How Bad is US Unemployment?

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Abstract

This article, a prepublication version of a post on www.debtonation.org, assesses the significance of the January 2009 US unemployment figures. The steep fall of 4 million jobs is greater than any 12-month fall in history.

Does this mean that 2007-2008 heralds the worst recession since 1929? This article assesses the empirical evidence of the US payroll figures to date.

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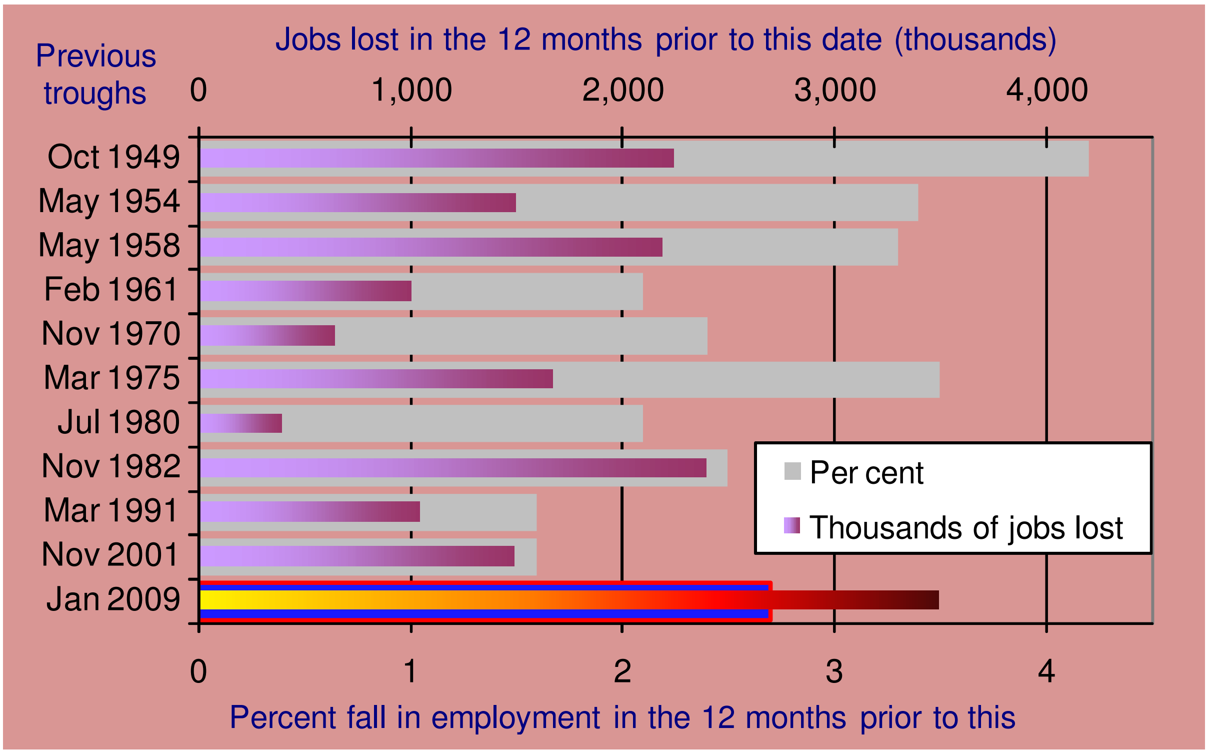

On February 8, as the Bureau of Labour Statistics released dismal statistics on US employment, markets experienced a Damascene moment. Its conversion to Keynesian stimuli drove the Dow up apparently because the bad news would hasten the bailout package through Congress. Then the index slid in agreement with recent Keynesian converts like Paul Krugman that the package would not do enough..

However, die-hard neoliberals were mounting a rearguard action.

As comparisons of the current downturn with the Great Depression multiplied – UK Treasury ex-chief Ed Balls called it the 'worst for 100 years' – neoliberals countered that 1929 was a lot worse, and state actions justified by such comparisons were really unnecessary.

'A year into the Great Depression, payrolls had plummeted 10 per cent' said the Toronto *Globe and Mail*'s Barrie McKenna, citing the University of Michigan's Mark Perry (whose pro-free-market blog can be found on http://mjperry.blogspot.com/) 'and by 1933, the collapse had reached 35 per cent. And not even the most bearish of Wall Street economists is predicting anything close to that'. (February 7, 2008, B5).

History demands more respect. Four years into the Great Depression, the US government remained captive of *laissez faire* views. Only after 1933 did FDR attempt counter-cyclical policy. This time around, government response was immediate. Like is not being compared with like.

The difference is owed to the neoliberals' nemesis, J.M. Keynes. As John Kenneth Galbraith pointed out, Keynes and his science of national economic aggregates, macroeconomics, made state intervention inescapable after the war. Not even neoliberals could overturn it. During the Great Depression the U.S. had no useful figures on the level or distribution of employment. Unemployment was not considered a problem. After the war, macroeconomic statistics

> showed the value of the total production of goods and services of all kinds, public and private. The Gross National Product. And in companion tables, they showed the income derived therefrom by kind and source. National income. That the latter needed to be sufficient to buy the former was a thought that no one could henceforth escape. Nor, more specifically, the thought that savings from the income now shown might not all be used – that they might not be absorbed by the spending for investment goods also shown in the tables. And it was evident how serviceably an increment of income, as from government expenditure, would make up any shortfall investment spending or consumer borrowing and add to the purchase and production of goods. (*A History of Economics*, p. 245-6.)

The severity of the Great Depression was compounded by failures not repeated in any downturn since.

The neoliberals are like the sailor who, when his ship confronts a huge wave, shouts, "Fear not! Long ago there was a bigger one that sank everybody." The issue is not whether the present crisis is as bad as the Great Depression. If it is worse than any downturn that followed, 1929 becomes an important comparator for deducing the scale of the remedies required. FT analyst John Authers 'Non-farm Payrolls and Stocks' 6 February 2009', recently compared absolute and percent drops in employment over the past year with the years preceding the troughs of 9 post-war recessions.

Using National Bureau of Economic Research data on recessions we compare the drop in employment from January 2008 to January 2009 with the drop in the 12 months preceding the troughs of the 10 previous postwar recessions. Greater than any previous recession by at least 25% - the absolute drop may reflect merely the growth of the labour force.

But the *percentage* drop in employment (bottom axis) one year into the downturn – i.e. without having run its course - is also comparable to, or greater than, five of ten previous downturns, and the fifth worst since the war – and worse than each year leading to the troughs of the 'w' shaped recession of the early 1980s.

And the US economy has not hit bottom yet. There is no guarantee that when it does, the unemployment levels will not outstrip all postwar recessions, leaving the Great Depression as the only one of comparable magnitude. Neoliberals and Keynesians alike can draw their final conclusions in due time. Meanwhile, we note only the contrast between continued neoliberal attempts to understate the gravity of the situation while drawing no lessons at all from their abject failure to see it coming.

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