A black-swan shock exposes the deep fissures, endemic imbalances, and structural weaknesses of the U.S. economy*

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Abstract
For years President Donald Trump touted how strong the U.S. economy became under his leadership, and a chorus of sycophants, pundits, and economists echoed that narrative. It did appear to be true superficially: after all, the *official* unemployment rate was at a record low, while the stock market was at a record high, and average incomes were actually growing. However, seeming is not being. The economy seemed strong if one overlooked the deep fissures, endemic imbalances, and structural weaknesses indicative of an economy vulnerable to large unforeseen shocks. Thus, the coronavirus pandemic struck an economy so off balance that its impact was magnified.

JEL: A10, E02, E39, G10, H10

Keywords: Coronavirus pandemic, Covid recession, black-swan robust society, real unemployment rate

Introduction

The commonplace idiom, attributed to the legendary investor, Warren Buffett, "It's only when the tide goes out that you learn who's been swimming naked," is a vivid portrayal of our situation, for the Covid pandemic of 2020 found the U.S., as well as much of the world, swimming naked, i.e., unprepared for meeting the challenges it posed. To be sure, Buffett's allusion was to normal business cycles but by the 21st century it seems like these have morphed into black-swan shocks, inasmuch as ordinary inventory cycles, trade cycles, or demographic cycles have vaned in significance and have been overtaken by low-probability extremely-high impact events that are often referred to using the metaphor of a "black swan" (Taleb 2007).[1] Yet, in the 21st century U.S. such low-probability disasters have been appearing with uncanny frequency: the Dot-Com bubble, 9/11, the financial meltdown in 2008, and then the coronavirus pandemic.[2] Hence, economists should take the threats such shocks pose to the system much more seriously than in the past and explore ways to create what Nicholas Taleb called a black-swan robust socio-economic system in which we would be less vulnerable to their devastating impact (Taleb, 2009).[3]

Admittedly, this is not the only issue on economists' to do list. They will have to rethink seriously many concepts including efficiency, for instance, insofar as from now on we will need to think about maximization subject to the constraint that radical uncertainty looms in our future. They will also have

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[1] The metaphor arose because black swans were unknown in Europe before the discovery of Australia.
[2] In addition, there were numerous devastating events of regional significance, including Hurricanes Maria, Katrina, Harvey, and Sandy, tornadoes, and wildfires. In the last two decades these regional catastrophes claimed upwards of 6,000 lives and caused damages of $600 billion. Wikipedia contributors, "List of disasters in the United States by death toll."
[3] Threats in the foreseeable future include global environmental degradation, hostile artificial intelligence, and the endemic U.S. national debt, domestic terrorism, not to speak of the possibility of untoward acts of adversaries around the globe.

to pay more attention to basic needs, a concept that amazingly does not even appear in any of the major textbooks (Mankiw, 2018; Samuelson and Nordhaus, 2009)! Each epoch puts its stamp on the canon, and I suspect that the early decades of the 21st century will do so as well.

This essay explores how labor, stratified by ethnicity, fared so far during the Covid recession. However, first we examine the nature of the U.S. economy just prior to the recession in order to reveal that the pandemic struck an economy that was already in disequilibrium and therefore vulnerable and easily destabilized. It was not an inclusive economy in which all who wanted to work found decent jobs. It was not an economy with ample savings and with deep safety nets in case of a major downturn. Instead, it was an economy in which hubris was so widespread that planning for a rainy day appeared unreasonable caution. In short, the depth of the recession is indicative of the economy's fragility. The goal of most policy makers and economists to "reboot the U.S. economy," or to focus on "economic recovery," is therefore short sighted. We should not aspire to return to a frail economy, but instead to forge new tracks towards a black-swan robust economy and that will need a new Keynes for our time, as Robert Skidelsky noted some time ago (Rothschild, 2005, p. 439).

Evidence that the economy was not roaring at all prior to the recession

The pandemic had already begun to ravage the world when President Trump boasted in his State of the Union Address of 2020: "our economy is the best it has ever been", we have a "roaring economy", emphasizing that the "stock markets have soared" (Trump 2020).[4] He was by no means alone in propagating such impressions. These assessments were not only echoed in the media but just days before the pandemic Jerome Powell, Chair of the Federal Reserve, stated that the "economy was in a very good place" (Long 2020).[5] Academic economists agreed.

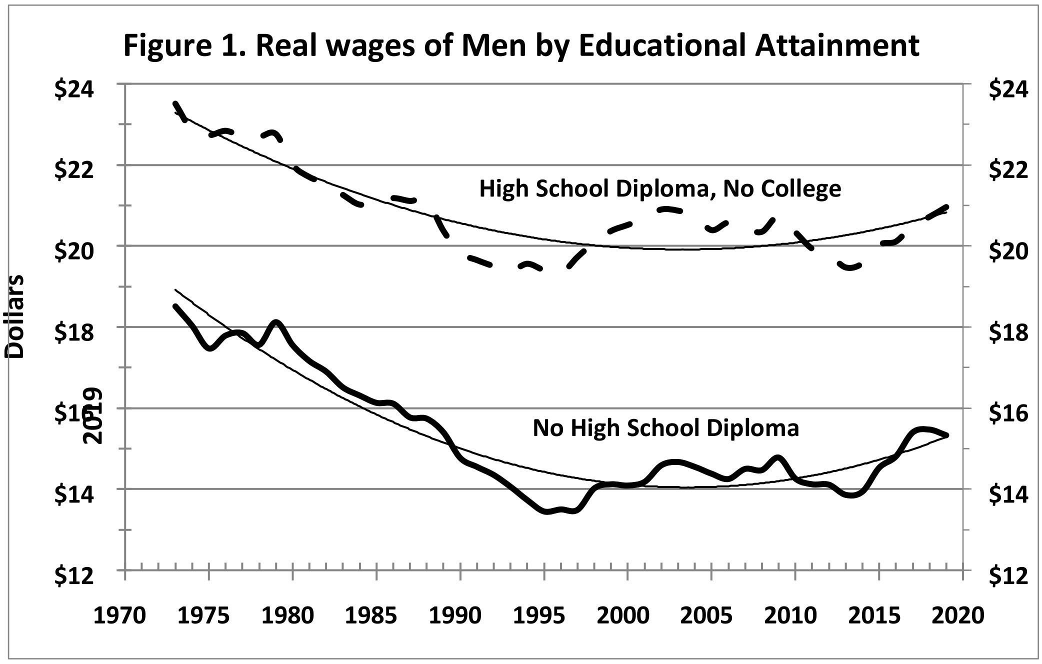
Already in 2016 at the meeting of the American Economic Association, Martin Feldstein of Harvard University, a doyen of the National Bureau of Economic Research, declared confidently that "fortunately, U.S. economy is now in very good shape. We are essentially at full employment" (Feldstein, 2016).

Half a million pre-mature deaths later, we realize that these observers mistook a Potemkin village for reality. They were mesmerized by the official statistics, but failed to recognize the economy's deep structural weaknesses, its fragility and fundamental imbalances, the uncanny inequality, as well as the widespread disaffection among the citizenry. In short, the U.S. has morphed into a dual economy with half of the population doing well while the other half flounders or worse (Temin, 2017).

The mainstream economists also missed that there is no quality-of-life indicator for which the U.S.'s rank is comparable to those of other rich countries: not in life expectancy, not in life satisfaction, not in educational attainment, not in children's welfare, not in equality, not in incarcerations, not in mass murders, and not in opioid overdoses. Only using average income per capita is U.S. ranked high, but this is an indication of how misleading averages are if the distribution of income is extremely skewed. To be sure, some do realize that the economy was not working for far too many Americans and that the middle class was being hollowed out (Bernard and Russell, 2019; Hacker, 2019; Komlos, 2018; Stiglitz, 2019). In short, the headlines were woefully misleading. "This nation was ailing long before the coronavirus reached its shores" (Editors, 2020). Here is why:

[4] Earlier he boasted about "an unprecedented economic boom." adding that we have "the hottest economy anywhere" and that "our economy is the envy of the world" because "an economic miracle is taking place in the United States" (Trump, 2019).
[5] Some of the news clips were collected and reposted: "America's Economy is Roaring" (White House, 2018).

