

# MERCATUS ON POLICY

## What's the Truth about Unemployment? Introducing the Comprehensive Jobless Rate (U-5b)

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**THE UNEMPLOYMENT RATE IS PROBABLY THE** single most quoted statistic that measures the health of the economy. Changes in the gross domestic product (GDP)—which signal the beginning and end of recessions—are also important, but the public understandably seems to care more about how difficult it is to find a job than how much the economy is actually producing.

For this reason, it's critical to have an accurate measure of "true" unemployment. However, many politicians and political pundits have derided the unemployment rate reported by the Bureau of Labor Statistics (BLS), arguing that it doesn't count everyone who actually wants a job.<sup>1</sup> In fact, President Trump, while on the campaign trail, suggested that the actual level of unemployment might be as high as 42 percent.<sup>2</sup> These sentiments represent a lack of confidence in official government statistics, and they're an important challenge to the economics profession. This paper addresses that challenge.

### **WHAT IS THE "TRUE" UNEMPLOYMENT RATE?**

The first problem in measuring unemployment is actually defining unemployment. If simply not having a job were enough to be considered unemployed, then the average unemployment rate in 2017 would have been 52.9 percent. However, this absurdly high statistic counts *everyone* without a job as being unemployed, including children and infants, meaning that it doesn't really tell us anything about the strength of the economy or the difficulty in getting a job. Leaving out anyone below the age of 16 provides a somewhat more convincing number—39.9 percent—but this measurement still counts people who are retired, are staying at home with family, are currently attending school, or have other reasons for not seeking employment.<sup>3</sup>

It seems reasonable to require that someone actually *want* a job in order to be counted as unemployed. Under this condition, the average jobless rate in 2017 would have been 7.5 percent.<sup>4</sup>

This measure of unemployment can be called the *comprehensive jobless rate* (CJR) because it counts every adult or adolescent who (1) does not have a job currently, (2) says that they want a job, and (3) is capable of working. In effect, it’s the most *realistic* measurement of the unemployment rate.<sup>5</sup>

### WHAT ABOUT THE OTHER OFFICIAL UNEMPLOYMENT RATES?

The CJR is higher than the various unemployment rates calculated by the BLS, and for a good reason. The official BLS measures of unemployment, labeled as U-1 through U-6, provide a more nuanced understanding of the labor market, such as identifying longer-term unemployment (U-1) and discouraged job seekers (U-4) (see table 1).

The CJR adds value to the existing BLS unemployment measures by providing an upper bound on the rate of joblessness. It fits in between U-5, which counts those people who want jobs and who are marginally attached to the workforce,<sup>6</sup> and U-6, which counts those people who are employed part time but desire a full-time job. Following the BLS’s naming convention, the CJR could also be referred to as the “U-5b” unemployment rate.

The critical difference between the U-5 rate and the CJR/U-5b is that the U-5b counts everyone who says they want a job, regardless of whether they are currently available to start a job and regardless of the last time they actively searched for employment.<sup>7</sup> In comparison, the U-5 does not count people who have not actively searched for work in the last 12 months or who were not available to start a job when they were surveyed. This means that the U-5 doesn’t count people whose frustration has led to a long-term abandonment of their job search, nor does it count students who are near graduation and are actively seeking work

Table 1. Measures of Unemployment		
MEASURE OF UNEMPLOYMENT	DESCRIPTION	2017 AVERAGE VALUE
U-1	Persons unemployed 15 weeks or longer, as a percentage of the civilian labor force	1.7%
U-2	Job losers and persons who completed temporary jobs, as a percentage of the civilian labor force	2.1%
U-3	Total unemployed, as a percentage of the civilian labor force (official unemployment rate)	4.4%
U-4	Total unemployed plus discouraged workers, as a percentage of the civilian labor force plus discouraged workers	4.6%
U-5	Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percentage of the civilian labor force plus all persons marginally attached to the labor force	5.3%
U-5b	Total unemployed, plus all other persons who say they want a job and are able to work, as a percentage of the civilian labor force plus all persons who want a job and are able to work	7.5%
U-6	Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percentage of the civilian labor force plus all persons marginally attached to the labor force	8.5%

Note: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market-related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

Source: Author’s calculations; Bureau of Labor Statistics, “Employment Situation Summary,” news release no. USDL-18-0335, March 9, 2018, <https://www.bls.gov/charts/employment-situation/alternative-measures-of-labor-underutilization.htm>; Bureau of Labor Statistics, “Alternative Measures of Labor Underutilization for States, 2017 Annual Averages,” January 28, 2018, <https://www.bls.gov/lau/stalt17q4.htm>.

