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U.S. ECONOMY MORE COMPLEX THAN RUBIK'S CUBE

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Two numbers from the May jobs reports have dominated the headline news: joblessness at 8.2 percent and 69,000 additional payroll jobs. Both numbers are alike in that both are misleading. Both failed to reach the threshold for statistical significance.

Apart from the political spinmeisters for whom standard errors are just messy details to be set aside when they get in the way of their candidate's message, neither party can be pleased with these numbers. The Democrats were looking for economic improvement; the Republicans were hoping for something more favorable to their short-term interests. These two over-reported numbers, tied to their standard errors, tell a different story. Both indicate *no change* in macroeconomic performance from April to May.

At the same time the establishment survey reported that there was no statistically significant change in the number of payroll jobs between April and May, the household survey estimated that 422,000 additional persons were classified as employed. However, an additional 220,000 persons were counted as unemployed. The employment increase indicates some improvement in economic conditions, though it is dampened by the 245,000 increase in the number of persons working part time for economic reasons. The increase in the number of persons out-of-work indicates some deterioration in those conditions that is reinforced by the 310,000 increase in the number of persons jobless for 27 weeks or more. Leave it to the spinmeisters to hammer away at whatever metric suits their purposes best.

The U.S. economy is much more complex than Rubik's Cube -- a mechanical puzzle that can be solved in less than six seconds. The economy, on the other hand and notwithstanding the bias in economic theory to represent it as a mechanical system, is a profoundly human system subject not just to decisions made by millions of persons in the U.S. but hundreds of millions around the world in places like China, Brazil, the European Union, and India. To cut through some of this complexity, Mayo Research Institute suggests thinking about unemployment in terms of the number of persons staying at a very busy hotel. Some persons are checking into the hotel, others are checking out, and still others remain registered, at least for the moment. Many are travelling alone, others with family members.

According to data from the household survey, an estimated 12.5 million persons were unemployed last April. By May, some 2.3million of those persons were employed and another

2.6 million no longer were in the labor force. *They had checked out.*

Further, 1.9 million who were employed in April entered the ranks of the unemployed and other 3.1 million who were not in the labor force in April were counted among the unemployed in May. *They had checked in.*

Of the 12.7 million who were out of work in May, 7.7 million or 60 percent were out of work in April. *They had continued their stay.*

At much lower overall unemployment rates than 8.2 percent, the check out rate is much higher. In May 2007, for instance, with joblessness at 4.4 percent, an estimated 50 percent checked out. By comparison, the most recent check out rate was 40 percent.

Even when the U.S. jobless rate topped out at 10 percent in October 2009, by the following month fully 2.6 million previously jobless persons were employed.

Since the onset of the Great Recession Washington has tried stimulus, bailout, extended unemployment insurance benefits, cash for clunkers, mortgage refinancing, QE1 and QE2, temporary renewal of the Bush tax cuts, and other schemes to kick-start the economy and put the unemployed and discouraged workers back to work. All with disappointing results as noted in the anemic 1.9 percent increase in first quarter GDP that remind one of the frustration linked to the many failed attempts to solve Rubik's Cube.

Put aside the 8.2 percent jobless rate and consider that, on average over the last five months, an estimated 18 percent of the unemployed in any given month were employed in the following month. There is, in other words, a human healing process in place and at work. But it requires patience. It took 162 months for the 8.0 percent unemployment rate in January 1984 to drop and remain below 5 percent. Lots of patience.

Washington needs to learn the lessons already mastered by woodsmen who know that it takes many years to re-forest timberland after it has been clear-cut. Our message to everyone who thinks mechanically about economic affairs is to put down your Rubik's Cube thinking, get out of the way, and let the healing process of this complex human system sort through the mess created by the Great Recession.

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