1) Although the pundits could assert correctly that wages were rising, it was misleading, because they failed to add that the **real wages** of men without a college education was still below those attained in 1973 (Figure 1). Moreover, not less than 40% of the U.S. workforce was made up of low-wage working adults (Barnes, 2021) and 4.6 million part-time workers, who were unable to find a full-time job, were earning $283 per week, just $14 (in 2019 prices) more than they earned in July 2002 (Figure 2).[6]



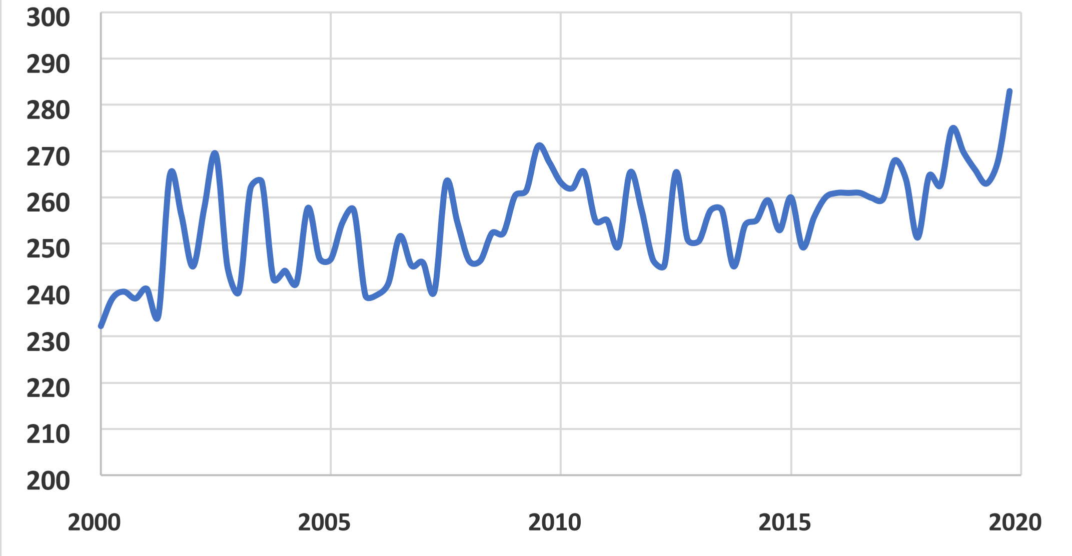
Source: Economic Policy Institute, *State of Working America Data Library* 2019.
https://www.epi.org/data/#?subject=wage-education

2) It is also true that the economy was growing and that incomes were increasing but median household income rose by merely $87 per annum since 1999 (Figure 3) and the statisticians had to strain themselves in order to keep the price deflator as low as possible so that they could document at least this level of growth (Häring and Niall, 2012, p. 32; Hartwig, 2006, 2008). If one considers instead, how much income it would take to thrive like a middle-class family, one finds that the cost of thriving index (COTI) rose much faster than incomes.

> "The COTI shows a declining capacity of a male full-time worker to meet the major costs of a typical middle-class household…. The widening gulf… between what American life costs and what American jobs pay is a central fact of American political economy that the public appears to have understood long before economists" (Cass 2020).

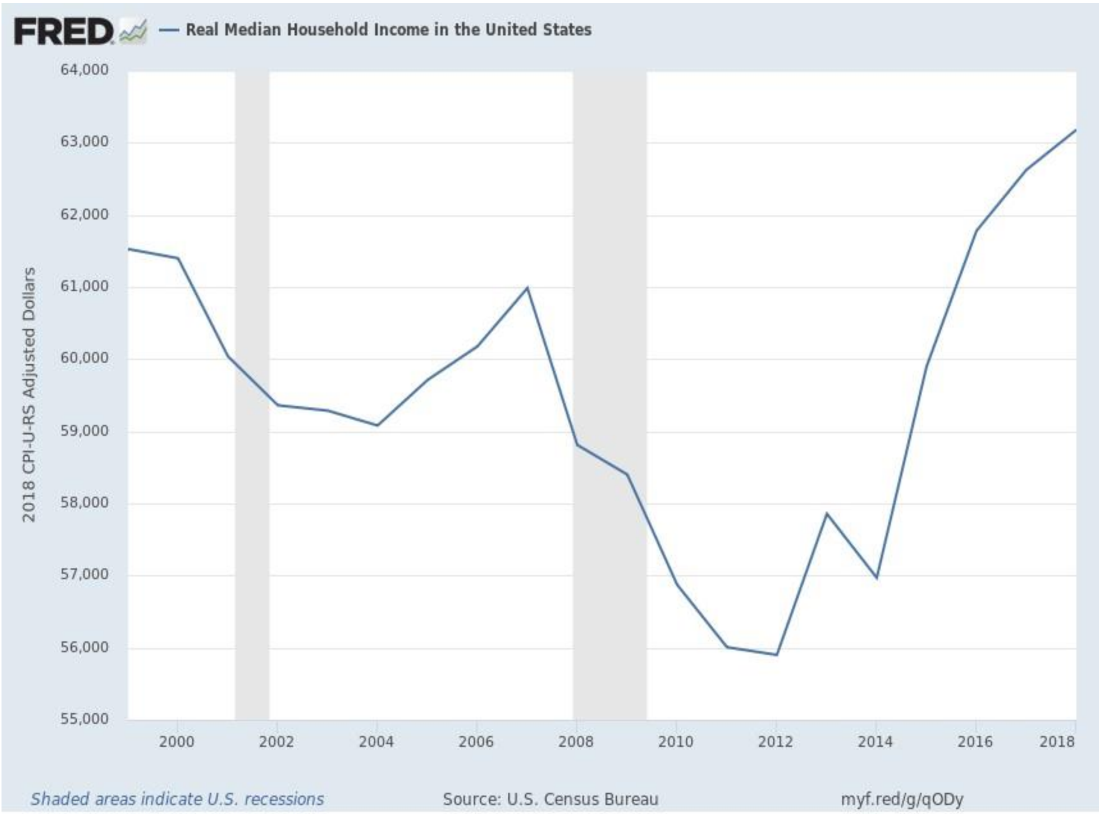
[6] The nominal series was deflated by the CPI (Fed series CPIAUCSL).

Figure 2. Real Median Weekly Earnings of Part-Time Workers, 2019 Dollars



Source: Federal Reserve Bank of St. Louis, series LEU0262881800Q and CPIAUCSL.

Figure 3. Real Median Household Income in the U.S.



Source: Federal Reserve Bank of St. Louis, series MEHOINUSA672N

3) To be sure, the *official* unemployment rate stood at 3.5% but only because the rate was woefully underestimated. Actually, the *real* unemployment rate has been generally twice the *official* rate and far from full employment (Komlos, 2019a, p. 190; Komlos, 2021). More about this below.

4) Although the media celebrated the hundreds of thousands of jobs allegedly created monthly, they failed to consider that many of the jobs created were not providing security, benefits, or were part time.[7] Many were precarious jobs with lower and more insecure incomes than regular workers. Six million such "contingent workers" in 2017 were in the gig economy, such as "independent contractors", "on-call workers", "temporary help", worked mostly without unemployment or health insurance benefits or pension plans (Friedman 2014, Kosanovich, 2018; Standing, 2014). The spread of the gig economy is hardly a sign of a thriving and robust labor force capable of living a dignified life and able to withstand downturns. As the Nobelist Amartya Sen put it, "there is a critical need for paying special attention to the underdogs of society…" (Sen, 2009).

