

How does the Government Measure Unemployment?

The unemployment rate is based on the number of people over 16 who don't have jobs, are in the labor force and available for jobs, and are actively seeking work.

- The Bureau of Labor Statistics (BLS) computes the unemployment rate, based on a nationwide random survey of approximately 60,000 households each month.
- There is always some unemployment—businesses start up/shut down, and people leave jobs to look for other jobs due to poor skills and/or attitudinal matches. Even in the best of times unemployment is in the neighborhood of 4.5 percent.

There are three major types of unemployment:

- Frictional unemployment—workers are between jobs because they have chosen for personal, professional, or other reasons to leave their previous job and find a new opportunity.
- Structural unemployment—workers are unemployed due to changes in technology and/or business operations. This is the most pernicious type of unemployment—the job is gone and won't be returning. Associated with this type of unemployment are discussions of retraining, the risk of long term unemployment by workers with obsolete skills, and plants and businesses that are no longer in operation.
- Cyclical unemployment---unemployment due to layoffs during a recession. As the economy emerges from a slowdown this type of unemployment vanishes.

The cost of unemployment is forgone output. According to Okun's Law, for every 1 percentage point by which the actual unemployment rate exceeds the natural rate (typically estimated at 5 percent), a negative GDP gap of about 2 percent occurs. That is, the GDP is two percent lower than it could otherwise have been for each one percent of unemployment.

