Etceteras . . .

Worrisome Changes in U.S. Labor Force and Employment since 2007

Robert Higgs

Recent Labor-Force Anomalies

The United States has a long history of population growth and concomitant labor-force growth. As figure 1 shows, the number of men in the civilian labor force (that is, men either working in paid employment or actively seeking work) increased fairly steadily over the past half-century, at least until the onset of the current recession.

For the past six years, however, the number of men in the labor force has fluctuated around a fairly level trend line at approximately 82–83 million. This cessation of growth came on the heels of a 6-million-man increase during the previous seven years.

In the post–World War II era, the number of women in the labor force grew even more quickly than the number of men and also tended to grow fairly steadily. When the current recession began, the female labor force continued to grow, increasing by about a million women between the officially designated beginning and end of the economic contraction (December 2007 to June 2009) (see figure 2). In the second half of 2009, however, this growth stopped, and a slight reversal occurred, putting the total on a lower, fairly level trend line throughout 2010 and 2011, albeit still at a slightly higher level than the female labor force had reached before the recession began. Early in 2012, the female labor rose quickly by about a

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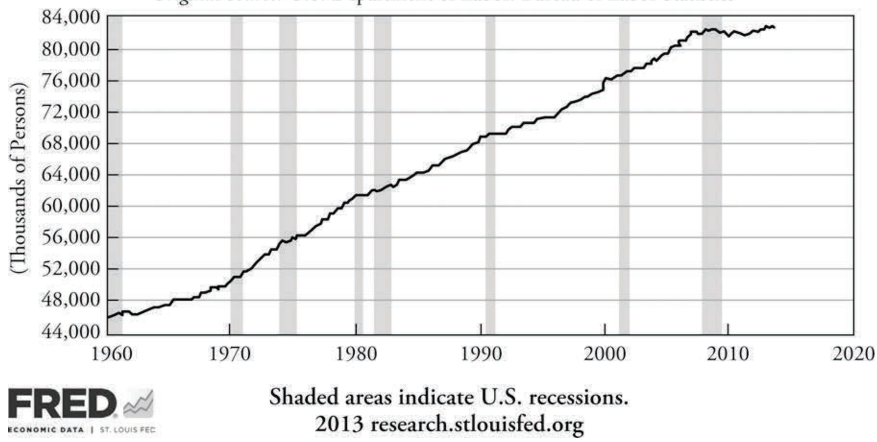
Figure 1

Civilian Labor-Force Level: Men

Original Source: U.S. Department of Labor: Bureau of Labor Statistics



Source: Federal Reserve Bank of St. Louis

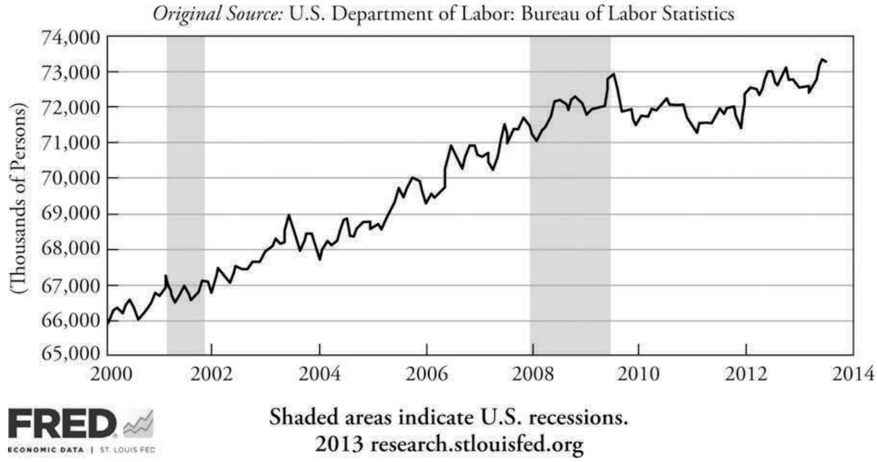
million women, but it then settled at that higher level for the next year or more, with no sustained tendency to rise further, as of the latest report available (for July 2013).

Labor economists and others have been puzzling over what has happened. Although labor-force growth tended to slow or even to halt momentarily during past

Figure 2

Civilian Labor-Force Level: Women

Original Source: U.S. Department of Labor: Bureau of Labor Statistics



Source: Federal Reserve Bank of St. Louis recessions of the postwar era, the current cessation of growth has no precedent in that era; hence, analysts have found an explanation of it to be a challenge.

Whatever the answer(s), one thing is clear: unless the labor force resumes something like its historically normal growth, we cannot expect a resumption of historically normal economic growth. Labor inputs are major contributors to the production of goods and services. Increases in labor productivity are only a partial substitute unless the rate of productivity growth can be made much greater than observed historically over long periods.