5) Government deficit was projected to be $1.1 trillion in 2020 before the pandemic. Instead, it rose to $3.1 trillion in 2020 to increase the cumulative debt to $26.9 trillion or 127% of GDP (Figures 4 and 5) (CBO "Budget", Fed series GFDEBTN, GFDEGDQ188S). This is in stark contrast to the federal debt in 1981 at 31% of GDP (Hilsenrath, 2020). Endemic government deficits are not a sign of a balanced economy, but an economy living well beyond its means for decades and digging itself deeper into debt. The consensus view even before the pandemic was that $1 trillion deficits are unsustainable because of the accumulating interest rate burden (Rogoff, 2019).[8]

[7] Pertaining to the February jobs report CNBC, wrote that "Job growth smashes expectations" as payrolls rose by 273,000 (Cox, 2020). However, it failed to note that the rosy picture was not so rosy after all if one looked a bit deeper. The same "Employment Situation News Release" of the Bureau of Labor Statistics that included the 273,000 figure, also reported another survey according to which the number employed increased by merely 45,000 in February.
https://www.bls.gov/news.release/archives/empsit_03062020.htm. Moreover, another count stated that the number of full-time workers increased by merely 10,000 and the number of parttime workers remained unchanged (Fed series LNS12500000 and LNS12600000). So, there was much less reason for jubilation than the report suggested.

[8] Jerome Powell, pleaded for a reduction of the deficit: "Putting the federal budget on a sustainable path when the economy is strong would help ensure that policymakers have the space to use fiscal policy to assist in stabilizing the economy during a downturn" (Long, 2020). The economy remained "strong" for another week after this testimony.

Figure 4. Federal Budget Deficits

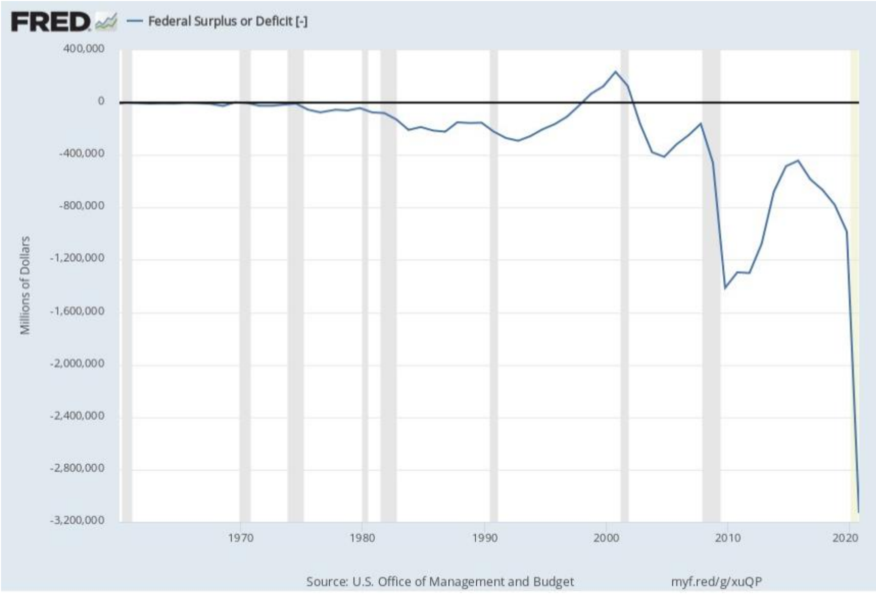
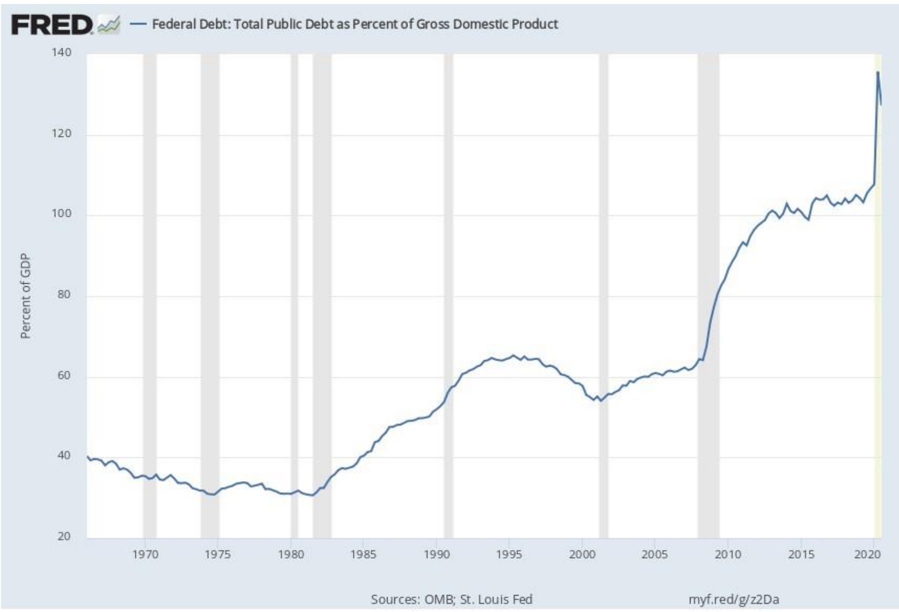
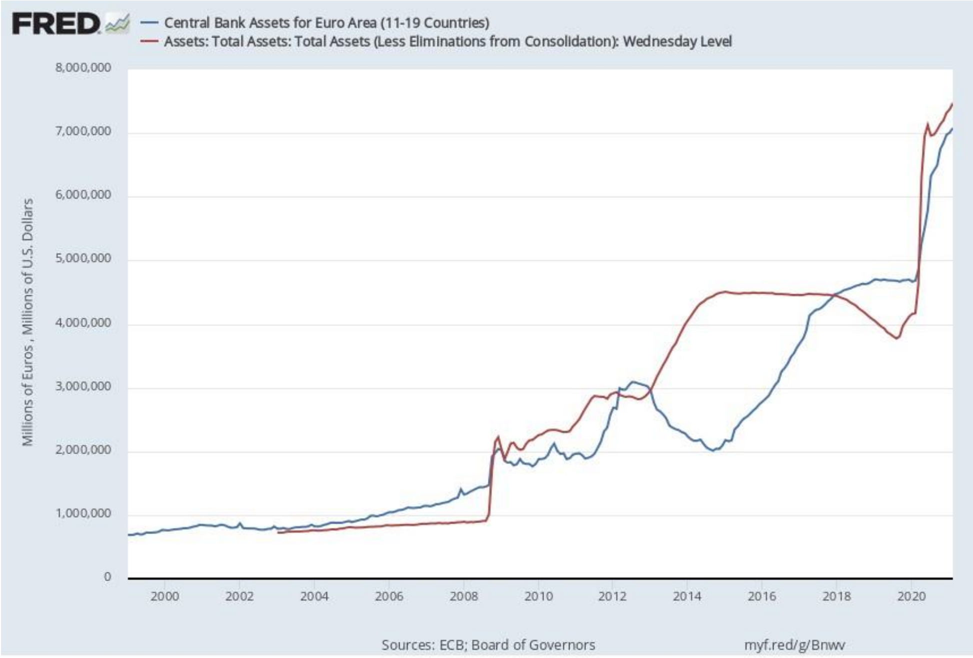


Figure 5. Federal Debt as a Percent of GDP



In addition, the Federal Reserve has purchased $3.3 trillion worth of assets during the pandemic in order to flood the financial markets with liquidity (Figure 6). The assets of the Fed have increased by a factor of 9 since the 2008 crisis, implying that the U.S. has morphed into a bailout capitalism insofar as it depends on a periodic infusion of liquidity – euphemistically called quantitative easing – in order to prop up the financial markets. To assert that we are in uncharted territory would be an understatement.

Figure 6. Assets Held by the Federal Reserve and by the European Central Bank



Source: Federal Reserve Bank of St. Louis, series WALCL.

6) Burgeoning private debt – including credit card debt – is also worrisome. People are living paycheck to paycheck without any savings to rely on in downturns (Board of Governors 2019). Individuals in a recession without adequate savings find it difficult to meet commitments leading to consternation and the threat of bankruptcies. There is "widespread fragility across the entire population – more than one-third of Americans are financially fragile…. Financial fragility is not only pervasive, but many middle-income households also suffer from the inability to deal with shocks" (Hasler, Lusardi and Oggero, 2017). Indebtedness and fragility are not the qualities one would expect from a strong economy capable of withstanding large unanticipated fluctuations.

