



# POLICY BRIEF

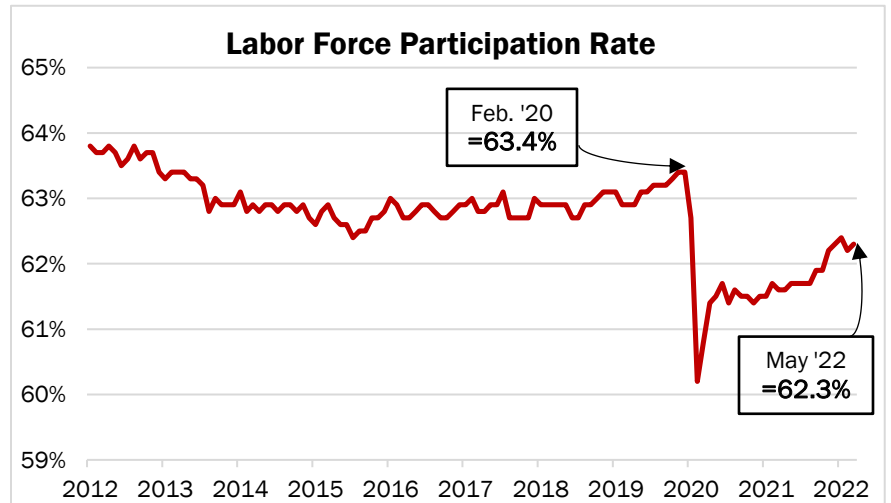
# HOUSE REPUBLICAN POLICY COMMITTEE



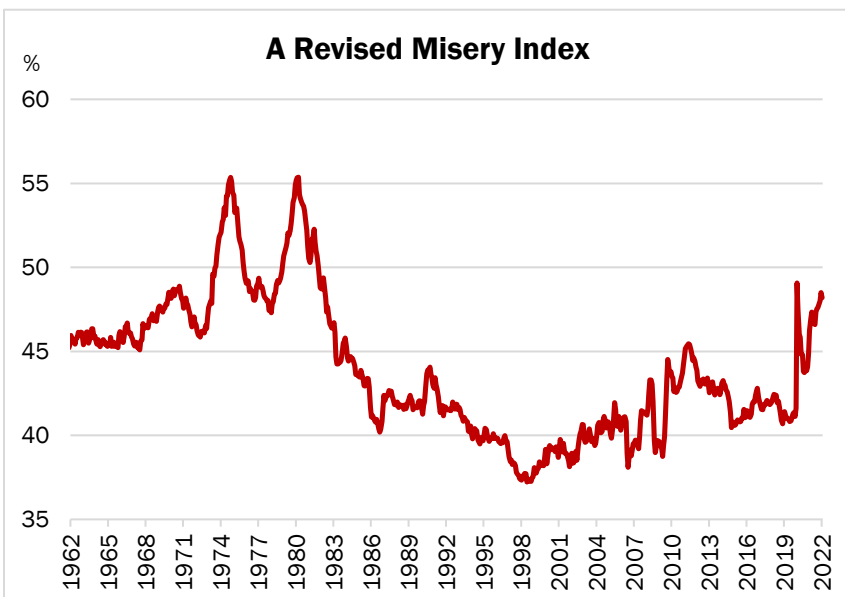
## AMERICA'S ECONOMIC MISERY

Inflation continues to hammer Americans. Despite low unemployment levels, Americans across the country report feeling economic pain.<sup>1</sup> When the United States experienced a period of double-digit inflation in the 1970's, economist Arthur Okun created an economic indicator to measure the economic distress being felt by Americans at the time.<sup>2</sup> Dubbed the "misery index," the indicator adds together the seasonally adjusted annual inflation rate, the Consumer Price Index (CPI), to the unemployment rate.<sup>3</sup> No single economic indicator is perfect or fully captures the complexity of all economic hardships. However, the original misery index accurately captured Americans' economic pain at the time of its inception when both inflation and unemployment were high. Since then, economists have tweaked the index over the years to capture different indicators, such as real GDP growth or bank-lending rates.<sup>4</sup>

While the original misery index captures the hardship Americans are currently experiencing from high inflation rates, it doesn't fully reflect the pain of unemployment, since a large number of Americans dropped out of the labor force during the pandemic and are not counted as unemployed.<sup>5</sup> While labor force participation has trended downwards for decades as the working population has aged, the pandemic caused it to free fall. The labor force participation rate fell roughly 3% from 63.4% to 60.2% in early 2020 in seasonally adjusted terms and still hasn't fully recovered.<sup>6</sup>



Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

Considering this, a misery index that simultaneously captures the impacts of high inflation, low unemployment, and low labor force participation would produce a broader picture of the current economic reality. For example, a revised misery index adding the seasonally adjusted inflation rate to an inverse of the employment-population ratio, which captures both the high employment level and the low labor force participation rate by showing the number of people currently employed as a share of the total working-age population, would better capture the "misery" felt from the current economic climate.<sup>7</sup> As the chart of the revised misery index shows, Americans are feeling economic pain despite low unemployment levels.

