

Unemployment: The Dirty Little Secret Everyone's Ignoring

Updated January 08, 2010

By John Lott

- FOXNews.com

The problem of people getting discouraged and giving up looking for work is ballooning.

The unemployment rate might be stuck at 10 percent, but the more detailed numbers in the Department of Labor's Household survey data paint a more dire picture. The number of people with a job fell by 589,000 in December. Even worse, the number of people not in the labor force grew by an astounding 843,000 during just the last month. The Household survey data is what is used to measure the unemployment rate.

To get an idea of the size of this increase in the number of people not in the labor force, since February, when the stimulus package was passed, I repeat, the number of people not in the labor force has grown by 3.2 million. But the number for December represents 26 percent of the entire increase over that period of time. The problem of people getting discouraged and giving up looking for work is ballooning. Of course, they have had good reasons to be discouraged. Similarly since February, the total number of people employed has fallen by 4 million.

In September, Larry Summers, President Obama's top economic adviser, claimed: "We have walked a substantial distance back from the economic abyss and are on the path toward economic recovery. Most importantly, we have seen a substantial change in the trend of job loss." Christina Romer, the chair of President Obama's Council of Economic Advisers, made a similar statement today. While conceding that the December numbers were a "slight setback," she argued: "In a broad sense the trend toward moderating job loss is continuing, consistent with the gradual labor market stabilization we have been seeing over the last several months."

The growth in the U.S. unemployment rate has continued to outpace the rest of the world. Since February, the average unemployment rate for the European Union has grown by 1.2 percentage points. By contrast, the US unemployment rate has grown by 1.9 percentage points -- a 58 percent greater increase. Nor does the rate look particularly strong compared to what economists were predicting at the beginning of the year. Back in mid-January, business economists and forecasters surveyed by The Wall Street Journal expected the December unemployment rate to be at 8.6 percent.

Unemployment should start to improve, but the numbers indicate that the improvement in unemployment that economists and forecasters were predicting has occurred much more slowly than was expected at the beginning of 2009. By moving huge amounts of money from one industry to another, the stimulus as well as all the regulatory changes have caused a lot of churning in the labor market -- movement of people from one job to another than has caused temporary unemployment. Unfortunately, the huge number of people who have withdrawn from the labor force represent a big hangover that will make reducing unemployment a slow process.

John R. Lott is an economist and FoxNews.com contributor.

<http://www.foxnews.com/opinion/2010/01/08/john-lott-unemployment-dropping-jobless/>