The 'New Normal'? Part 2: Subdued Employment

Part 1 illustrated the economic stagnation under this Administration, including anemic economic growth, missing income among families, and heavy tax and regulatory burdens. This installment focuses on the employment situations and subdued take-home pay that have resulted from this stagnating economy. Although the unemployment rate has fallen, millions of Americans remain out of the labor force and are therefore not counted as "unemployed." Often attributed to an aging population, the JEC estimates that over 3.4 million Americans between the ages of 16 and 64 would be in the labor force had there been a genuine recovery.[1] At the same time, private-sector job creation has underwhelmed. Relative to the average post-1960 recovery, we estimate that 5.3 million private-sector jobs are missing. A truly robust job market recovery should also result in solid income growth. However, after accounting for taxes and inflation, income growth per person is half the average post-1960 recovery.

A. Stagnant Labor Market

Figure 1 shows that the headline unemployment rate jumped to 10.0 percent in October 2009 and gradually declined to 5.0 percent as of September 2016.[2] The headline unemployment rate measures the proportion of civilians without a job but actively seeking work to the total civilian population that either has a job or is actively looking for one. However, it does not capture the total amount of slack present in the labor market.[3] Other measures, such as the civilian labor force participation rate (LFPR), aid our understanding of overall labor market health.

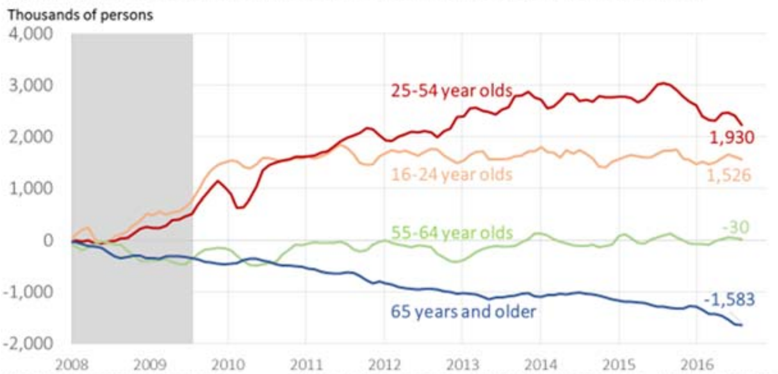
The LFPR measures the percentage of potential workers[4] who are actually working or actively looking for work. The LFPR has declined from 66.0 percent in December 2007 to 62.9 percent in September 2016. How significant is a cumulative decrease of 3.1 percentage points? If the LFPR during the business cycle's peak in December 2007 (66.0 percent) is applied to the September 2016 civilian noninstitutionalized population, there would be 167.7 million people in today's workforce. However, the actual number of workforce participants is only 159.9 million, indicating that 7.8 million people remain left out of the job market.

B. The Effects of an Aging Population on a Labor Market Recovery

In the United States, the proportion of individuals reaching retirement age is growing. In December 2007, 15.7 percent of the 2007 population was 65 years old or older. As of September 2016, it is 19.0 percent. Therefore, some may argue the falling LFPR, and the aforementioned 7.8 million people missing from the job market, can be explained by an aging population retiring from the workforce.

To quantify the effects of a changing age demographic, we use the pre-recession LFPRs of four different age groups as benchmarks, rather than the overall LFPR. The LFPR for those aged 16 to 24 years was 59.2 percent in December 2007 and 55.2 percent in September 2016.[5] The LFPR for prime-age workers, those ages 24 to 54, declined from 83.1 percent in December 2007 to 81.6 percent in September 2016. Those aged 55 to 64 saw their LFPR remain relatively constant at 64.1 percent in September 2016 from 64.0 percent in December 2007. Finally, those aged 65 years and older saw their LFPR increase from 16.3 percent in December 2007 to 19.6 percent.

Figure 2. Workforce Gap by Age Based on Pre-Recession Labor Force Participation Rates



Gray bars represents recession
Source: BLS, Haver, JEC
Notes: Series graphed are 3 month moving averages. Positive numbers represent number of persons (in thousands) missing from the labor force

