Readings: The Miscounting of America's Economy

Reading One: Are We Measuring the Economy the Wrong Way?

A late 2018 report from the U.S. Department of Labor measured the nation's unemployment rate at 3.7 percent, the lowest it had been in more than a decade. Based on such statistics, we hear that the economy is healthy and the country is doing well. Yet a lot of people are not feeling economically secure. Across the country, Americans are struggling with the rising cost of housing and mounting personal debt. They worry about unstable jobs and how they'll pay for healthcare.

CA food pantry. Some 41 million Americans face hunger, despite a "healthy" economy.

This raises the question: What is the reason for the disconnect between statistics that suggest low unemployment and high economic growth rates, on the one hand, and the less rosy reality for many people on the ground, on the other?

To make sense of this discrepancy, it helps to consider what mainstream economic measurements count and what they leave out—and the impact that this counting might have on people's lives.

Most people think that the unemployment rate measures the number of people who want a job but do not have one. In fact, the situation is more complicated. As Quartz magazine staff reporter for economics and statistics Dan Kopf points out, the official unemployment rate actually overlooks large numbers of people who have given up looking for work but might want a job. In a 2017 article, Kopf explained why the unemployment rate (which was 4.6 percent at the time he was writing) might not give us a very clear picture of the job situation that many Americans are facing:

> Along with GDP growth, the unemployment rate is the most recognized economic statistic in the United States. It's too bad it is so misleading.
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> "The unemployment rate declined to 4.6 percent in November…" are the very first words of the Bureau of Labor Statistics' news release about the November 2016 survey data. That must seem incredibly wrong to many Americans. And that is because it is, in fact, not true that 4.6% of Americans who want a full-time job don't have one. The unemployment rate is something more specific and less meaningful.
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> As measured by the BLS, the unemployment rate is defined as the percentage of unemployed people who are currently in the labor force. In order to be in the labor force, a person either must have a job or have looked for work in the last four weeks. A person only needed one hour in the prior week to be considered employed.

> This leaves out a ton of relevant people. According to the November 2016 data, over 5.5 million Americans said they want a job, but don't have one, and are not considered a part of the labor force. If these people were included in the unemployment rate, it would jump to 8.2%.
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> https://qz.com/877432/the-us-unemployment-rate-measure-is-deceptive-and-doesnt-need-to-be/

The fact that so many people are overlooked by the official method for measuring unemployment has real implications. In a May 5, 2018, article for Forbes, freelance journalist Erik Sherman argued that the increasing number of people who have given up looking for work has increased inequality in our society and has made it difficult for those who do have jobs to secure better pay:

> More people have given up on finding work and therefore are no longer counted as either working or unemployed. That's why the unemployment rate keeps dropping. It isn't the underlying strength of the economy that reaches all levels of society. The number of jobs might be keeping rough pace with the growth of the population, but that is it. There is no broad economic cheer.
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> That has implications for income inequality — fewer people working means less income and wealth — as well as long-term economic stability creating pressure on social safety nets, such as they are.
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> All this also helps explain the low rate of wage growth that has puzzled many pundits. Growing employment should drive up wages, but increases have been lukewarm at best. As the St. Louis Fed noted in 2015, wage growth has really been related to inflation and not what would be considered real wage growth. People make more but inflation, which keeps pace or even exceeds the wage growth, eats up any extra money.
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> Employers don't need to provide real wage growth. Even with so many people dropping out of the labor force, there is little pressure to increase spending on wages to obtain workers. Maybe the relative unemployment numbers will finally drop so low that employers will finally be forced to pay more because there won't be enough people available.
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> [https://www.forbes.com/sites/eriksherman/2018/05/05/sure-unemployment-went-down-because-the-number-of-people-working-did/#5f60aaba408b]

Public officials often cite rates of "economic growth" as a means of measuring the health of our country. In reality, indicators such as Gross Domestic Product (GDP), or the total value of all the goods and services produced within a country's borders, don't provide a clear picture of how Americans are actually doing. One problem is that GDP does not account for inequality: The economy as a whole might be growing, but if almost all of the gains from that growth are going to a wealthy few, the expansion might be irrelevant to most people.

There is also a deeper, moral problem with focusing too much on economic growth. At its base, the current discussion about the economy equates money with well-being. But as historian Eli Cook argued in an October 19, 2017, article for The Atlantic, this way of thinking was a troubling shift from a time in which we measured our national progress by standards other than just money:

> Money and markets have been around for thousands of years. Yet as central as currency has been to so many civilizations, people in societies as different as ancient Greece, imperial China, medieval Europe, and colonial America did not measure residents' well-being in terms of monetary earnings or economic output.
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> In the mid-19th century, the United States—and to a lesser extent other industrializing nations such as England and Germany—departed from this historical pattern. It was then that American businesspeople and policymakers started to measure progress in dollar amounts, tabulating social welfare based on people's capacity to generate income….
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> Measuring prosperity according to the Dow Jones Industrial Average (invented in 1896), manufacturing output, or per-capita wealth made a good deal of sense for America's upper classes, since they were usually the ones who possessed the stocks, owned the factories, and held the wealth….
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> John Rockefeller Jr., J.P. Morgan, and other millionaire capitalists also came to recognize the power of financial metrics in their era. They began to plan for a private research bureau that would focus on the pricing of everyday life. Those plans came to fruition in the 1920s with the formation of the corporate-funded National Bureau of Economic Research. The private institution would go on to play a major role in the invention of Gross Net Product in the 1930s (and continues to operate today).....
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> That shift carried tremendous social ramifications: The necessary conditions for economic growth were frequently placed before the necessary conditions for individuals' well-being…. Since the mid-20th century—whether in the Keynesian 1950s or the neoliberal 1980s—economic indicators have promoted an idea of American society as a capital investment whose main goal, like that of any investment, is ever-increasing monetary growth. Americans have surely benefited materially from the remarkable economic growth over this period of time, an expansion wholly unique to capitalist societies. Nevertheless, by making capital accumulation synonymous with progress, money-based metrics have turned human betterment into a secondary concern.
> [https://www.theatlantic.com/business/archive/2017/10/money-measure-everything-pricing-progress/543345/]

