Unemployment in the United States

Name

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Unemployment is one of the constant economic problems in the modern capitalist societies. An unemployed person is a worker who would like to have a job but does not have one. When economists count all of the unemployed workers in a country or state, the resulting statistic is the *unemployment rate*. In the United States and other developed countries, the unemployment rate is often used to represent the health of the economy and the overall business conditions in the country.

If the unemployment rate is high, which means many workers are unemployed, there can be many negative effects. For example, a continued high unemployment rate can lower the country's GDP and overall economic output. High unemployment will also affect the growth of the economy, consumer spending, and personal savings rates. There are also social effects on communities, individuals and families. Communities with high unemployment may have higher crime rates, more drug problems, and many homeless people. Individuals who do not have a job may not be able to carry out life plans such as getting married, buying a car or house, or saving for their retirement. If a father is unemployed, his children may not be able to attend university. Many families break up because of unemployment.

Most people think unemployment is a negative thing, especially for the individuals who would like to have jobs. However, standard economic theory supports that there should be a certain level of unemployment in any economy. If everyone was employed, businesses would not be able to find workers easily. Wages and cost of production would go up, causing inflation. On the other hand, along with causing the macroeconomic and social problems described above, if unemployment rates are too high, businesses will lower wages because there are a lot of workers to compete for the jobs.

In the United States, the central bank called the Federal Reserve is responsible for establishing the ideal levels for unemployment and employment (Leubsdorf, 2015). The ideal level of unemployment is set by the Federal Open Market Committee, and it is called full employment, or the *nonaccelerating inflation rate of unemployment*. This has currently been set by the central bank officials between 5% and 5.5% (Leubsdorf, 2015). According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate in the United States now is 5.5%. (See Figure 1) This should mean that economic conditions are good. However, it is easy to see many signs of poor economic conditions in America on the streets and in the news.

Although the official reports say the unemployment rate is ideal for a healthy economy, unemployment is currently a serious problem in the United States. There are many homeless people, and even camps of people who used to have houses and jobs. The statistics do not seem to show the true picture. To understand why requires more careful analysis of what unemployment is, how it is measured, and the government policies for unemployment.

Defining Unemployment

According to the BLS (n.d.), it is simple to define unemployment and identify unemployed people: "People with jobs are employed. People who are jobless, looking for jobs, and available for work are unemployed" (What are the basic concepts of employment and unemployment?). Since 1940, the BLS has used the Current Population Survey to find out who is unemployed (BLS, n.d.). This is a monthly survey of about 60,000 households conducted by the Bureau of Census (2013) that provides data about "the labor force, employment, unemployment, persons not in the labor force, hours of work, earnings, and other demographic and labor force characteristics" (BLS, n.d.).

There is a problem in the BLS definition of the employed person. To the BLS, employed persons include “All persons who did any work for pay or profit during the survey reference week” (Who is counted as employed?). This includes any work at all, even temporary work for one hour in the survey week. There are no official government statistics for the people who are underemployed like this (BLS, n.d.). By not reporting the underemployed, the result is a very inaccurate unemployment rate. In fact, Gallup CEO Jim Clifton notes that the Gallup Company’s survey shows that “The number of American workers with full time jobs is the lowest it has been in 30 years” (in Hoft, 2015).

In addition, a person must have actively looked for work in the four weeks before the survey date to be classified as unemployed by the BLS (BLS, n.d.). Many people who have been unemployed for a long time have given up on looking for work. As Snyder (2015) reports, participation in the labor force has been going down for the last few years in America. Snyder cites numbers from the BLS indicating that almost 33% of Americans above age 16 are not part of the workforce as of February 2015. This is the highest number since 1978. Only about 45% of U.S. adults have jobs for at least 30 hours per week (BLS, in Snyder, 2015), and only 59% of Americans are employed overall (See Figure 2). Clearly, there are many people without jobs who are not included in the official unemployment rate of 5.5%.

In fact, Gallup CEO Jim Clifton reports that just adding the underemployed people who would like to work full time into the unemployment rate gives an average of 12% unemployment for 2014 (in Hoft, 2015). Clifton also notes that this “real” rate has been above 10% since June, 2008 (in Hoft, 2015). The official unemployment rate by the BLS is the U-3 rate, but there are two more estimates. The U-6 estimate from the BKS includes short-term discouraged workers. The Alternate Unemployment Rate reported by Williams (2015) adds in an estimate of long-term discouraged workers that the BLS has not reported since 1994. The result is an unemployment rate of 23.2% for January, 2015 (Williams, 2015; See Figure 3).

To study the unemployment problem in the United States, it is important to understand the official definition of employed and unemployed. Then, the methods of measuring unemployment must be analyzed. The official numbers that are reported in the news are only the basic statistics. They do not account for many people who do not have jobs now, so it is too easy to underestimate the problem.

