The Advocate-Messenger

Are we really at full employment?

Bob Martin

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In normal economic recoveries, reaching full employment (5 percent or less unemployment) is preceded by rapid GDP growth and rising wages. The current unemployment rate is slightly less than 5 percent. Some argue a five-percent unemployment rate means we have a healthy economy, while others argue we have to look deeper than just the unemployment rate.

The unemployment rate is not a sufficient statistic to understand conditions in the economy because the number of people in the labor force is elastic. In past recoveries, the unemployment rate increased as the economy grew faster; as job prospects improved, more people began looking for work.

People drop out of the workforce when times are bad. Studies indicate drop outs have a hard time re-entering the labor force the longer they do not work; eventually, they become part of the chronically unemployed.

Also, the unemployment rate tells us nothing about the quality of the jobs held by employed workers. The mix between full time and part time jobs and the income earned provide some insight about job quality.

We define the “prime working age” as those who are age 25 or older, but less than 55 years old. The age distribution influences the retirement rate so we set the ceiling at 55. Similarly, young people are staying in school longer so we set the lower bound at age 25. This gives us a better picture of what is happening in the labor market from one period to the next.

The labor-force participation rate for males of prime working age has been declining since the 1970s and the labor-force participation rate for females of prime working age has been declining since the late 1990s. The minimum wage a person will accept in order to stay in the labor force is their “reservation wage;” the participation rate trends among male and female workers implies their reservation wage increased during this period.

The trends also contribute to the stagnation in median household income for the past three decades: a smaller proportion of people in the prime working ages that work tends to lower median income. That is clearly not the whole story, however.

In 1994 the prime-working-age labor force participation rate was 83.4 percent. In 2004, it was 82.8 percent. And in 2014, it was 80.9 percent. The decline between 2004 and 2014 was larger than the decline from 1994 to 2004. This suggests some prime-aged workers dropped out of the labor force because of the Great Recession (to see data related to this, visit http://1.usa.gov/1a6Ldtk).

Prior to the Great Recession, in 2007, the percentage of prime-working-age workers who held fulltime jobs was around 89 percent and the percent of these workers who held part-time jobs was around 11 percent. The percentage of prime-working-age workers who were working full time bottomed out at around 85 percent in 2010 and the percent working part-time peaked at 15 percent in the same year.

There has been a steady rise in the percentage of these workers working full-time to 88 percent and a steady decline in the percentage working part-time to 12 percent until early 2016. The percent working full-time has not regained its pre-recession high and the percent working part-time has not quite regained its pre-recession low.

A consideration of the passage and implementation of the Affordable Care Act reveals it has had no appreciable impact on part-time employment, contrary to arguments made by those who opposed the act (for more data on this point, visit http://bit.ly/1LazSNS).

Median household income in 2014 dollars was $57,357 in 2007. It fell continuously until it reached a minimum of $52,605 in 2012. Median household income was $53,657 in 2014. Median household income has not recovered to pre-Great Recession levels.

These data reveal that despite the economy being at "full employment," the economy has not recovered to its pre-Great Recession levels. This in itself is not unusual for "balance sheet" recessions, which tend to be longer and deeper than normal "inventory" recessions. Still, there is more to be revealed about this particular recession.

Recent technical change is biased towards skilled labor: Good jobs require technical education and skill; good jobs are not available to low-skilled workers. There is a fast-moving track to prosperity for talented workers and a rocky path indeed for low-skilled workers. Our education system has failed and our immigration policy encourages unskilled immigrants and makes it difficult for high-skilled immigrants.

Finally, the culture that inspired young people to work hard at difficult tasks and to postpone gratification is gone. Hence, we have "two Americas" and they are moving away from each other at light speed. This is part of the reason why today's voters are angry.

A second cloud hanging heavily over the recovery is the Fed's unprecedented expansion of the money supply. The Fed did a masterful job of containing the "contagion" that could have spread during the financial crisis. They can be criticized for the aggressive use of "quantitative easing" — printing of additional money — after we got past the panic.

In March, The Cato Institute in Washington, D.C., will hold a conference titled "Quantitative Easing: A Requiem." Their purpose is to consider the question whether QE helped or harmed the economy. They consider this "one of the defining monetary policy issues of our time."

We have not seen the last act in this recession.