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Economists Disagree With Fed Claim That U.S. Nearing 'Full Employment'

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While the Federal Reserve claims that the United States is making progress towards its goal of maximum employment, some economists and policy experts disagree, citing poor labor participation rates and anemic wage growth to suggest that the economy is not recovering as quickly as the unemployment rate might suggest.

Fifty-six percent of economists polled by the *Wall Street Journal*, said that the United States would meet the Fed's goal of "full employment" by 2016. In July, the Federal Open Market Committee said that there had been "cumulative progress" made toward this goal.

The Fed has maintained that it will not raise interest rates until the labor force reaches maximum employment and inflation hits 2 percent.

"When I look at the available evidence, I think we're still a good distance from full employment," says Michael Strain, a labor economics scholar at the American Enterprise Institute. "I base that on a number of things, but something that jumps out to me is the rate of employment, not the rate of unemployment."

According to the Bureau of Labor Statistics (BLS), the rate of employment in September 2015 was 59.2 percent. According to the BLS, this statistic measures the proportion of the working-age population that is employed, a reliable proxy for how well the economy is performing.

This measure took a dip during the recession and stands lower today at 59.2 percent than it was before the recession began in December 2007, when it was 62.7 percent.

"The rate of employment among workers in their prime working years which is a statistic that the government calculates—there is a big drop in the Great Recession," says Strain. "You've seen recovery for sure, but you haven't seen anything close to a complete recovery."

"Until more of those prime age workers have returned to the work force than currently have, it's hard for me to the look at the economy and say we're really employing resources the way we want to be," he says.

George Selgin, a senior fellow specializing in monetary policy at the Cato Institute, says that the recovery hasn't been successful because the economy's capacity to create jobs hasn't improved.

“When it comes to evaluating the success of the recovery and the Fed’s contribution to it, I think it’s very important to point out that the recovery hasn’t been very successful,” says Selgin. “What we should care about isn’t just the unemployment rate number getting back to normal, but whether the economy’s capacity to create jobs has recovered. That capacity has clearly not recovered.”

“That capacity is a better measure of how successful and complete the recovery is than just looking at how close we are to what some people call the full employment rate,” he said. “What really matters is, are we creating jobs the way we should be and the way we were before the downturn, not what the unemployment number is.”

Analysts suggest that another useful metric for the health of the labor force is the labor force participation rate, which measures the percentage of Americans who either have a job or have looked for one in the past month.

“When you look and you see that labor participation has gone down by 4 percent since 2009, to see that economists are saying were going to hit full employment in 2016, doesn’t make a lot of sense to me,” said Andy Koenig, a senior policy analyst at Freedom Partners.

“A lot of what they talk about is an economy in balance, is an economy where the people who are in the labor force who want jobs are going to be met with jobs, but as you know with a shrinking labor force participation rate it’s becoming more difficult to say what is full employment,” Koenig said.

The widely reported unemployment rate of 5.1 percent does not account for those who have dropped out of the labor force. Gallup’s CEO has even called the unemployment rate a “lie.” Ben Bernanke, the Fed’s former chairman, recently argued in an op-ed for the Brookings Institution that the state of the labor market is “close to normal,” emphasizing the 5.1 percent unemployment rate.

“It’s very disingenuous for Bernanke to emphasize the unemployment number under these circumstances,” says Selgin, referring to the op-ed. “They tend not to indicate to just what extent the number is misleading because it really is—one-third of people getting jobs, recovering their jobs, and two-thirds of people giving up. That’s the stark reality.”

In addition to these statistics, Americans are finding that household wages are not increasing. According to the BLS, wages and salaries grew at just 0.2 percent in the second quarter of 2015, the slowest rate recorded in 33 years.

“It’s a reflection of the economy,” says Koenig. “GDP in this recovery under Obama has been far, far lower than it has in other recoveries. The recovery under President Reagan, for instance, you had a GDP rate in the months following the recession that was 4.1 percent or even following the first Bush recession 3 percent growth rate.”

“Right now, GDP following the latest recession is only growing at 2.2 percent, simply not enough,” he said. “And when you look at the fact that household incomes are stagnant right now it is a reflection of the fact that GDP is just not growing and we are not bouncing back.”

Koenig also says that policies like regulatory expansion, Obamacare, and stimulus spending have not helped wages rise.

“Whether it’s excessive regulation, whether it is Obamacare lowering the number of hours in the workweek, or whether it’s runaway spending, failed stimulus, failed Keynesian multiplier models that have said if you spend all this money, if you add all this debt you are going to see a rise in GDP,” he said. “Since Obama has become president, it simply hasn’t happened and that’s reflected in low wages and low median income for average Americans.”