Instead, it is a sign of an unbalanced economy in which "only 29% of Americans are financially healthy" and, even more troublesome, only half of households with income above $100,000 were healthy financially (Financial Health Network, 2019).[9]

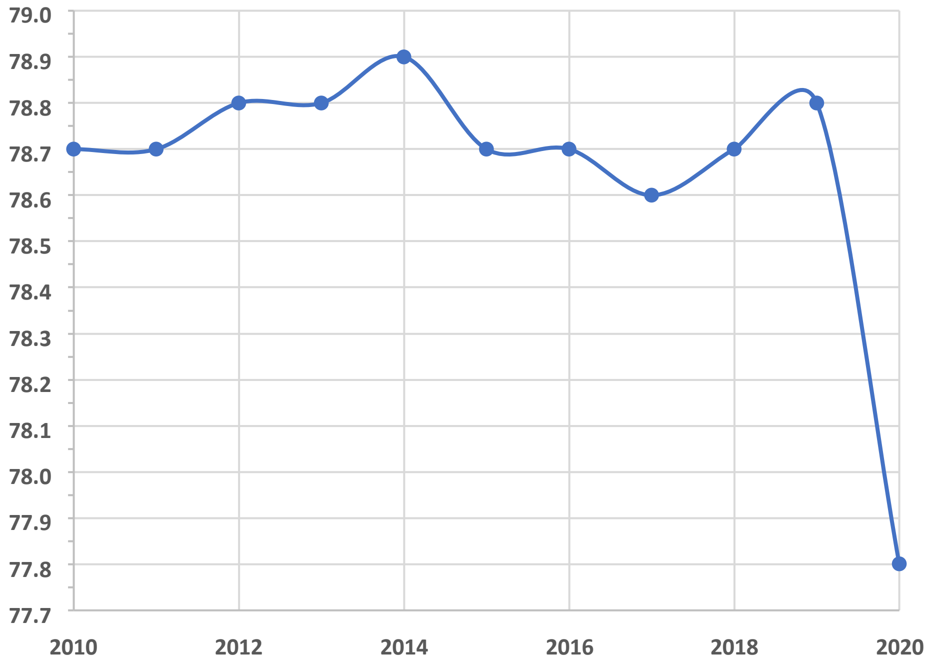
7) A good economy is one which distributes its fruits equitably (Atkinson, 2015; Boushey, 2019; Piketty, 2014). This is not the case in the U.S. in which households in the top 1% of the wealth distribution have accumulated an average net wealth of an astronomical $25 million. Yet, 39% of adults do not have $400 cash on hand to meet an unexpected expense (Board of Governors, 2019, p. 21). Similarly, with incomes: between 1979 and 2013 the top 1% of households increased their income by $600,000 annually whereas the middle class gained $11,000 (Komlos, 2018). Even former Chairman of the Federal Reserve, Alan Greenspan acknowledged that the increase in inequality might "spark… an economically destructive backlash", a prediction that came true in

[9] In addition, "54% are financially coping…. struggling with some, but not necessarily all, aspects of their financial lives…. And 17% are financially vulnerable." "Women are overwhelmingly bearing the increase in financial vulnerability, relative to men."

2016 (Greenspan, 2007b, pp. 365, 408). It is not only inequality that is a problem but the perception that the economy allocates rewards unfairly (Case and Deaton, 2020, p. 213).[10]

8) A good economy would not have 150,000 deaths of despair a year with life expectancy declining even before Covid (Figure 7) (Case and Deaton, 2020). When traditional social structures of support dissolved for working class whites there was nothing to take their place and despair accumulated. The family was gone, the unions were gone, neighborly love was gone, the churches were no longer relevant, the government looked the other way, and the gig economy did not offer enough income to succeed in the marriage market. For these folks there was nothing to grasp onto except a bottle, the trigger, or a hypodermic needle.

Figure 7. **Life expectancy in the U.S.**



Source: (Arias and Xu, 2019, Xu et al, 2020, Arias, Tejada-Vera, Ahmad, 2021).
Note: The estimate for 2020 pertains to the first half of the year.

9) The booming stock market was also interpreted as a sign of a "roaring" economy, but much of it during the last few years was due to irrational exuberance or "overspeculation that, as Adam Smith argued, tends to grip many human beings in their breathless search for profits" (Sen, 2009).[11] Price/Earnings ratio of the S&P 500 reached an unusually high index value of thirty-one in February 2020 (Shiller, 2020). Historically, only twice before has it been at such levels: in 1929 and again during the Dot-Com bubble at the turn of the 21st century. To be sure, during the latter bubble it did stay above 30 for four years. Nonetheless, once the ratio reached 30 in August 2017,

[10] Greenspan, not a progressive by any means, recognized that "you cannot have the benefits of capitalist market growth without the support of a significant proportion, and indeed, virtually all of the people; and if you have an increasing sense that the rewards of capitalism are being distributed unjustly the system will not stand" (Greenspan, 2007a). In print he put it this way: if we do not reverse "a quarter century of increases in income inequality, the cultural ties that bind our society could become undone. Disaffection, breakdowns of authority, even large-scale violence could ensue, jeopardizing the civility on which growing economies depend" (Greenspan, 2007b, p. 468).
[11] It was overlooked that investors can make too many "errors of undue optimism or undue pessimism" (Pigou, 1929, p. 73).

it should have been a clear warning sign that the stock market was overheating, and such prices were not sustainable forever.

The above nine factors should have given economists and policy makers pause that such imbalances were not the sign of a healthy and stable economy, but they were overlooked or were concealed under a veneer of optimism. So, the pandemic struck an economy that was hardly robust to black-swan shocks. The ensuing human toll and the bailouts amounting to approximately $5 trillion appropriations from Congress – about 25% of GDP – with a $3.3 trillion rescue infusion of liquidity from the Federal Reserve (Fed series WALCL), are indications of the immensity of the dislocation and the degree to which the pandemic struck a labor market that was already off balance. It is to the examination of the labor market that we now turn.

The labor market's travails during the pandemic: the real unemployment rate

10) As mentioned above, it is imperative to distinguish between the *official* and the *real* unemployment rates. The official rate is biased downward, inasmuch as the Burau of Labor Statistics conflates part-time and full-time workers and has an arbitrary and stringent definition of unemployment.[12] So, the official number of unemployed is merely a headcount of those who are working, regardless of the number of hours worked, and disregards the fact that many part-timers would like to work full time and consequently are unemployed at least to some extent.

Moreover, the official unemployment rate also disregards those who would like to work but have not looked for work during the previous month perhaps because they have been rejected so often that they are discouraged from looking further or are even so depressed that they are unable to muster the psychological energy to continue to search for work. These limitations bias the official statistics, because searching for work should not be a prerequisite of being considered unemployed. Wanting to work should be a sufficient criterion to be considered unemployed.[13] The U6 rate, published by the Bureau of Labor Statistics comes much closer to the true unemployment rate than the official rate (Komlos 2019b).

Instead of the BLS subjective methodology, we calculate the unemployment rate standardized on a full-time-equivalent workweek of 39 hours and consider all those without a job who declare that they would like to work as *de facto* unemployed. Thus, we first estimate the hours worked by part-time and full-time workers and find that the average for 2019 was 62.7%.[14] Hence, only 62.7% of the total number of part-time workers is added to the labor force (Table 1, row 2).