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but are not immediately able to begin working. The CJR/U-5b accounts for these groups who slip through the cracks of the other unemployment measures.

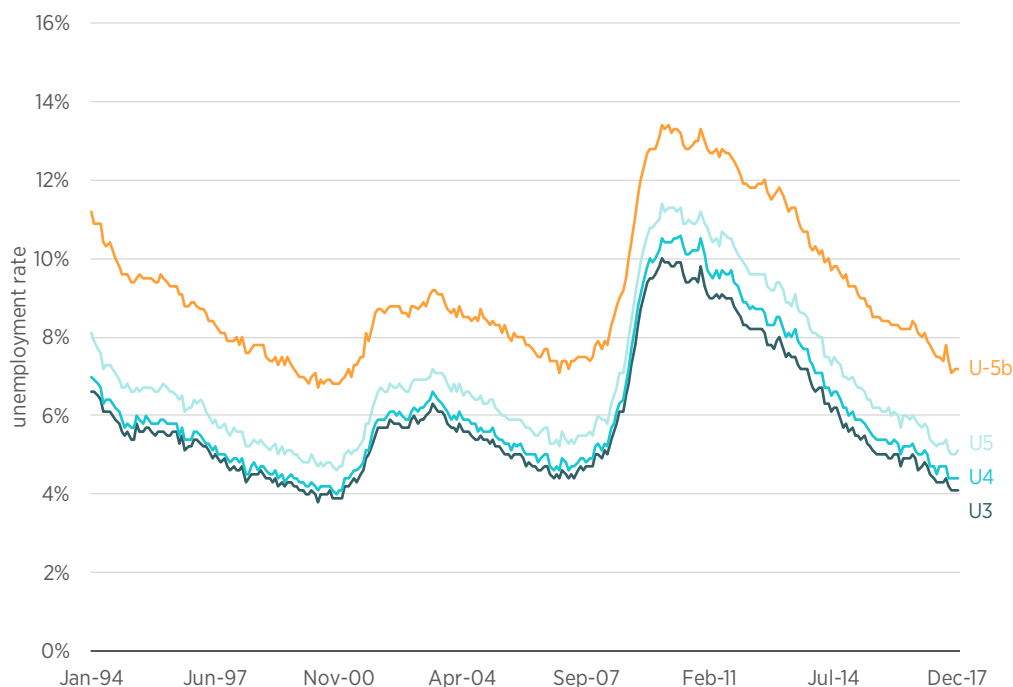
Figure 1 compares the historical level of the CJR/U-5b with the primary BLS unemployment rates that focus on joblessness (U-3 through U-5). The CJR follows the same general trends over time as the other unemployment rates and is, on average, around 3.3 percent higher than the U-3, the official unemployment rate that is most often reported (see table 2). The fact that the various unemployment rates show the same trends over time suggests that, while the official

unemployment rate doesn't measure the full scope of joblessness, its fluctuations do provide relevant information on the overall health of the labor market.

### CONCLUSION

The comprehensive jobless rate, or U-5b, provides the highest possible realistic measurement of joblessness. The only way to achieve a higher measure of unemployment would be to include (1) people who don't actually want a job, (2) people who are physically or mentally unable to work as a result

