

Turning The Corner

The Bureau of Labor Statistics today reported that employers added 120,000 jobs in November, and estimated the unemployment rate to be 8.6 percent—down from 9.0.

Although the Obama administration and the mainstream media will claim those numbers represent an indication that the economy is improving, they will likely *not* mention that during that same month 315,000 people gave up looking for work. The government *stops counting* those 315,000 as part of the workforce, and that has an effect on the unemployment rate calculation. (Only those individuals who have sought employment in the prior four weeks get counted by the government as being part of the workforce. Reasonable people might argue, of course, that not counting people as unemployed simply because they stopped looking for work is equivalent to declaring, “Americans are the healthiest people in the world—as long as we don’t count the people with diabetes and heart disease.”)

The distortion of the unemployment rate can be demonstrated by a simple example: If the nation’s workforce consisted of only 1,000 people and 96 were unemployed, the unemployment rate would be 9.6 percent, or 96 divided by 1,000. If two of the 96 find jobs but three of the 96 give up looking for work, the unemployment rate would be 9.1 percent, or 91 divided by 997, because the government removes from the calculation (and from both the numerator and the denominator) the three people who gave up looking for work. If those three were still counted as unemployed members of the workforce, the unemployment rate would be 9.4 percent, or 94 divided by 1,000. But with either unemployment percentage (9.1 or 9.4), the number of employed individuals is 906.

The decline in the “official” unemployment rate from 9.0 to 8.6 percent is therefore misleading because millions of Americans are excluded from the calculations. The economy can appear to be improving when, in fact, it may be getting even worse.

As an extreme example, if every unemployed person in the United States exhausted his unemployment benefits, stopped looking for work, and went on welfare, the official unemployment rate would be *zero*—even though tens of millions might be unemployed—because people on welfare are not counted as part of the workforce.

Moreover, millions of Americans are now working part-time because they cannot find full-time employment. None of those people are counted as unemployed by the government, although they may certainly consider themselves to be in that category. The *underemployment* rate (the unemployed *plus* the part-time workers who are seeking full-time employment) is now 15.6 percent.

If 120,000 new jobs are solely responsible for the unemployment rate dropping from 9.0 to 8.6 percent, that would mean that another 2,580,000 jobs would be sufficient to reduce the unemployment rate to zero—if 120,000 jobs actually represented a reduction of 0.4 in

the unemployment rate. But the 0.4 reduction is a reflection of both the 120,000 new jobs *and* removing 315,000 people from the equation. (Obviously, 2.58 million new jobs would help only about one-fifth of the 13 million Americans who are currently unemployed.)

Although it is certainly good that 120,000 people found jobs in November (although about half were with retail stores and temporary help agencies), last week alone about 402,000 people filed claims for first-time unemployment benefits. The U.S. economy needs more than 100,000 new jobs each month just to keep pace with population growth. (Every year millions of graduates leave high school and college to enter the workforce, and hundreds of thousands of immigrants enter the United States. All of those people will be looking for jobs, along with the approximate 26 million Americans who are currently unemployed or underemployed.) If 150,000 new jobs were created every month it would still take 25 years for all of the nation's unemployed workers to return to work.

The economy is, of course, always continuously creating jobs and shedding jobs. A retail store opens or a business expands and jobs are created, while a restaurant or a gas station closes and jobs are lost. The problems obviously arise when the number of new jobs is insufficient to compensate for the number of lost jobs and population growth.* But while the unemployment rate is an important statistic, a more important one is the total number of Americans who are employed. That number is now about 140 million, compared to about 146 million in November 2007. (About one-third of those job losses came since Obama entered the Oval Office.) Remember *that* when the media talks about how the economy is now “turning the corner”—just in time for the 2012 elections—and when Obama claims he created several million jobs. If his policies had created jobs we would not have fewer workers in late 2011 than we had in late 2007.

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* The Heritage Foundation reports, “Unemployment remains high because job creation has fallen. From the recession’s onset to the first quarter of 2009, private job creation fell by 24 percent to 5.8 million jobs. That was the lowest quarterly job creation on record. Since then, job creation has only slightly recovered. In the first quarter of 2011, employers created just 6.3 million new jobs—1.3 million fewer jobs than in the quarters before the recession began. Fewer existing businesses are expanding, while fewer entrepreneurs are starting new businesses. In the first quarter of 2011, the number of workers hired in new business establishments fell to just 660,000, 27 percent fewer than when the recession began. This is the lowest number of workers hired at new businesses that the [Bureau of Labor Statistics] has ever recorded—lower even than the worst points of the recession.”

Note: www.shadowstats.com is a web site that provides more realistic employment and inflation umbers than the government.