Moreover, there are two kinds of part-time workers: those who are content working part time (voluntary part-time workers, denoted by *v*), and those who would like to work full time but have not found such an employment (involuntary part-time workers, denoted by *i*).[15] The former (*v*) are considered the equivalent to 0.627 full-time member of the labor force and are not counted as unemployed (row 2). In

[12] As long as an individual works one hour per week, she is considered employed. Between 1976 and 1994 part time workers were considered the equivalent of ½ of full-time workers (Bregger and Haugen, 1995; Shiskin, 1976).
[13] This is being recognized increasingly (Smialek, 2021).
[14] BLS, "Labor Force Statistics from the Current Population Survey, Table 19. "Persons at work in agriculture and nonagricultural industries by hours of work," https://www.bls.gov/cps/lfcharacteristics.htm#fullpart accessed May 21, 2020. Here we follow the calculations that were done for the European Union (Brandolini and Viviano, 2016).
[15] Data on involuntary part-time workers is published by the BLS on the basis of the current population survey. Involuntary part-time workers are also referred to as part-time for "economic reasons"; https://data.bls.gov/timeseries/LNS12032194 Accessed May 24, 2020.

contrast, the involuntary part-time workers are considered full members of the labor force who are 62.7% employed (row 2) and 37.3% unemployed (in terms of full-time equivalents) (row 9).[16]

Table 1. The Average Actual Unemployment Rate in the U.S.						
		May 2020			**January 2021**	
	Labor Force	Millions	Percent		Millions	Percent
1	Civilian labor force full time (*ft*)	116.6			125.0	
2	Work Part-time (0.627* 20.7 or 24.6 million) (*v+i*)	13.0			15.4	
3	Military (*m*)	1.3			1.3	
4	Really Unemployed (*ru*) from Row 12	**40.9**			**21.6**	
5	Total *actual* labor force (*lf*)	168.1			161.3	
	Unemployed					
6	Official unemployed, full time (ou1)	15.9	9.5%		8.5	5.3%
7	Official unemployed, part time (ou2) 0.627* 5.9 or 1.7	3.7	2.2%		1.1	0.7%
8	Furloughed - Misclassified as Absent from Work (f)	4.7	3.0%		0.6	0.4%
9	Part-time involuntary (0.373* 10.3 or 6.4 million) (*i*)	3.8	2.3%		2.4	1.5%
10	Want job, did not look (ww)	9.0	5.3%		7.0	4.3%
11	Self-employed (0.243*15.5 or 0.134*15.2 million) (se)	3.8	2.2%		2.0	1.3%
12	Total *really* unemployed (*ru*)	**40.9**	**24.3%**		**21.6**	**13.4%**
13	Hidden Unemployment (*hu*)	19.9	11.0%		11.5	7.1%
14	U6	33.5	21.2%		17.8	11.1%
15	U3 Official unemployed	21.0	13.3%		10.1	6.3%

Furthermore, there is no reason to exclude those who work for the military (as there was when soldiers were drafted) since they do work for the government and receive a salary just like other government workers, and they do work full time. Hence, we include their number as well in the labor force (denoted by *m*) (row 3). To this we add the number of actually unemployed, the calculation of which is discussed below (denoted by *ru*) (rows 4 and 12).[17] This yields the total effective (full-time equivalent) labor force (denoted by *lf*): lf = (ft - 3.7) + 0.627*(v +i) + m + ru (row 5). These estimates are 9.9 and 1.2 million (May and Jan) above the official figures, on account of the people who are excluded from the official estimate, because they ceased to look for work (row 10).[18]

[16] It should be clear that involuntary part-time workers "should be appropriately weighted when compared to other standard measures of underemployment" (Cajner et al., 2014).
[17] The 3.7 million self-employed estimated as unemployed is deducted from row 5 because they are presumably included on row 1 (Table 1, row 11).
[18] The official estimates of the labor force in the two months were 158.2 million and 160.1 million (Fed series CLF16OV).

The actual number of people unemployed include those who are officially unemployed. However, contrary to the BLS procedure, we separate those who used to work full time (*ou1*) from those who used to work part time (*ou2*) (rows 6 and 7).[19] The latter are considered 62.7% unemployed insofar as they worked less than those who were employed full time prior to becoming unemployed. Next, we add those who were furloughed but not counted as unemployed since they were misclassified as being absent from work (row 8).[20] Then we add 37.3% of those who are working part time involuntarily (*i*) since they would like to work full time (row 9). In contrast, the BLS excludes them from the official unemployment rate (U3) but includes them in the U6 rate. So, according to the BLS's binary conceptualization, they are either fully employed in U3 or fully unemployed in U6. Hence, our definition is in between these two extremes.

Next, we add the number of those who want to work but have not looked for work within the previous month (denoted by *ww*) (row 10). The self-employed are not considered unemployed at all, although many of them must have been part of the gig economy, so we assume that they were unemployed at the rate of the rest of the labor force (row 11). Hence, $ru = ou1 + ou2 + f + 0.373 * i + ww + se$. The estimated number of unemployed in May 2020 becomes 41.1 million and in January 2021 it becomes 21.6 million. So, the estimates of the *actual* unemployment rates are 24.4% and 13.4% (ru/lf) (row 12) respectively; these estimates are 11.1 and 7.1 percentage points (ppts) (Row 13) above the *official* unemployment rate of 13.3% and 6.3% (row 15). Even the U6 rates are underestimates by 3.2 and 2.3 ppts but considerably closer to the true rates and therefore will be parsed in the next section, because they are available by ethnicity and education (row 14).[21] This implies that the hidden unemployment rate ($hu = ru – ou$) was 11.1%, and 7.1% i.e., 20.1 and 11.5 million full-time-equivalent workers.

This obviously uncovers a very significant error on the part of the BLS.

Other estimates of the real unemployment rate are comparable to, though somewhat lower than, the above estimate for April: in the 16.4%-19.7% range (Groshen, 2020a, 2010b; Gould, 2020). However, using a slightly different approach one estimate is considerably higher, at 30.7% compared to the official rate of 14.7% for April, while the decline in employment by is estimated at 22% compared to pre-Covid level (Faberman and Rajan, 2020; Cajner et al., 2020).[22] The 20 million jobs lost in April was supposedly much larger than the number of unemployment claims (Coibion et al., 2020). These are all below the 32.1% forecasted in March for the second quarter (Faria-e-Castro, 2020).

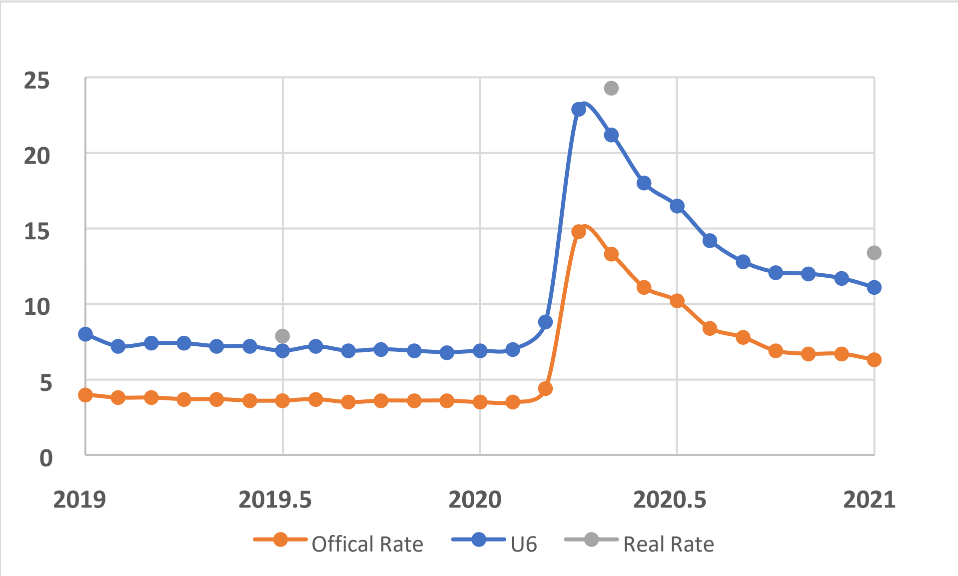
The labor market's travails: the U-6 rate parsed, September 2020

As mentioned above, the U6 rate is closer to the true level of unemployment than U3. In May 2020 it was 3.1 ppts and in January 2021 it was 2.3 ppts below the true rate (Figure 8).[23] Another advantage of the U6 rate is that it can be stratified by gender, age, ethnicity, and education. However, the BLS publishes U6 only for the aggregate population, the stratified data are calculated by the Economic Policy Institute (EPI), but these have a disadvantage, as they are 12-month moving averages. Hence, the

[19] This does not equal the official number of unemployed because I count the part-time unemployed as a 62.7% full-time equivalent unemployed. Rows 6 and 7 do not add up to the official unemployment rate because our labor-force estimates also differ.
[20] The BLS admits this mistake but fails to correct for it (BLS, 2020).
[21] The U6 rate includes involuntary part-time workers as well as the so-called "marginally attached" workers according to the Current Population Survey.
[22] Bell and Blanchflower estimate a 20% unemployment rate for April (Bell and Blanchflower, 2020).
[23] Before the crisis U6 was 3.5 ppts above the *official* unemployment rate, while during the crisis the gap between the two rates calculated by the BLS jumped to 6.0 ppts.