**Figure 1. Historical Performance of Unemployment Measures, January 1994–December 2017**



Source: Bureau of Labor Statistics, "Civilian Labor Force Level," accessed March 19, 2018, <https://data.bls.gov/timeseries/LNS1000000>; Bureau of Labor Statistics, "Unemployment Rate," accessed March 19, 2018, <https://data.bls.gov/timeseries/lns14000000>; Bureau of Labor Statistics, "Total Unemployed Plus Discouraged Workers, as a Percent of the Civilian Labor Force Plus Discouraged Workers," accessed March 19, 2018, <https://data.bls.gov/timeseries/LNS13327707>; Bureau of Labor Statistics, "Total Unemployed, Plus Discouraged Workers, Plus All Other Marginally Attached Workers, as a Percent of the Civilian Labor Force Plus All Marginally Attached Workers," accessed March 19, 2018, <https://data.bls.gov/timeseries/LNS13327708>; Bureau of Labor Statistics, "Not in Labor Force, Want a Job Now," accessed March 19, 2018, <https://data.bls.gov/timeseries/LNS15026639>.

**Table 2. Comparison of Unemployment Measures, 1994–2017**

MEASURE OF UNEMPLOYMENT	SMALLEST DIFFERENCE FROM U-3	LARGEST DIFFERENCE FROM U-3	AVERAGE DIFFERENCE FROM U-3
U-4	0.1%	0.8%	0.3%
U-5	0.7%	1.7%	1.1%
U-5b	2.7%	4.6%	3.3%

Source: Bureau of Labor Statistics, “Civilian Labor Force Level”; Bureau of Labor Statistics, “Unemployment Rate”; Bureau of Labor Statistics, “Total Unemployed Plus Discouraged Workers, as a Percent of the Civilian Labor Force Plus Discouraged Workers”; Bureau of Labor Statistics, “Total Unemployed, Plus Discouraged Workers, Plus All Other Marginally Attached Workers, as a Percent of the Civilian Labor Force Plus All Marginally Attached Workers”; Bureau of Labor Statistics, “Not in Labor Force, Want a Job Now.”

of an illness or disability, and (3) people who are currently employed part-time but want full-time employment (which is an important issue, but is not the same as joblessness).

The CJR offers a way to cut through partisan bickering and political pundit hand-wringing over not knowing the “true” unemployment rate. As such, it provides a stable metric that can allow for more productive policy discussions and a better understanding of the economy for the general public.

**NOTES**

1. Ben Casselman, “What Is the Real Unemployment Rate?,” *FiveThirtyEight*, February 26, 2016; Rush Limbaugh, “Transcript of the Rush Limbaugh Show: David Stockman Shock Blog: The Real Unemployment Rate Is 42.9%,” *The Rush Limbaugh Show*, June 30, 2015; Neil Irwin, “The Real Jobless Rate Is 42 Percent? Donald Trump Has a Point, Sort Of,” *New York Times*, February 10, 2016, The Upshot; Edward Lazear, “Ed Lazear: This Is the Real Unemployment Rate,” *Wonkblog, Washington Post*, November 6, 2015.
2. Philip Bump, “How President Trump’s First Jobs Report Looks on the ‘Real’ Metrics He Touted in 2016,” *Washington Post*, March 10, 2017.
3. Economists will note that this estimate of joblessness is simply the complement of the employment-to-population ratio. This appears to be the measure of unemployment that President Trump quoted while on the campaign trail.
4. Adding the caveat that the person actually be physically capable of working makes the unemployment measure more realistic, but this requirement doesn’t affect the final estimate of joblessness because people who have long-term illnesses or disabilities that prevent them from working generally don’t indicate that they want a job.
5. This is the measure of unemployment suggested by Scott Winship in a recent paper. See Scott Winship, “What’s Behind Declining Male Labor Force Participation: Fewer Good Jobs or Fewer Men Seeking

Them?” (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, 2017).

6. A person is “marginally attached to the workforce” if they want a job, were available to start a job at the time of the survey, and actively searched for employment within the last 12 months (or since leaving their last job). Marginally attached persons are a subset of the larger group of people who want jobs.
7. The Current Population Survey, which is the primary source of US government unemployment data, asks respondents whether they would have been able to start a job during the week in question (generally the second week of the month). The Current Population Survey defines actively seeking employment as taking actions that by themselves could lead to an offer of employment, such as filling out job applications, contacting an employer, registering with an employment agency, et cetera.

### **About the Author**

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