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The Unemployment Myth

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The government's announcement on Tuesday that the economy grew even faster than expected makes the current "jobless recovery" even more puzzling. To give some perspective, unemployment normally falls significantly in such economic boom times. The last time growth was this good, in 1983, unemployment fell 2.5 percentage points and another full percentage point the next year. That's what happens in a typical recovery. So why not this time? Because we have more to recover from than we've been told.

The reality is that we didn't have a mild recession. Jobs-wise, we had a deep one.

The government reported that annual unemployment during this recession peaked at only around 6 percent, compared with more than 7 percent in 1992 and more than 9 percent in 1982. But the unemployment rate has been low only because government programs, especially Social Security disability, have effectively been buying people off the unemployment rolls and reclassifying them as "not in the labor force."

In other words, the government has cooked the books. It has been a more subtle manipulation than the one during the Reagan administration, when people serving in the military were reclassified from "not in the labor force" to "employed" in order to reduce the unemployment rate. Nonetheless, the impact has been the same.

Research by the economists David Autor at the Massachusetts Institute of Technology and Mark Duggan at the University of Maryland shows that once Congress began loosening the standards to qualify for disability payments in the late 1980's and early 1990's, people who would normally be counted as unemployed started moving in record numbers into the disability system — a kind of invisible unemployment. Almost all of the increase came from hard-to-verify disabilities like back pain and mental disorders. As the rolls swelled, the meaning of the official unemployment rate changed as millions of people were left out.

By the end of the 1990's boom, this invisible unemployment seemed to have stabilized. With the arrival of this recession, it has exploded. From 1999 to 2003, applications for disability payments rose more than 50 percent and the number of people enrolled has grown by one million. Therefore, if you correctly accounted for all of these people, the peak unemployment rate in this recession would have probably pushed 8 percent.

The point is not whether every person on disability deserves payments. The point is that in previous recessions these people would have been called unemployed. They would have filed for unemployment insurance. They would have shown up in the statistics. They would have helped create a more accurate picture of national unemployment, a crucial barometer we use to measure the performance of the economy, the likelihood of inflation and the state of the job market.

Unfortunately, underreporting unemployment has served the interests of both political parties. Democrats were
able to claim unemployment fell in the 1990's to the lowest level in 40 years, happy to ignore the invisible unemployed. Republicans have eagerly embraced the view that the recession of 2001 was the mildest on record.

The situation has grown so dire, though, that we can't even tell whether the job market is recovering. The time has come to correct the official unemployment statistics to account for those left out. The government agencies that can give us a more detailed and accurate picture of the nation's employment situation — the Census, the Bureau of Labor Statistics and the Bureau of Economic Analysis — need additional funds and resources from Congress to do their jobs.

Otherwise, announcements about a rebounding economy will continue to show only half the picture. Take the revised numbers released by the Commerce Department on Tuesday. They showed that output in the third quarter grew at a rate of 8.2 percent, an extraordinary pace, and productivity grew even faster. Almost no one noted, though, that Social Security also announced the latest data on disability applications. Almost 200,000 people applied in October — up 20 percent from the previous month — tying the highest level ever. Despite the blistering growth of the economy, the invisible unemployment problem continues.

We didn't have a mild recession and a jobless recovery. We covered up a deep recession and will need a sizable bit of recovery just to get us back to the point the unemployment rate suggested we already were. As the Red Queen said to Alice in "Through the Looking Glass": "Here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

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