

Why Bush looks good over jobless

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It's time to play a little game with numbers, bearing in mind that this is an election year in the United States.

A weak spot for President George W. Bush is the U.S. job situation. The economy is barrelling along, which is good for a sitting president, but it's not creating many jobs, which is not good for Mr. Bush.

U.S. economists have taken to calling this the job-loss recovery, a neat word-play on the jobless recovery that marked the early stages of the United States' escape from recession in the early 1990s.

Conventional wisdom has it that the weak recovery cost Mr. Bush's father, George H.W. Bush, the 1992 election, when he was beaten by Bill Clinton. Actually, the candidacy of Ross Perot, by draining away Republican voters, did more to sink President Bush Sr. than did the economy, but the slow revival in jobs certainly didn't help.

Let's take a quick look at the numbers; then, we're going to throw a curve at you.

The U.S. economy has lost 2.3 million jobs since the current Mr. Bush took office, the worst showing under any U.S. president since Herbert Hoover during the 1930s Depression. The chance of regaining all those jobs in the 10 months remaining before the November election is about zero.

At the same point in his term of office, the elder President Bush could point to job gains of 1.1 million. And by election day, the count was up to 2.6 million, but Mr. Bush lost anyway.

But most voters pay more attention to the unemployment rate -- and there, the younger Mr. Bush has a better record than his dad. His father -- at this point in his term -- faced a jobless rate of 7.3 per cent, and it climbed even higher before election day. The jobless rate last month was only 5.7 per cent, which is already down from its 6.3-per-cent peak last summer.

Since it's an easier-to-understand economic indicator than total employment, the unemployment rate packs more punch for politicians as they try to connect with ordinary voters.

But this is where luck is really on the current President's side. The jobless rate would have been much higher -- well over 7 per cent -- except for the fact that so many Americans simply dropped out of the labour market in the past years as the economy struggled.

To understand why that's true, you need to understand how the unemployment rate is constructed.

Begin with the working-age population, the 222.3 million people in the United States who were at least 16 years old in the final quarter of 2003. Many -- such as full-time students, homemakers and the retired -- have no interest in working. Everyone else -- 147 million people -- was in the labour force, where they were either working (138.4 million) or unemployed (8.6 million).

Those are the raw numbers for a set of ratios that are important to labour market analysts. One is the participation rate, which is the size of the labour force relative to the working-age population. In the latest quarter, that was 66.1 per cent, which is the 147-million-person labour force as a percentage of the 222.3-million-person population of working age. The best-known ratio is the unemployment rate; it came in at 5.9 per cent during the same period, which is the 8.6-million unemployed as a percentage of the 147 million people in the labour force.

But -- and it's a big but -- that participation rate fell dramatically in the past few years, ever since the U.S. economy slowed in 2000 and stumbled into recession in 2001. Four years ago, the participation rate was 67.3 per cent -- a full 1.2 percentage points higher than it was in the latest quarter.

If it had remained there instead of falling, the U.S. labour force in the final quarter of 2003 would have been 149.6 million people, rather than 147 million. And if all of those extra 2.6 million people had been seeking work without success, they would have been counted as unemployed. So there would have been 11.2 million people unemployed rather than 8.6 million.

And if you take those 11.2 million might-have-been jobless people as a share of our might-have-been 149.6-million-person labour force, the resulting jobless rate -- we might call it the what-if rate -- would have been 7.5 per cent, rather than the actual fourth-quarter rate of 5.9 per cent.

No one knows exactly why the participation rate dropped as much as it did, but many of the dropouts likely became so discouraged by their fruitless search for work that they simply stopped trying.

This rate dropped in the early 1990s as well -- it usually does during recessions -- but not nearly as much. A what-if-unemployment rate for that era went only as high as 8 per cent, just a little higher than the actual record.

This time, the gap is much bigger and the benefit for the junior Mr. Bush much greater. Because there have been so many of them this time, the job market dropouts have kept the unemployment rate far lower than it might have been. All he has to do is hope that signs of better times won't bring them flooding back into the hunt for work. A rising unemployment rate in a growing economy is the last thing Mr. Bush needs.