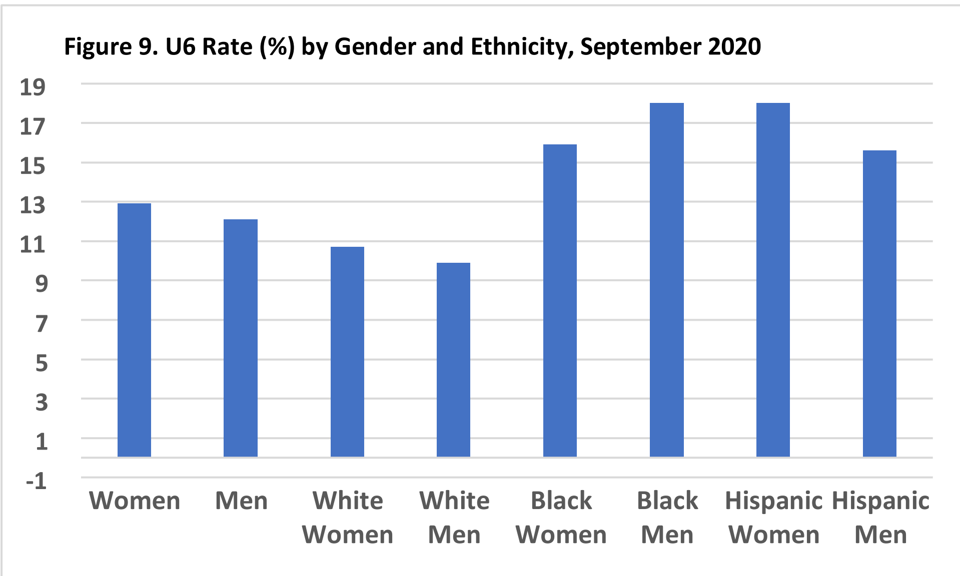
most recent data, available for September 2020, includes five months of pre-Covid values and that implies that they are downwardly biased and do not reflect accurately the reality of the Covid recession. Nonetheless, the data do enable us to glean some basic insights into how various subpopulations fared during the crisis. Moreover, the data thus generated by the EPI yields an overall U6 rate of 12.5% whereas the official U6 rate was 12.8% for September, so that the two U6 estimates are not significantly different from one another at the aggregate level (Fed U6Rate).

Figure 8. Three Variants of the Unemployment Rate (%) Compared



Source: Federal Reserve Bank of St. Louis, series UNRATE and U6RATE.

It should not be surprising that the U6 rate is 6.3 ppt higher among African Americans and 6.6 ppt higher among Hispanics than among whites (Figure 9 and Table 2). Women have a slightly greater rate than men by 0.8 ppts but the pattern is not consistent among ethnic groups, namely among African Americans the men's rate exceeds that of women by 2.1 ppts (Figure 9). That implies that the difference between black and white men is 8.1 ppts (Figure 9).



Source: Source: Economic Policy Institute, *State of Working America Data Library*, "Underemployment," https://www.epi.org/data/#?subject=underemp Accessed February 17, 2021. Note: the data are averages for the previous 12-months

Table 2. The U6 Rate (%) by Educational Attainment, Sept. 2020				
Education	All	White	Black	Hispanic
All	12.5	10.3	16.9	16.6
Less than HS	21.5	18.9	30.9	21.1
High school	15.8	12.9	22.1	18.0
Some college	13.1	11.2	16.3	16.2
Bachelor's degree	9.0	8.1	10.3	12.1
Advanced degree	6.5	6.2	7.2	8.0
Range	15.0	12.7	23.7	13.1

Source: Economic Policy Institute, State of Working America Data Library, "Underemployment," Accessed February 17, 2021.
Note: the data are averages for the previous 12-months.

As expected, there is a monotonic decrease in the U6 rate by educational attainment (Table 2). The difference between those who did not receive a high school diploma and those who have an advanced degree is a huge 15 ppts but is even greater among African Americans (23.7 ppts). The incidence of unemployment was highest among youth between the ages of 16 and 24 at 22.7% and about twice as high as for the rest of the population (Table 3). There were no substantial differences among the other age cohorts. Among African American youth the U6 rate was the highest at 31.1%.

Table 3. The U6 Rate (%) by Age, Sept. 2020				
Age	All	White	Black	Hispanic
All	12.5	10.3	16.9	16.6
16-24	22.7	19.0	31.1	26.1
25-54	11.1	9.0	14.9	14.7
55-64	10.3	9.0	12.3	15.1
65+	11.8	10.6	15.5	16.6

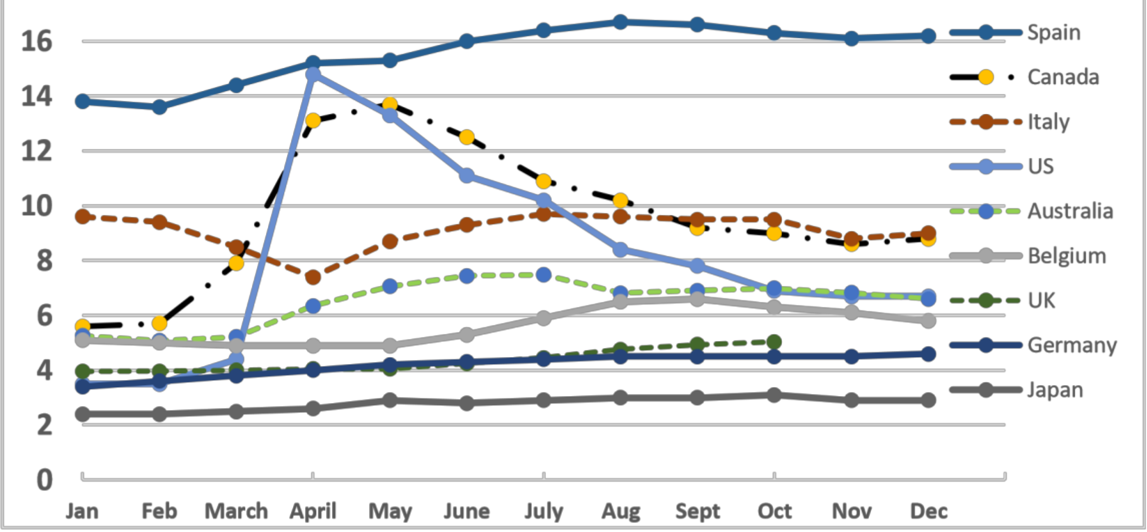
Source: See Table 2. Note: the data are averages for the previous 12-months

International comparison of the *official* unemployment rate

The *official* unemployment rates are supposedly harmonized but the question nonetheless lingers the extent to which they capture the true slack in the labor market, given the various institutional and cultural factors that vary substantially across countries. It is probable that joblessness or underemployment is not well correlated with the *official* unemployment rate, making cross-country comparisons of labor market conditions ambiguous (Baert, 2020; Bell and Blanchflower, 2019, p. 6; Brandolini and Viviano, 2016, 2018; Veliziotis, Matsaganis and Karakitsios, 2015). Cross-country comparisons, therefore, should be considered *cum grano salis*.

Keeping this caveat in mind, it is nonetheless instructive that the experience of the developed nations appear to fall into three groups: those whose official unemployment rate remained essentially unchanged during the pandemic, those that experienced a huge increase in the rate in April which then dissipated during the course of the year, reaching the levels of those in the first category, and those that started the year with a very high level of official unemployment that continuer to linger for the rest of the period under consideration (Figure 10). The first category included most of the developed world sandwiched between Japan at the low end and Sweden at the top (Figure 11). This group was followed by the U.S. and Canada while the third category included Spain and Greece. However, the April spike in the U.S. and Canada was dissipated by December as the rates converged across the developed world with the exception of the two countries in the third group (Figure 12). Thus, we might tentatively suggest that the developed countries in the first group were more robust and less vulnerable to a blackswan shock than the U.S. and Canada. This was the case even though the asset purchases of the Federal Reserve were 1.5 time as large as those of the European Central Bank on a per capita basis (Figure 6 and Table 4). In addition, there was a "wild experiment in social spending. The world launched at least 1,600 new social-protection programmes… Rich countries have provided 5.8% of GDP on average to help record numbers of workers" (The *Economist*, 2021). Yet, the recession lingers.