Current Policies to Solve Unemployment

The usual strategy to lower unemployment is to make government fiscal policies that create jobs. The government in the United States has been really emphasizing demand side policies as a solution to unemployment problems since the economic crisis of 2008. These policies match with a Keynesian model of expansionary fiscal policy. The goal is to increase disposable income that people have so it will lead to a rising level of aggregate demand. Increasing government spending on various work projects is one way to do it. An example of this is the "shovel-ready" jobs that President Obama promised to create. These were usually repair or construction jobs for state highways, bridges, and other types of infrastructure. Another method of directly putting money in people's pockets is to lower taxes.

Using central bank monetary policy is a way to put more money into the economy for people who operate businesses and companies, and those who invest in stocks and property. This method is called quantitative easing, and it involves lowering the interest rates charged by the central banks. By decreasing the cost of borrowing money and using credit, the government hopes to get people to spend and invest money. Lower interest rates will also reduce currency exchange rates. This will make exports from the United States more competitive on the world markets.

Easy money should stimulate business expansion and consumer spending. However, if banks refuse to lend the money to people, quantitative easing may not reduce unemployment. During the crisis of 2008, huge bailout payments were given to the big U.S. banks and Wall Street companies like Goldman Sachs and JP Morgan (Taibbi, 2013). Insurance companies like AIG and mortgage companies like Fannie Mae were also given a lot of money to keep them from collapsing (Taibbi, 2013). However, the banks did not want to loan money or give mortgages to the millions of people who had no jobs and were losing their homes. There was no creation of aggregate demand and unemployment has been staying very high since then. Businesses were closing instead of opening.

Much of the bailout money even was taken to pay bonuses to the same bankers who caused the crisis, and very little came to the consumers (Taibbi, 2013). The rich are the people who access most of the money from quantitative easing. The gap between the rich and poor people has been growing as the rich people have access to the easy money. They invest in the stock market and buy houses and businesses as the middle classes lose them in the crisis. Moreover, economic theory predicts several other problems with quantitative easing. Lowering interest rates hurts senior citizens and others who need to live from the interest on their life savings. People have no incentive to save money in the bank, and the rate of inflation can easily be higher than interest rates.

Increasing the money supply will also cause the value of the currency to drop and extreme inflation can occur as the case of the Zimbabwe 2009 currency collapse shows. Now, 100 Trillion Zimbabwe dollars are listed on eBay for $31.99. The United States has been in a quantitative easing program for many years before the crisis of 2008 and inflation and devaluation are already underway. Certainly there has been high inflation in food, gas, and housing prices. Many people know that that U.S. dollar is becoming worthless. The price of gold is high as well as the demand. Cryptocurrencies like BitCoin are becoming very popular. Most importantly, many countries including China and Russia are starting to dump the dollar as the international reserve currency.

Supply side policies that can be used against high unemployment include helping workers get education and training so they can find work in new industries. Reducing minimum wages and the influence of unions can let businesses hire workers more cheaply. Tax breaks and subsidies can also be given to companies to help them hire long-term unemployed and special categories of people like military veterans and people released from prison. Making flexible workforce rules can allow companies to use the labor force more efficiently.

However, supply side policies also have problems. All of these policies have been tried in the United States and the results have been poor. For example, many unemployed people borrowed easy student loan money and went to for-profit colleges to increase their training. Now, there are millions of students who have student loan debt and no jobs. Tax breaks and subsidies often went in the pockets of corporations and company owners and did not result in permanent job opportunities. Flexible workforce policies made it easier for companies to abuse workers by paying them low wages, making them work over 40 hours a week or giving them only part-time work, and firing people constantly.

Policy Suggestions

The continuing and increasing high unemployment rate in the United States indicates that the traditional demand and supply side policies are not working well. The gap between the rich few and the many poor in America is growing huge. Since the crisis of 2008, the job creation has been focused on part-time work and low paid service jobs. College graduates are not able to find good jobs and have to work at Starbucks, in bars and restaurants, and other jobs that do not require high education. It is also famous in America that many students must keep living with their parents after they graduate from college. The United States is known as a rich country, but there are many people wandering on the roads, sitting in the streets, and living in cars and tents outside the cities. The government needs to make new policies.

The government should create a job program that will let anyone work who wants to. Like the programs in the past like the Works Progress Administration, the workers could do many large projects around the country. There are many jobs that could be done such as cleaning up pollution and litter, taking care of parks, growing food in farms and gardens, helping elderly people, and doing repairs on many infrastructures. Also, spending so much money on other countries, like in wars in Iraq, Afghanistan, and Syria should be stopped. This money could be used to develop jobs in the United States. Rules should be made to stop American companies from putting manufacturing facilities in poor countries. The Americans only want to make huge profit while paying the workers nothing. They also like to get away from regulations on safety, pollution, and workers' rights.

