent.

To our knowledge, no one has suggested changing how employment is defined and measured. Simply put, and setting aside the small number of unpaid family workers who are counted as employed, anyone holding a paid job for 1 hour or more during the reference week is classified as employed in that month.

Mayo Research Institute suggests that it is time to underscore three important differences among the employed. A part-time job is not the same as a full-time job. A low-paying job is not the same as a high-paying job. A temporary job is not the same as a permanent job. None of these differences are reflected in the household survey estimate of the number of persons employed and therefore none show up in the official jobless rate. Every one of these three employment types is counted as employed, as if all were the same. The Institute suggests that weights should be assigned to the data in order to more accurately reflect those differences.

For example, in December an estimated 140,790,000 persons were reported as employed, of whom 27,040,000 were working part-time. If we allow two part-time jobs to count for one full-time job, **full-time equivalent employment** would drop to 127,270,000 and the **FTE jobless rate** would rise by 0.8 percentage points to 9.3 percent. Using, instead, the 8,098,000 working part-time for economic reasons, and allowing a 2:1 substitution, the **FTE jobless rate for economic reasons** is 8.7 percent.

Average hourly wages in manufacturing in December 2011 were 80 percent higher than in leisure and hospitality. Using both payroll and household information, Mayo Research Institute arrived at a crude estimate of 14,577,000 persons with jobs in leisure and hospitality. If we allow 1.8 jobs in leisure and hospitality as the equivalent of one job in manufacturing, the **wage adjusted jobless rate** for December is 8.9 percent.

Employing the same procedure produced a rough estimate of 2,512,000 persons employed in temporary help services. If we discount those jobs entirely and focus on permanent jobs only, the **permanent employment jobless rate** is 8.7 percent.

It's time to consider redefining the civilian labor force to include only persons 18+years of age , and to create a system for weighting employment for part-time workers, low-wage workers, and temporary workers. No new data would have to be collected in order to implement these changes.

The history of the household survey since its permanent establishment in the early 1940s tells us that the federal government has changed the ways it defines and measures employment and unemployment to reflect, for example, fundamental changes in society regarding what's best for teenagers, the difference between a paid job and volunteer work, what it means to be unemployed, and what truly matters in drafting and implementing economic policy.

It's time to re-calibrate the monthly household survey report so that it more accurately reflects what's happening in the family, the workplace, and the global information-communications technology age.

*Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute
Offices in New Orleans, Lake Charles, and West Monroe
www.mayoresearch.org 318-381-4002 edoboyle@earthlink.net*