One also wonders: How are the millions of people who normally would have been in the labor force now occupying themselves? Who is supporting them? What are their expectations and plans? Their extended stay outside the labor force joins a number of other puzzling features of the present recession, during which many patterns of economic change and policy responses have differed significantly from those observed during previous macroeconomic busts. We are living, as the cliché has it, in interesting times. Unfortunately, many of the developments that make these times interesting also make them worrisome.

Labor Markets Are Still in Bad Shape

The recent report that the standard (U-3) rate of unemployment in the United States fell to 7.4 percent in July 2013 seems to have stirred considerable joy in Mudville. But before we spend a lot of time shouting hurrah, we might well bear in mind a few other data and, of course, recall that not so long ago an unemployment rate of 7.4 percent would have been a cause for lament rather than celebration.

Because the data on which the various official rates of unemployment rest are so problematic (see Higgs 2009), we often do better to examine not unemployment, but employment, which is subject to fewer difficulties of measurement and interpretation. On this front, the news—especially when it is viewed in historical perspective—does not look so good.

As figure 3 shows, total civilian employment, though it has tended to increase during the past four years, still stands about 2 million jobs below its level at the end of 2007. So after six years the job total still has a long way to go merely to get back to where it was before the bust began.

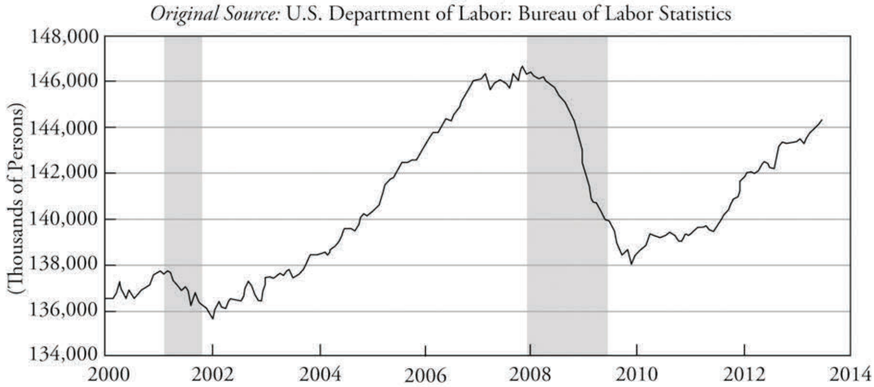
Meanwhile, however, the population has continued to grow, and therefore the ratio of civilian employment to civilian noninstitutional population age sixteen and older is in much worse shape than total employment (see figure 4).

This ratio plummeted during the economic contraction, and although the overall economy hit bottom in mid-2009 and began to rebound, albeit slowly, the ratio of employment to population has scarcely budged, remaining stuck at 58–59 percent. To find a time with a comparable ratio, we must go back thirty years to the recession of the early 1980s.

Figure 3

Civilian Employment

Original Source: U.S. Department of Labor: Bureau of Labor Statistics



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Shaded areas indicate U.S. recessions.
2013 research.stlouisfed.org

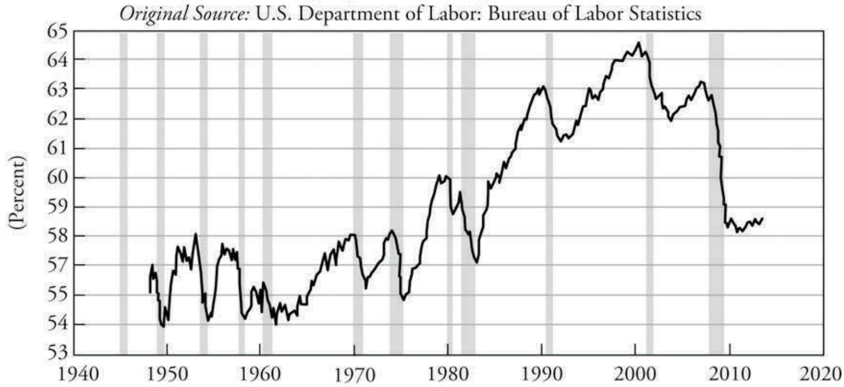
Source: Federal Reserve Bank of St. Louis

Clearly, the labor markets remain in a funk. Although they have improved during the past four years in some regards, they have failed to improve in other regards. However we measure their condition, it is clear that the situation remains poor by historical standards and, in some ways, even by the standards of only a few years ago. The collapse of the employment/population ratio in particular

Figure 4

Civilian Employment–Population Ratio

Original Source: U.S. Department of Labor: Bureau of Labor Statistics



FRED ECONOMIC DATA | ST. LOUIS FED

Shaded areas indicate U.S. recessions.
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Source: Federal Reserve Bank of St. Louis indicates that something must have occurred since 2008 or 2009—perhaps the many additional or increased government subsidies of unemployment and of absence from the labor market—to keep the job market stuck in a distinctly subpar position.

