Why It Doesn't Feel Like the Economy Is Getting Better

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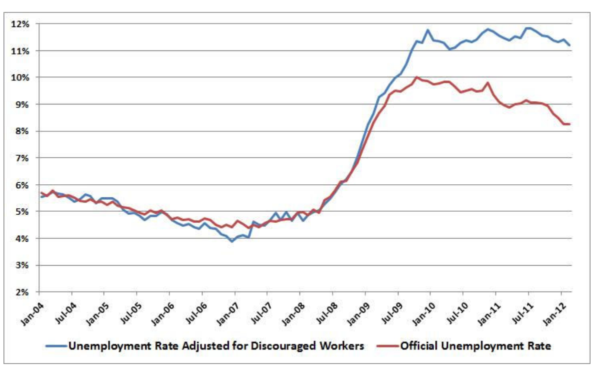
The latest unemployment figures come out this week and they will likely show unemployment either holding steady or declining slightly. The official unemployment rate is still above 8 percent, and even if it were to continue the downward trend we've seen since November, it would be another couple of months before we saw it drop below 8 percent. The good news that the White House will try to sell this week is that unemployment has been on a steady march downward from its 10 percent high in late 2009. If the economy has been steadily improving for the past 30 months, then why have repeated Gallup polls on economic confidence shown people to be consistently dissatisfied with the economy?

[See a collection of political cartoons on the economy.]

Part of the answer is that the recession and recovery have been unusually long. The median unemployment rate from 1950 to today is 5.6 percent. Since 1950, when the unemployment rate rose above 5.6 percent, it typically stayed there for only 18 months before falling back down. We shot past the 5.6 percent mark in October 2008, and if things keep going the way they have been, we won't see 5.6 percent unemployment again until 2014.

The other part of the answer is that the official unemployment rate isn't telling the whole truth. What the government calls "the unemployed" is not what American workers think of as the unemployed. To be unemployed in the eyes of the government, a worker must not have a job *and* have searched for work at some point within the previous month. If a worker gives up looking for a job for more than a month, that worker is no longer counted as unemployed. What this means is that, during periods of prolonged unemployment, the official unemployment rate will decline over time simply because the government stops counting unemployed people who know they don't have a chance at a job until the economy turns around.

The chart below shows the unemployment rate (red) compared to what the unemployment rate would be if we counted workers who dropped out of the labor force or never managed to get into it to begin with (blue). The blue line explains why the Gallup polls show that Americans aren't any more confident in their economic futures today than they were two years ago. It is because the unemployment rate they are feeling—not the unemployment rate the government is reporting—has remained unchanged.



The reason the unemployment rate has remained stubbornly fixed at such a high level is that our political leaders—even after four years of conducting the most expensive economic experiment in human history—still don't know what it is that makes an economy grow. They could have saved us a tremendous amount of pain plus several trillion dollars in wasted money if they had simply asked a few economists who didn't have a vested interest in telling them what they wanted to hear.

[Read the *U.S. News* debate: Does Stimulus Spending Work?]

Economic growth comes from free people making their own decisions and knowing that they must live with the consequences of those decisions. Every time the government intervenes to tell us what we should or should not buy, or to rescue people and companies from bad decisions that they freely made, the government stifles the forces of economic growth. Until politicians give up the fiction that they can make better decisions for us than we can make for ourselves, we're going to continue to see record unemployment—regardless of whether or not the official figures admit it.

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