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Not a Hooverville in Sight

By N. GREGORY MANKIOW

Washington — How is the economy doing? Some economists, pundits and politicians want you to think it's in terrible shape. This is "the worst economic recovery period in terms of job creation that the nation has experienced since the Great Depression," said Laura D'Andrea Tyson, who was chairman of President Bill Clinton's Council of Economic Advisers. So many other pessimists have echoed her in drawing analogies to the 1930's, you might think that millions of Americans are living in Hoovervilles.

Nothing could be further from the truth. Let's look at the facts. In 1933, in the middle of the Great Depression, the unemployment rate peaked at 25 percent. Now it is 5.5 percent, having fallen from 6.3 percent in June 2003. Today's unemployment rate is exactly the same as it was eight years ago, when Ms. Tyson's boss was running for re-election. It is also lower than the average rate in each of the past three decades.

Wait, the pessimists tell us. Although economists have long viewed the unemployment rate as one of the best measures of the labor market, we are now supposed to ignore it. Unemployment has fallen, they say, only because the economy is so bad that people have become discouraged and given up looking for work.

But that also does not square with the facts. The Bureau of Labor Statistics has a little-publicized alternative measure of unemployment, called the U-4, which includes those discouraged workers. And what does it show? About the same pattern as the standard unemployment rate: it peaked in June 2003 at 6.6 percent and has since fallen to 5.9 percent.

Then the critics take another tack: yes, the economy is creating jobs, but the jobs are not good jobs. Again, a baseless claim. The truth is that there are no data on the characteristics of the new jobs, only data on employment by very broad industry or occupation categories. Different analysts using these imperfect data can reach wildly different conclusions. Even Larry Katz, the chief economist at the Labor Department in the Clinton administration, concedes the point. "The dirty little secret is that no one is really looking at the quality of new jobs created," he told *The Washington Post* in June. "We don't know within these broad occupational categories what the new jobs actually are."

Although it is impossible to say precisely what kinds of jobs are being created, we do know that the recovery is broad-based. Over the past year, employment is up in 46 out of 50 states, and the unemployment rate is down in 49. The unemployment rate has declined for people with all levels of education, and among all racial and ethnic groups. As far as anyone can tell, the economy is creating all kinds of jobs.

None of this is to suggest, however, that the administration is satisfied with the current state of things. We are not.

President Bush inherited an economy that was sliding into recession after the high-tech bubble of the 1990's burst, and then came the terrorist attacks of 9/11. He acted decisively to jump-start the economy by giving tax relief to American families, and last year he and Congress passed a package to spur business investment by reducing the double taxation of dividends, expanding the expensing of equipment for small businesses and allowing temporary bonus depreciation.

Now the economy is heading in the right direction. Over the past year, the gross domestic product has grown by 4.8 percent, among the fastest rates in 20 years, and the economy has shown a net gain of about 1.5 million jobs. The growth of the gross domestic product for the coming year is expected to remain well above the historical average of 3 percent. The unemployment rate is expected to continue its decline. On Aug. 10 the Federal Reserve noted that the economy "appears poised to resume a stronger pace of expansion going forward."

Of course, there are always new challenges. High energy prices are now a drag on the economy, as well as a strain on family budgets. They point to the need for a comprehensive energy policy, as the president has long advocated. And over the longer run, reducing the budget deficit without raising taxes will require significant spending discipline.

But these challenges should not give anyone license to talk down the economy by distorting the facts. President Bush is exactly right when he says the economy is strong and that his policies are making it stronger.

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