THE WALL STREET JOURNAL.
WSJ.com

OPINION | JUNE 10, 2010

Don't Believe the Double-Dippers

Liberals issue dire warnings to argue for more stimulus spending. Republicans embrace gloom as evidence stimulus hasn't worked. The economy isn't that bad.

By ALAN REYNOLDS

We're falling into a double-dip recession," former Labor Secretary Robert Reich declares in a Christian Science Monitor blog post. His evidence? The Bureau of Labor Statistics (BLS) estimated that only 41,000 private jobs were added in May. But that is much too flimsy a statistic to justify predicting an aborted recovery—something that has happened only once since 1933.

The only double-dip recession in modern times began during the election year of 1980, when President Jimmy Carter's newly appointed Fed Chairman Paul Volcker slashed the federal-funds rate to 9% that April from 17.5% in July. Inflation returned with a vengeance, so the Fed gradually reversed course by pushing the fed-funds rate above 19% by the time Ronald Reagan took office in January 1981. Are those currently predicting a double-dip recession expecting the Fed to raise interest rates to 19%?

It is also misleading to label this a "jobless" recovery, which indeed took place in the early 2000s. After the recession of 2001 ended that November, the number of private jobs continued to fall by 1.3 million through July 2003. Yet production continued to grow.

This year, by contrast, civilian employment has increased by more than 1.6 million jobs, according to the BLS Current Population Survey of households. True, the Current Employment Survey of employers shows a smaller gain of 982,000 in nonfarm jobs over the past five months, nearly half of which were government jobs. But that still leaves private employment up by 495,000 or roughly 100,000 a month.

Mr. Reich divined an imminent recession largely because the increase in private jobs supposedly slowed to 41,000 in May, according to the BLS. But these monthly estimates are much too rough and variable to be taken so seriously. The household survey, for example, would have us believe the labor force suddenly surged by 805,000 in April then collapsed by 322,000 in May. By smoothing out such wild gyrations, it turns out that the labor force rose by 267,000 a month this year, while employment rose by 326,000 a month. The combination was enough to trim unemployment, but not by much.

Double-dippers use dubious devices to make mediocre job gains appear much worse than they are. One is to claim, "There are still nearly six workers competing for every available job," as Rep. Jim McDermott (D., Wash.) wrote in a May 28 letter to this newspaper.

After talking to me about those figures, CNNMoney reporter Tami Luhby wrote, "Though Labor Department statistics say there are 5.5 job seekers for every opening, Reynolds said there is work available if people are willing to relocate or take jobs in a different field." What I actually told her was that it is completely untrue that BLS statistics "say there are 5.5 job seekers for every job opening." I also remarked, with less emphasis, that making 79-99 weeks of unemployment benefits available only in states with the highest unemployment rates has the perverse effect of punishing people for moving to the 14 states where unemployment ranges from 4% to 7%.

The myth that there are nearly six job seekers for every available job arises from the misnamed BLS "Job Opening and Turnover Survey" (JOLT), which asks a few thousand businesses how many new jobs they are actively advertising outside the firm. But note well that this concept of "job openings" does not purport to include "every available job." On the contrary, it is closer to being a measure of help wanted ads.

"Many jobs are never advertised," explains the BLS Occupational Outlook Handbook; "People get them by talking to friends, family, neighbors, acquaintances, teachers, former coworkers, and others who know of an opening." Because many jobs are never advertised they are also never counted as job openings!

The BLS Handbook also notes that, "Directly contacting employers is one of the most successful means of job hunting." Those jobs are also not counted as job openings. Job openings inside a firm are also excluded—including laid-off workers who are rehired or relocated within large corporations.

Despite these severe limitations, the trend has been more upbeat than you might gather from depressing news reports. "The number of job openings increased in April to 3.1 million," reports the BLS. "Since the most recent trough of 2.3 million in July 2009, the number of job openings has risen by 740,000."

Another popular device for denigrating this year's modest-yet-positive job gains is to claim the "real" unemployment rate is actually 16.6%. That figure, called U6, is the largest of six BLS measures. The more familiar U3 rate (now 9.7%) defines "unemployment" as people who say they have looked for work at some time during the past month but have not yet started a new job.

An alternative U2 measure includes only those who were unemployed because they were laid off or fired—not because they quit or were newcomers to the job market. That rate of job loss unemployment is 6%.

A broader U4 measure, by contrast, adds "discouraged workers." People need not have looked for a job recently to be counted as discouraged. It is sufficient for them to think no work is available, or think they are too young or too old, or think they lack the necessary schooling or training. Psychological discouragement adds relatively little to the conventional unemployment rate, lifting the U4 measure to 10.3% in May (down from 10.6% in April).

The broadest U6 statistic goes much further by adding "all marginally attached workers, plus total employed part-time for economic reasons."

The phrase "working part-time for economic reasons" implies a clear divide between part-time and full-time status. That creates the misimpression that those working part-time for economic reasons means would rather have different ("full-time") jobs. In reality, only a fourth of them say they could not find a full-time job; the rest work in occupations where hours vary. The BLS counts anything below 35 hours as part-time, so those who normally work 9-to-5 are counted as working part-time for economic reasons if they report losing even a single hour due to "slack work or unfavorable business conditions . . . or seasonal declines in demand."

The "marginally attached" in the U6 statistic do not even claim to imagine they can't find work. They are not looking for work, the BLS explains, "for such reasons as school or family responsibilities, ill health, and transportation problems." To describe people who are not available for work as unemployed or even underemployed is a misuse of the language.

Using all of this statistical trickery to convert a weak job market into an imminent recession has become a bipartisan political strategy. Robert Reich and other big government Democrats play the "double dip" card to peddle more deficit spending on refundable tax credits and transfer payments. Conservative Republicans often become double-dippy for very different reasons—to argue (quite plausibly) that hundreds of billions in "stimulus spending" has proven counterproductive so far, contributed to the debt, and will eventually lead to higher taxes.

Those who want to know what is going on must sift through all of this bipartisan gloom to distinguish between (1) agenda-driven dire warnings and (2) the boring reality of a sluggish recovery being partially paralyzed by ominous threats of punitive taxes and onerous regulation.

Mr. Reynolds is a senior fellow with the Cato Institute and the author of "Income and Wealth" (Greenwood Press, 2006).