See also RPC's guide, entitled "Massive Spending Bill Will Fuel Inflation," for more details on the "hidden tax" of inflation.<sup>8</sup>

As the Federal Reserve moves to aggressively hike its interest rate target to curb inflation, unemployment could rise as a consequence.<sup>9</sup> For example, when then-Chairman of the Federal Reserve Paul Volcker started raising the interest rate target starting in the late 1970s and early 1980s, inflation was at over 14%.<sup>10</sup> After numerous rate hikes, unemployment rose to 10.8% in late 1982, but inflation began to fall.<sup>11</sup> To get this bout of inflation under control, Americans may have to endure even more economic misery.

Publ. June 15, 2022

---

<sup>1</sup> Janet Adamy. Inflation, Political Division Put U.S. in a Pessimistic Mood, Poll Finds. The Wall Street Journal. June 6, 2022.

[https://www.wsj.com/articles/inflation-political-division-put-u-s-in-a-pessimistic-mood-poll-finds-11654507800?mod=djemRTE\\_h](https://www.wsj.com/articles/inflation-political-division-put-u-s-in-a-pessimistic-mood-poll-finds-11654507800?mod=djemRTE_h)

<sup>2</sup> Ron Nessen. The Brookings Institution's Arthur Okun- Father of the "Misery Index." The Brookings Institution. December 17, 2008.

<https://www.brookings.edu/opinions/the-brookings-institutions-arthur-okun-father-of-the-misery-index/>

<sup>3</sup> *Id.*

<sup>4</sup> Steve H. Hanke. Hanke's 2020 Misery Index: Who's Miserable and Who's Happy? Cato Institute. April 14, 2021.

<https://www.cato.org/commentary/hanke-2020-misery-index-whos-miserable-whos-happy>

<sup>5</sup> Bureau of Labor Statistics. Labor Force Characteristics- Discouraged Workers. (Accessed June 13, 2022).

<https://www.bls.gov/cps/lfcharacteristics.htm#discouraged>

<sup>6</sup> FRED, Federal Reserve Bank of St. Louis. U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART]. (Accessed June 13, 2022) <https://fred.stlouisfed.org/series/CIVPART>

<sup>7</sup> Useful Definitions: Employment-to-Population Ratio. Economic Policy Institute. (Accessed June 13, 2022).

[https://www.epi.org/newsroom/useful\\_definitions/#:~:text=The%20Employment%2Dto%2DPopulation%20Ratio,persons%2C%20age%2016%20and%20over.](https://www.epi.org/newsroom/useful_definitions/#:~:text=The%20Employment%2Dto%2DPopulation%20Ratio,persons%2C%20age%2016%20and%20over.)

<sup>8</sup> House Republican Policy Committee. Massive Spending Bill Will Fuel Inflation. December 13, 2021.

[https://republicanpolicy.house.gov/sites/evo-subsites/republicanpolicy.house.gov/files/evo-media-document/Massive%20Spending%20Bill%20will%20Fuel%20Inflation\\_0.pdf](https://republicanpolicy.house.gov/sites/evo-subsites/republicanpolicy.house.gov/files/evo-media-document/Massive%20Spending%20Bill%20will%20Fuel%20Inflation_0.pdf)

<sup>9</sup> Christopher Rugaber. Surging inflation clears way for biggest rate hike in years. AP News. June 15, 2022.

<https://apnews.com/article/politics-business-inflation-be1b698e48327d3a33847be25aba3e3d>

<sup>10</sup> Michael Bryan. The Great Inflation. Federal Reserve History. November 22, 2013. <https://www.federalreservehistory.org/essays/great-inflation>

<sup>11</sup> Board of Governors of the Federal Reserve System (US), Federal Funds Effective Rate [FEDFUNDS], retrieved from FRED, Federal Reserve Bank of St. Louis. (Accessed June 14, 2022). <https://fred.stlouisfed.org/series/FEDFUNDS>. and U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis. (Accessed June 14, 2022).

<https://fred.stlouisfed.org/series/UNRATE>. and U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis. (Accessed June 14, 2022).

<https://fred.stlouisfed.org/series/CPIAUCSL>.