This "pricing of everyday life" has served to widen the gulf between how economists measure the country's well-being and how ordinary people experience their working lives--and has created the situation in which the news about the nation's economic health that Americans might read in the financial pages may not correspond with their everyday struggles.

Reading Two: Are There Different Ways to Measure Economic Progress?

Reporting in popular news outlets tends to focus on a few economic indicators, such as the unemployment rate, the Gross Domestic Product, or an index of the stock market. These numbers have become stand-ins for the nation's economic health. But might there be other methods of measurement that give us better ways to evaluate progress?

In recent decades, a variety of efforts have been launched to measure our economic well-being in new ways. One example is the the Hornstein-Kudlyak-Lange Non-Employment Index (or HKL Non-Employment Index). This is a measure unemployment that does not exclude people who are no longer looking for work. While the Bureau of Labor Statistics calculates the U.S. unemployment rate in November 2018 as 3.7%, this index calculates it at 7.7%.

Changing the formula for the unemployment and economic growth could help encourage economic policies more focused on helping the middle and working classes. In a September 14, 2018, article for the New York Times, Opinion Columnist David Leonhardt discussed the need for alternative measurements:

> Ten years after the collapse of Lehman Brothers, the official economic statistics — the ones that fill news stories, television shows and presidential tweets — say that the American economy is fully recovered.
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> The unemployment rate is lower than it was before the financial crisis began. The stock market has soared. The total combined output of the American economy, also known as gross domestic product, has risen 20 percent since Lehman collapsed. The crisis is over.
> But, of course, it isn't over. The financial crisis remains the most influential event of the 21st century. It left millions of people — many of whom were already anxious about the economy — feeling much more anxious, if not downright angry….
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> A small, affluent segment of the population receives a large and growing share of the economy's bounty. It was true before Lehman Brothers collapsed on Sept. 15, 2008, and it has become even more so since. As a result, statistics that sound as if they describe the broad American economy — like G.D.P. and the Dow Jones industrial average — end up mostly describing the experiences of the affluent….
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> Fortunately, there is a nascent movement to change [the economic measures we use]. A team of academic economists — Gabriel Zucman, Emmanuel Saez and Thomas Piketty (the best-selling author on inequality) — has begun publishing a version of G.D.P. that separates out the share of national income flowing to rich, middle class and poor. For now, its data is published with a lag; the most recent available year is 2014. But the work is starting to receive attention from other academics and policy experts….
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> Heather Boushey, who runs the Washington Center for Equitable Growth, told me that it could be the most important change in economic data collection in decades….

> "As someone who advises policymakers, I can tell you there is often this shock: 'The economy is growing. Why aren't people feeling it,'" Boushey says. "The answer is: Because they literally aren't feeling it."
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> [https://www.nytimes.com/2018/09/14/opinion/columnists/great-recession-economy-gdp.html]

Ultimately, it may take an even more fundamental change in how we count to create measurements that accurately reflect the well-being of most people in America. Internationally, a variety of efforts have been launched to better measure the economic health of our societies. The United Nations uses an indicator known as the Human Development Index, which takes into account literacy rates, women's rights, and life expectancy, along with income, in measuring a country's progress. For its part, the country of Bhutan uses something known as the Gross National Happiness Index.

Finally, in a 2014 article in the Washington Post, New York-based researcher and writer Sean McElwee and Lew Daly, Director of Policy and Research at the think tank Demos, made the case for replacing the GDP with a measure known as the Genuine Progress Indicator. They wrote:

> In America, many states are finding new, more holistic measures of progress. Already, Maryland, Oregon and Vermont have begun using the genuine progress indicator (GPI).
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> GPI takes into account 26 social, economic and environmental indicators. These include financial factors such as inequality and the cost of underemployment. But GPI also considers the cost of pollution, climate change, and non-renewable energy resources. And it explores the possible social impacts, such as the cost of commuting and crime….
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> Oregon's governor, John Kitzhaber (D), wants to tie GPI to a 10-year budget plan that encourages longer-range policy development for a more sustainable state economy.
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> And Oregon isn't the only state looking for new ways to measure growth. In Maryland, GPI is influencing the development of new goals such as reducing infant mortality, cutting greenhouse gas emissions 25 percent by 2020 and planting more crops that improve soil fertility.
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> [https://www.washingtonpost.com/posteverything/wp/2014/06/05/why-we-should-abolish-the-gdp/?noredirect=on&utm_term=.bc8af5a2b42c]

Using alternative measurements of economic well-being can paint a very different picture of our country's progress than the one we see if we only look at the health of Wall Street. And it can help us think in new ways about the kind of society that we would like to create.