Written by **Raven Clabough** on February 4, 2015

True Unemployment Rate Is Far Higher Than 5.6 Percent

Americans may not be too surprised to learn that the 5.6 percent unemployment rate the U.S. Department of Labor is touting is entirely misleading. According to Gallup, the real unemployment rate is currently 12.6 percent.

The unemployment rate calculated by the Department of Labor is seriously flawed because it does not factor in whole groups of people that Americans would recognize as being unemployed, including those who are severely underemployed.

For example, a college graduate who is working only a few hours per week at the moment because he cannot find full-time work is not considered to be unemployed, even if his income is completely unlivable.

Gallup.com explains just how the government could get this figure so wrong:

> If you, a family member or anyone is unemployed and has subsequently given up on finding a job — if you are so hopelessly out of work that you've stopped looking over the past four weeks — the Department of Labor doesn't count you as unemployed….
>
> Say you're an out-of-work engineer or healthcare worker or construction worker or retail manager: If you perform a minimum of one hour of work in a week and are paid at least $20 — maybe someone pays you to mow their lawn — you're not officially counted as unemployed in the much-reported 5.6%.

The unemployment rate provided by the Department of Labor does not track individuals who fall under the "U-6" rate, which includes discouraged workers who have settled for part-time employment or have given up their job search altogether.

Gallup's CEO Jim Clifton opines that the false unemployment rate released by the government "cruelly overlooks" a number of people who are struggling.

Releasing false unemployment rates does a disservice to those who fall under the U-6 rate because these individuals are the victims of an obliterated economy and job market. And those who do not classify as unemployed because they have given up looking for a job are victimized by a vicious cycle, according to a 2013 study by professors at Northeastern University.

A 2013 study by Rand Ghayad, a visiting scholar at the Boston Fed and a Ph.D. candidate in economics at Northeastern University, and William Dickens, an economics professor at Northeastern University, revealed just how difficult it is for long-term unemployed individuals to find work. In that study, Ghayad and Dickens examined the relationship between job openings and unemployment, as depicted in Beveridge curves, for different ages, industries, and education levels.

The two discovered that the Beveridge curves look normal across all ages, industries, and education levels for those who have been unemployed for less than six months. However, for those who have been out of work longer than that, the curves shift dramatically. The shift is seen regardless of age, whether the individual is blue-collar or white-collar, a high-school graduate, or college graduate.

Ghayad then ran a follow-up field experiment wherein he sent out 4,800 fictitious resumés to 600 job openings, with 3,600 of them for fake unemployed people. In those 3,600 resumes, Ghayad varied how long the fake individuals had been out of work and whether they had industry experience. The mocked-up resumés were all male, all had randomly selected (and racially ambiguous) names, and all had similar education backgrounds. The question was which of them would get callbacks.

The results of that field experiment revealed that employers preferred applicants who had not been unemployed very long, those who have industry experience, and those who did not switch jobs very frequently. However, the one criterion that seemed to outweigh all the others was how long the individuals had been out of work.

Ghayad's findings revealed that those with more experience who had been unemployed for six months or longer were called back less than those who had no relevant experience but had been unemployed for a shorter amount of time.

Gallup's Clifton observes that America is failing to deliver the great American dream of having a job, which provides individuals a sense of self-worth.

A "good job," according to the standards set by Gallup, is one that offers 30 or more hours of work per week and provides a steady paycheck. Gallup calculates a payroll to population rate as a measure of those who are employed by an employer for at least 30 hours per week and is calculated as a percent of the total population. At the moment, the United States has a payroll to population rate of just 44 percent. Clifton notes that in order to replenish America's middle class, that rate would need to increase to 50 percent, and at least 10 million new jobs would need to be created.

Of course, the American people have seen dishonest math from the federal government before. For example, according to the federal government, the United States debt currently stands at $18 trillion. That is approximately $56,000 per citizen, which is already an astronomical figure. Unfortunately, the actual liabilities of the federal government exceeds that number significantly, reaching in excess of $90 trillion. Chris Cox and Bill Archer analyzed the true U.S. debt in an opinion piece for the *Wall Street Journal* in 2012, wherein they wrote:

> The government has gotten by without having to produce the kind of financial statements that are required of most significant for-profit and nonprofit enterprises. The U.S. Treasury "balance sheet" does list liabilities such as Treasury debt issued to the public, federal employee pensions, and post-retirement health benefits. But it does not include the unfunded liabilities of Medicare, Social Security and other outsized and very real obligations.

According to Cox and Archer, the real-world impacts will be painful when the unfunded liabilities need to be paid. The federal government theorizes that there are Medicare and Social Security trust funds that have some money to pay the bills, but in reality, all the payroll taxes for those programs are spent in the same year they are collected.

It is also worth noting that unemployment and deficit spending have a direct relationship to one another. If one is high, so is the other.

Perhaps if the government was more honest about its debt math, Americans would have a better understanding of why the true unemployment rate hovers around 12 percent. Perchance, is that why the federal government is deceptive regarding the true unemployment rate?