Figure 10. The *Official* Unemploment Rate (%) in Selected Countries, 2020



Source: OECD Data "Unemployment rate," https://data.oecd.org/unemp/unemploymentrate.htm Accessed February 22, 2021.

Figure 11. The *Official* Unemployment Rate (%), Selected Countries, April 2020

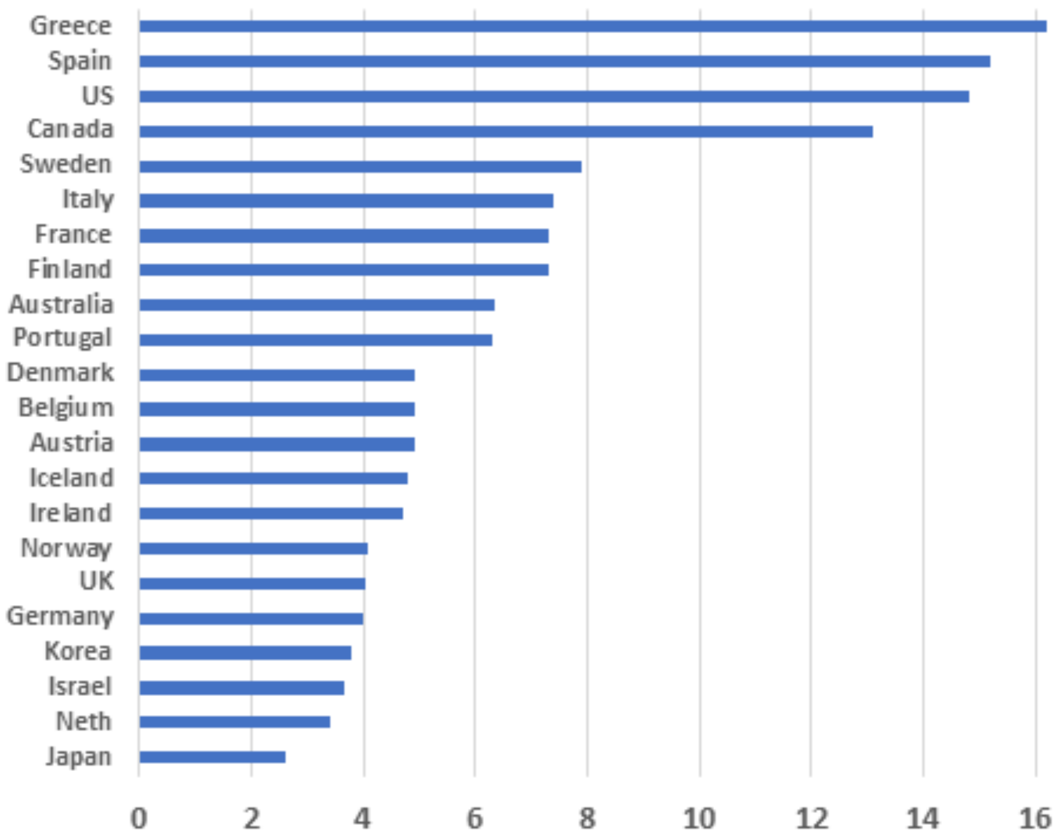
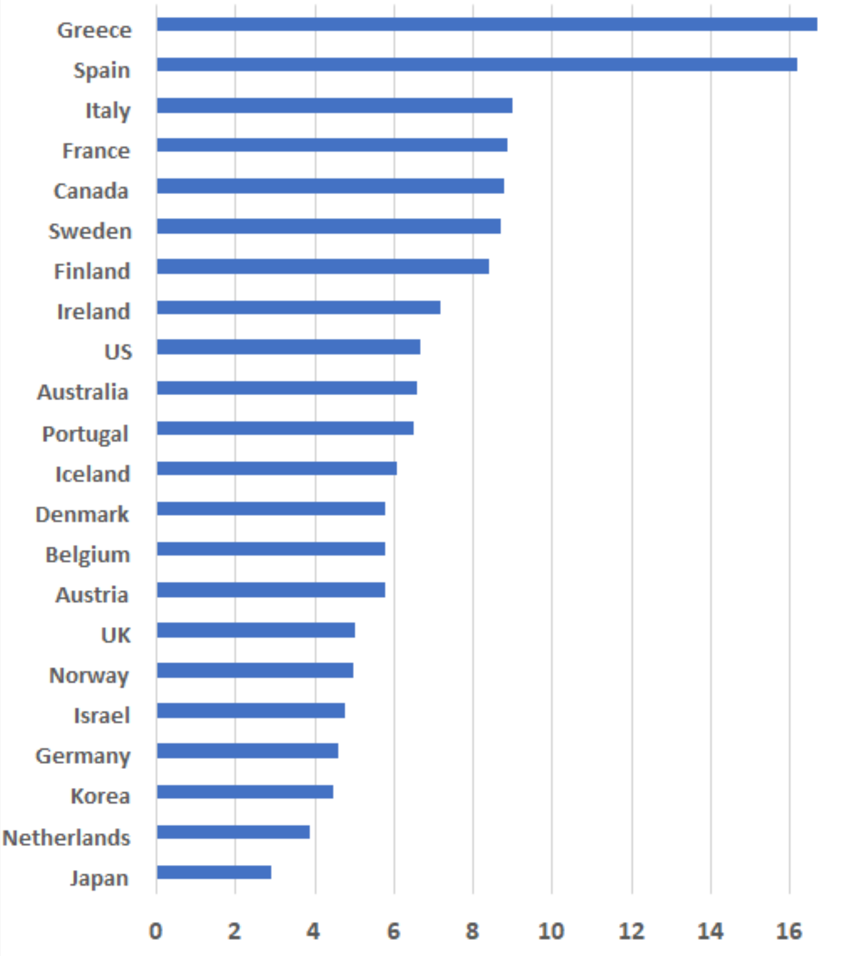


Figure 12. The *Official* Unemployment Rates (%), Dec. 2020



Source for Figures 11 and 12: see Figure 10.

Table 4. Asset purchases of two Central Banks during the Pandemic								
	Assets on Hand							2019
	Feb 2020	Jan 2021	Difference			Dollars per		GDP
	Trillions		Euros	Dollars	population	capita	Ratio	$ Billions
Euro Central Bank	4.7	7.0	2.3	2.8	446	6240		13336
Federal Reserve	4.2	7.3		3.1	328	9451	**1.5**	21430

Discussion

Safety is costly but only in the short run. In the long run it becomes efficient but governments alone can provide the necessary institutions and oversight to improve the resiliency of an economy. The invisible hand won't do (Sen, 2009; Stiglitz, 2020; Taleb, 2007). It is clear that the U.S. economy was not solidly anchored before the onset of the 2020 recession and that is one of the fundamental reasons for the large gyrations in the labor market, documented above. It is not accidental that a quarter of the labor force was unemployed within one month of the onset of the pandemic (Table 1).[24] In contrast, an economy in which households have adequate savings and governments have adequate inventories of the necessities of life and health have some cushion that can serve as a shock absorber. A government with sufficient revenue that allows for enough slack in the budget to prepare for large-impact low-probability events by stockpiling resources for possible catastrophes will be more resilient than the U.S. was in 2020.

