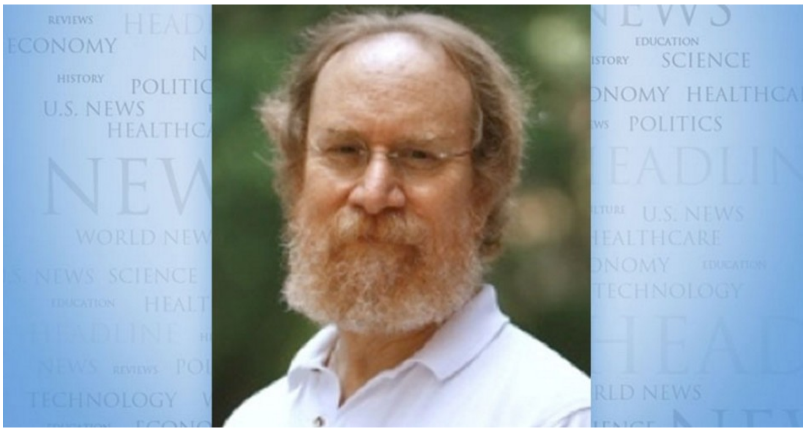
Written by Sheldon Richman on March 20, 2013

# The Dow Jones Is Lying




The Dow Jones Industrial Average (DJIA) is at a record high, and the unemployment rate has ticked down to 7.7 percent, but this is no time to celebrate. The economy is still in the doldrums.

A little perspective: The news media trumpet changes in the Dow as though it tells us almost all we need to know about the economic fate of the American people. That's nonsense. Not everyone thinks the arbitrary index of 30 busily traded blue-chip stocks is terribly relevant to gauging the condition of the economy. Moreover, the average, which reflects the daily change in the companies' stock prices, is not adjusted for inflation. In nominal terms the Dow hit a record high of 14,447.29 this month. But in real adjusted terms, the average is only at the level reached in the year 2000. In other words, if you invested in the companies that year, you're no richer now, because the dollar has depreciated thanks to the Federal Reserve. That doesn't sound so remarkable.

Fixation on the Dow might encourage neglect of other, less upbeat economic indicators. While the DJIA soared, the unemployment rate dropped to only 7.7 percent last month, which is disturbingly high, especially when you consider that the Great Recession officially ended more than three and a half years ago. Even better light is shed on the employment picture by looking at the civil employment-population ratio. According to the Bureau of Labor Statistics, before the recession the rate was over 63 percent. During the recession it hit a low of slightly over 58 percent and has barely recovered since. (In the late 1990s it was close to 65 percent.)

In light of such dismal signs, how are we to account for the stock market? The Federal Reserve is working hard to keep key interest rates close to zero. The Fed has bought hundreds of billions of dollars in long-term government securities ("Operation Twist") in order to lower the return from such investments. This drives money seeking a bigger return into the stock market and commodities. If this explains the run-up in stock prices, it sounds more like a bubble than a marker of returning economic growth.

The government and its central bank, in fact, have done virtually everything wrong if their intention was to put the economy on a sustainable path to prosperity. The recession was caused by distortions created by government housing and monetary policies. Instead of backing off and letting the economy realign with real economic factors, the Obama administration and the Bernanke Fed seem intent on reinflating the pre-recession housing bubble as well as inflating a new stock-market bubble. (The Fed has also been buying up mortgage bonds from banks to help stimulate housing sales.)

This is a dangerous path. By definition, such artificially induced frenzies cannot be sustained. When officials get nervous and pull back, the bubbles will burst and the economy will be back in recession. Even if employment gains are made during the apparent recovery, they will be short-lived, and the unemployment rate will turn up again. This government policy, therefore, is a cruel hoax on workers who were harmed by the earlier recession, who have struggled to get back on track, and who are now being set up for a reprise of their misery.

The architects of this shameful program are would-be social engineers who think they can design something as complex as a modern industrial economy. Such conceit should be obvious to all. Simply put, it is impossible for politicians, bureaucrats, and economic advisers to acquire the knowledge they would need to possess in order to accomplish what they say they want to accomplish. The knowledge most vital for smooth-running markets is not aggregate statistical data available to government agencies. Rather, it consists in the subjective preferences of consumers, the expectations of producers, and the radically decentralized and dispersed information about resources, technologies, and techniques. The market's price system captures and conveys this information in a way that government operatives could never dream of. In fact, compared to the collective wisdom of the market process, politicians, bureaucrats, and economic advisers are dismal ignoramuses.

It's time they learned some humility and let us alone.

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