Snyder (2015) offers another good policy: the central bank officials and television reporters need to stop talking about recovery and full employment when millions of Americans cannot find a job. Real action must be taken because without a balanced rate of employment and unemployment, the United States will be the same as the third world countries with so many people who have no jobs or money living everywhere and begging in the streets. Crime will rise up and business creation and economic growth will stall as the American economy collapses.

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Figures

Figure 1. Civilian Unemployment Rate

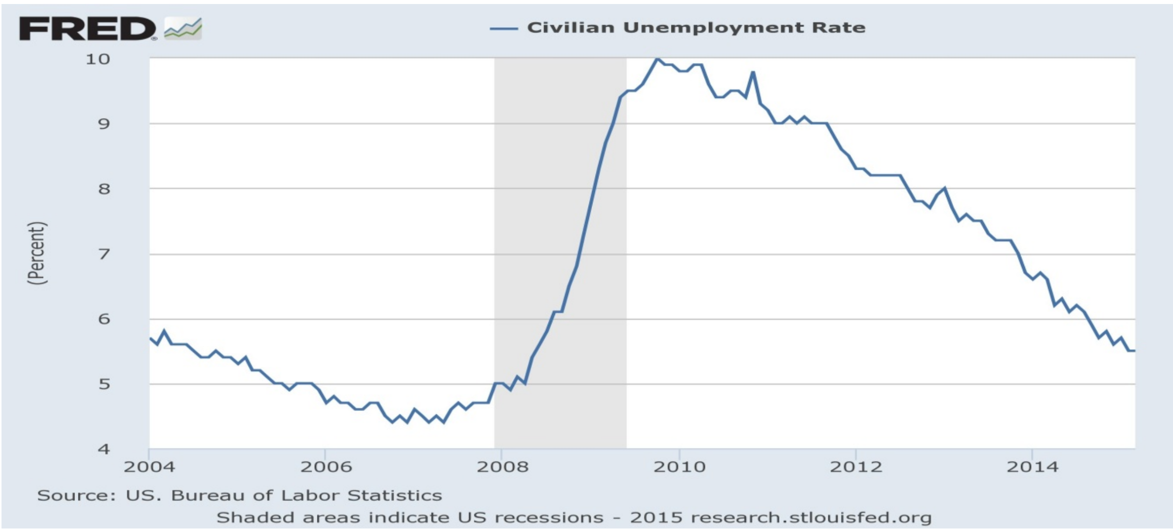

Figure 2. Civilian Unemployment-Population Ratio

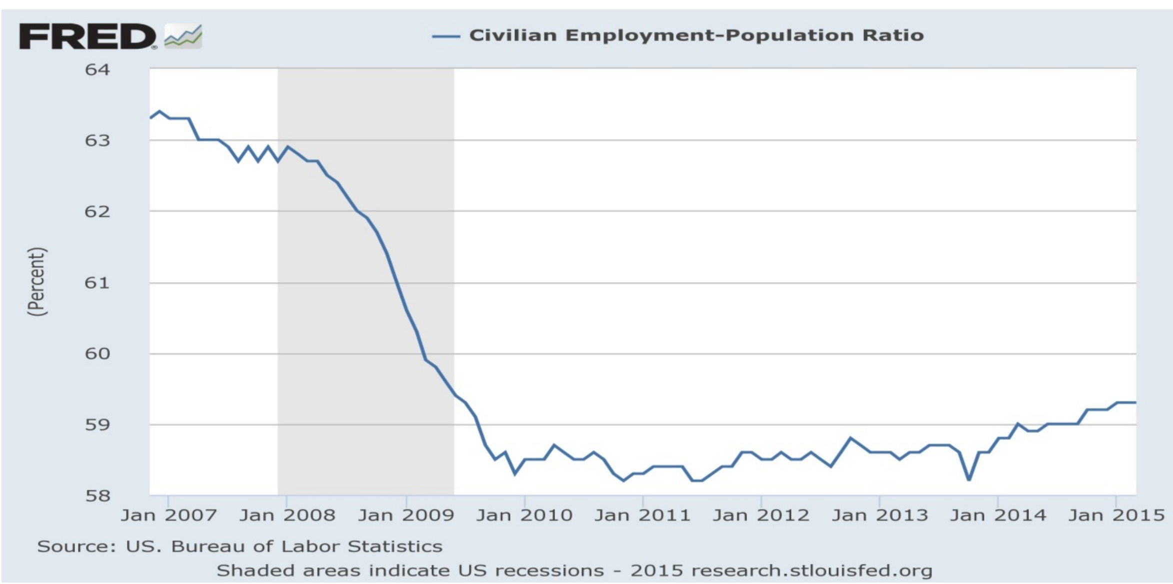

Figure 3. Unemployment Rate – Official (U3 & U6) vs ShadowStats Alternate