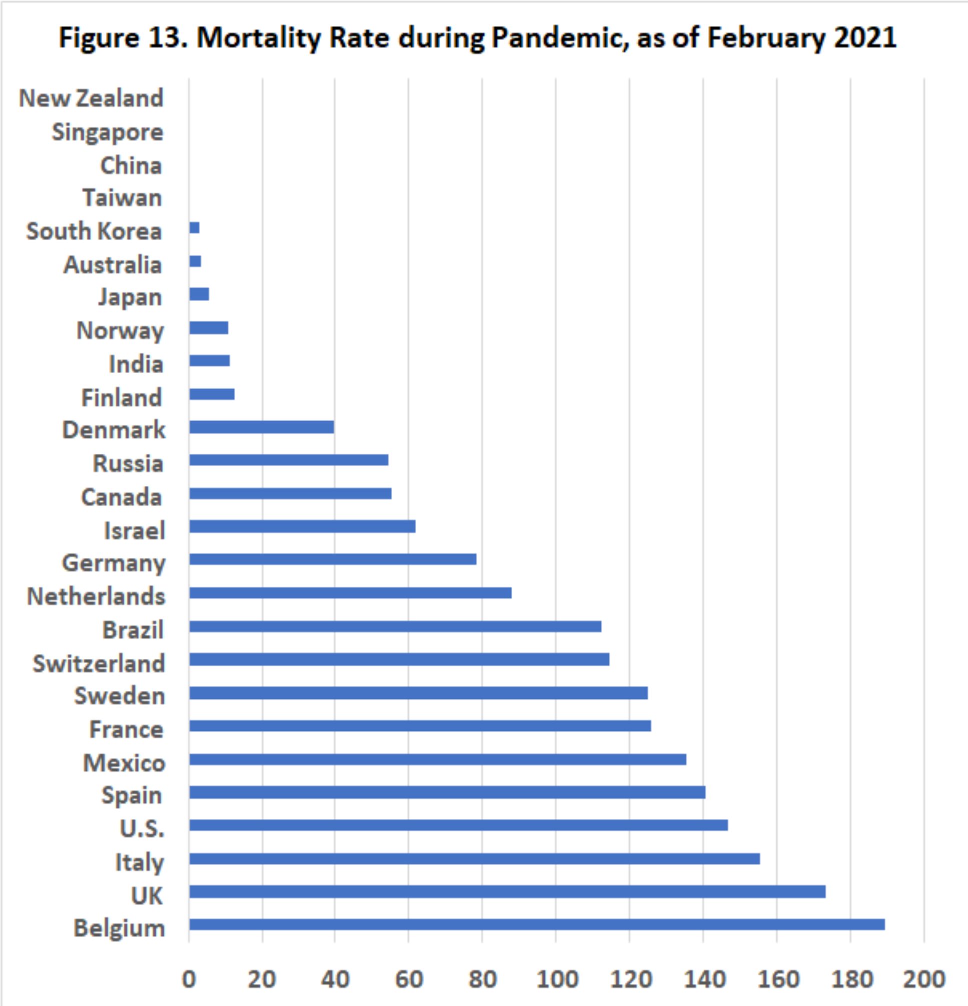
The brunt of the difficulties in wake of the pandemic in the U.S. was bore by the weaker elements of the society, i.e., the young, the less skilled and less educated segment of the working class. The number of actually unemployed during the pandemic fluctuated between 21 and 41 million people (Table 1 and Figure 8), a disproportionate share of which was made up of minorities (Tables 2 and 3 and Figure 9). Indicative of the plight of the minorities is the evidence that African Americans without a high-school degree had a *real* unemployment rate probably well above 31%, i.e., a remarkable 12 ppts above those of whites (Table 2).

Another problem was that the American unemployment benefits system was overwhelmed, because it was not designed to accommodate such an avalanche of applicants (EPI 2020). Hence, not less than 40% of the unemployed were either unsuccessful or "did not apply because it was too difficult" (EPI, 2020). However, unemployment was by no means the only issue challenging the basic needs of the underprivileged: another seven million workers experienced decrease in pay and in hours worked.

Moreover, the threat of hunger forced poor essential workers to accept dangerous assignments during the recession that had a coercive aspect to it, since they did not have a choice but to work; they could not have survived otherwise. These included some 32 million workers in the service sector such as in grocery and drug stores, public transit, warehousing, trucking, cleaning, and health care, making up about 20% of the labor force (Rho, Brown and Fremstad, 2020). Minorities were overrepresented among the menial front-line workers most of which required face-to-face contact such as cashiers, work that could not be done over the internet. Consequently, they were much more likely to be exposed to the ravages of the infection. That is one of the main reasons why blacks perished at twice the rate of whites during the pandemic (Greenhouse, 2020). The other reason was that their health status was inferior to that of whites and preexisting conditions were a risk factor for Covid infections

Similarly, Hispanics were three times as likely to be infected than whites since "[T]hey make up a disproportionate share of the low-paid "essential workers" who were expected to staff grocery stores and warehouses, clean buildings, and deliver mail while the pandemic raged around them. Earning hourly wages without paid sick leave, they couldn't afford to miss shifts even when symptomatic. They faced risky commutes on crowded public transportation while more privileged people teleworked from the safety of isolation" (Yong 2020). They were obviously putting their life on the line day in and day out. All this accentuates the need to rethink how the system works and should work (The *Economist*, 2021; Yong, 2020).

[24] In contrast, the unemployment rate during the Great Depression of the 1930s took three years to reach that level (Margo, 1993).



Source: Johns Hopkins University Coronavirus resource Center, https://coronavirus.jhu.edu/data/mortality accessed February 25, 2021.

The devastation of the pandemic is evinced by the fact that life expectancy at birth declined by a full year in the U.S. during the first half of 2020 as the mortality rate from Covid19 was among the highest in the world (Figures 7 and 13).[25] The response of the Trump administration to the pandemic was "inept and insufficient" (Woolhandler et al., 2021). The performance of governmental institutions during the current pandemic should be a warning sign that underfunding government is not a winning strategy for the long-run survival of a nation (Packer, 2020). The minimalist governmental vision of Reaganesque politicians and neoliberal economists led to the bailout capitalism of today (Azmanova, 2020; Komlos, 2019c; Sandel, 2018).

Both economists and policy makers should become much more concerned with blackswan shocks than they have been in the past. The goal of reforming the economy in such a way that it is more resilient if confronted by difficult-to-predict adverse events should be put on the agenda for the 21st century (Taleb, 2007). This must include a concerted effort to cope better with radical uncertainty at both the theoretical and practical level (Aldred, 2020). For instance, the impact of global warming is likely to be as destabilizing as the current pandemic, because it will be permanent whereas the current pandemic is presumably temporary. A doom loop is avoidable but only if we think intensely, creatively, and flexibly about our fundamental structural weaknesses and ideological inconsistencies. There are

[25] Other countries with high mortality rate not shown in Figure 13 include Chechia, Portugal, and Mexico.

too many risks associated with a strategy that focuses merely on getting back to normal. We now see that the emperor has no clothes. Now is not the time to pretend otherwise.

As in 2008, the millions of unemployed and the millions suffering deprivation in 2020 and 2021 revealed the fragility of the U.S. economy, the inconsistency of its ideology of rugged individualism, and called into question its sustainability.[26] The markets work until they don't and the corporations and people desperately need government handouts by the trillions in order to fend off the utter collapse of the system (Figure 5) (Stiglitz, 2009). How long will this new kind of bailout capitalism work (Figure 6)? It is rather hard to imagine that "unconditional liquidity" can become the foundation of a sustainable, inclusive, and stable economic model for the 21st century (Mazzucato, 2020; Svendsen and Svendsen, 2016).

We have argued that the restrictive nature of the BLS definition of unemployment implies that the *official* rate is woefully inadequate, serves political purposes, and confuses the public as well as researchers and policy makers (Ahn and Hamilton, 2019; Leonhardt, 2018; Morgenstern, 1963, p. 238). The above evidence highlights the extent to which the *official* unemployment rate provides an untenably misleading impression of the labor market. The cavalier treatment of such a bellwether indicator is a major oversight. Recent unusual expression of doubt about the *official* unemployment rate by Treasury Secretary Janet Yellen, is a strong signal that even establishment circles are increasingly admitting the inadequacy of the current statistical practices and the need for their revision (CNBC, 2021).[27] In sum, using Buffet's imagery, the pandemic revealed that the U.S. has been swimming naked for a very long time indeed, yet the realization of its implication is not yet in view.

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[26] According to the editors of the New York Times "The coronavirus pandemic has laid bare once again… the great distance between the realities of life and death in the United States and the values enunciated in its founding documents" (Editors 2020).
[27] According to Yellen the unemployment was 10% for February 2021, in contrast to the official rate of 6.2% and much closer to the U6 rate of 11.1%.

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