Private Employment Has Recouped Only about Three-Fourths of Its Recent Loss

As the most widely reported rate of unemployment (U-3) has fallen in recent months, people with a political agenda served by painting a rosy picture of the recovery have made considerable noise about this decrease. Their political opponents have responded that one reason for the decline is that the labor force has shrunk as more people have given up looking for work, some of them going into retirement sooner than they would have if the labor market had been more robust and others using the disability-insurance program as a de facto unemployment-insurance program.[1]

The best way to avoid the parsing and cherry-picking that plague such debates is to look not at unemployment, but at employment. After all, it is employment that contributes to the production of goods and services and generates earnings for the job holders. Employment is less subject to interpretive ambiguity than unemployment is.

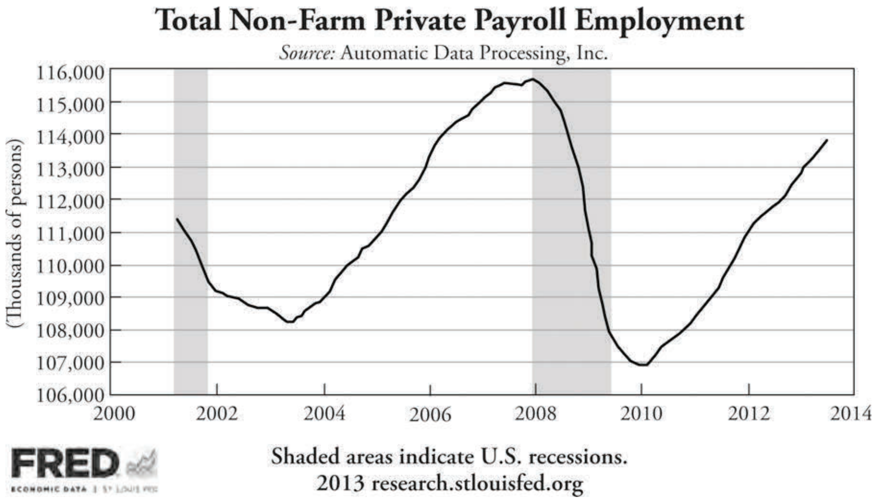
As I write, the most recently reported data on private nonfarm employment (for July 2013; see figure 5) show that employment has indeed continued its recovery. Since reaching its current-recession trough at the end of 2009, it has increased by almost 7 million persons. Before starting a celebration, however, we should recognize that private nonfarm employment is still about 2 million persons less than it was at its pre-recession peak at the end of 2007.

Moreover, such private employment is currently only about 2.4 million persons greater than it was in December 2000, more than twelve years ago, on the eve of the dot-com bust. So at this point we have suffered the proverbial “lost decade” in the private labor market—the market in which employees are hired to produce goods and services that consumers and investors have demonstrated they actually value (or for which producers are convinced that such demand will be forthcoming in the future).

To be sure, labor productivity has increased during this period, yet the likelihood is slight that sustained economic growth can take place in the future without long-term growth in private employment. A large recession-related loss of private employment still remains to be recouped, however, before we can even begin to think about the long-term growth of employment. The situation has improved

1. For evidence about and discussion of the disability program’s effects, see de Rugy 2013 and Rosiak 2013.

Figure 5



Source: Federal Reserve Bank of St. Louis

somewhat since the end of 2009, no doubt, yet the labor market has a long way to go—it has almost 25 percent of its recent loss to make up—merely to get back to its pre-recession peak.

It seems clear that uncertainties related to the future costs of Obamacare, the Dodd-Frank financial reform act, and other looming regulations and taxes are a significant factor in deterring hiring.[2] Note, too, that because many businesses sell to other businesses, when firms are not hiring because (as often reported) they do not foresee sufficient demand to justify expanding their payroll, this reason may also reflect indirectly the effect of regime uncertainty, which may have depressed demands by the firms' potential customers.

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2. See, for example, Cochran 2012; Ohanian, Taylor, and Wright 2012; Leduc and Liu 2013. A great deal of evidence and discussion (by me and others) of regime uncertainty during recent years appears at the Independent Institute's group blog *The Beacon*; these sources are available at http://blog.independent.org/?s=%22regime+uncertainty%22&submit=go.

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