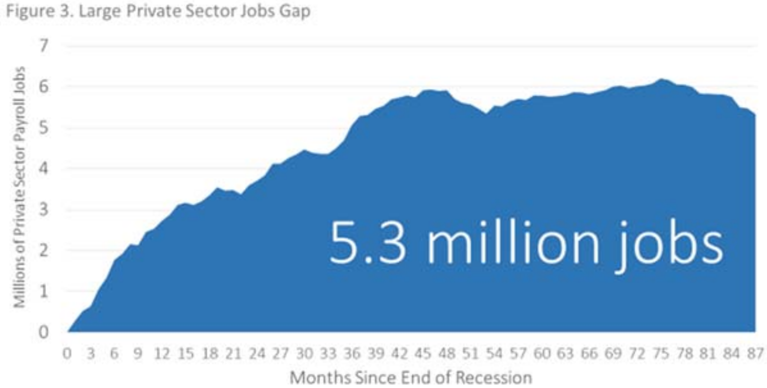
Applying the pre-recession (December 2007) LFPRs to the September 2016 populations of each age group yields the following estimates: (1) there are approximately 1.5 million individuals aged 16 to 24 who are left out of the labor force; (2) there are over 1.9 million prime age workers (ages 25 to 54) left out of the workforce; (3) there are 30,000 more people ages 55 to 64 in the workforce than would be expected; and (4), there are 1.6 million more individuals aged 65 and older in the workforce than would be anticipated relative to a full recovery, i.e., achieving parity with the LFPRs prior to the recession.

Figure 2 above shows these calculations applied from January 2008 until September 2016. Positive numbers indicate the number of people in a particular age cohort that we estimate *should* be in the workforce, while a negative number indicates the number of individuals who would normally have left the job market.

It is unclear what factors are causing the LFPR to increase for those 65 and older, but possible causes include: (1) a drop in wealth and income from the recession and weak recovery that leads them to delay retirement, (2) growing concern about the future availability of Social Security or other retirement income, (3) longer life expectancy, or (4) a growing attachment to employment because of the satisfaction derived from a particular job. While these are important questions in their own right, what is most troubling is that over 3.4 million workers between the ages of 16 to 64 are out of the job market in this recovery. This constitutes nearly half of the 7.8 million workers we estimate remain outside the workforce since December 2007.[6] Put another way, only half the drop in labor force participation can be blamed on an aging population.

C. Private-Sector Job Creation in this Recovery Compared to Prior Recoveries

Figure 3. Large Private Sector Jobs Gap

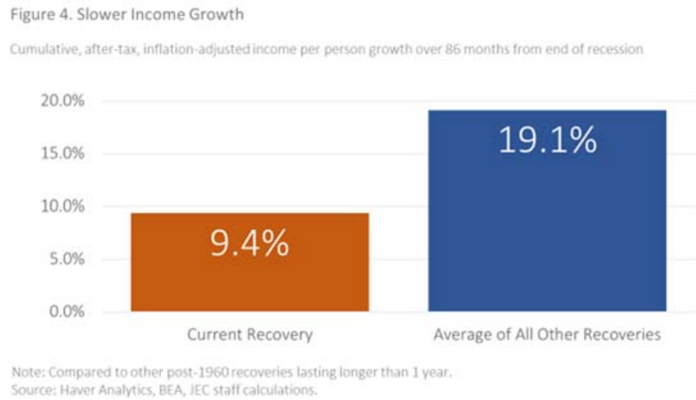


Note: Compared to the average job growth of other post-1960 recoveries lasting longer than 1 year.
Source: Haver Analytics, BLS, JEC staff calculations.

An alternative methodology estimates how private-sector job growth in this recovery compares to average post-1960 recoveries lasting at least one year. In this recovery, from June 2009 to September 2016, 14.1 million new private-sector jobs have been created. The average recovery registers 19.4 million more jobs over a comparable period of time. Therefore, JEC estimates that 5.3 million private-sector jobs are missing from this recovery.

D. Subdued Income Growth

While Part 1 examined median current-dollar incomes of families,[7] other measures shed light on this economy's impact on American pocketbooks. Real personal disposable income per person accounts for the effects of taxes and inflation on the incomes of *each* individual American. Since 1960, the average cumulative increase in incomes during recoveries lasting for one year or more was 19.1 percent, as shown in Figure 3. Over a comparable period of time in the current recovery, real disposable personal income has increased only 9.4 percent. Cumulatively, from June 2009 to August 2016, on a per-person basis, individuals have foregone over $17,000 worth of income.[8]



As if things weren't bad enough, Obamacare is set to make things even more expensive for Americans as health insurance premiums are expected to skyrocket.

A healthy labor market should observe strong income growth as wages and salaries are bid up by a scarcity of labor. The converse implies many potential workers have not been absorbed into the recovery. Indeed, the weak income growth in this recovery may be contributing to the rising labor force participation rates of those aged 65 and older.

Although the underlying dynamics in this lackluster recovery are difficult to uncover, the subdued employment situation can't be blamed solely on demographics as 3.4 million people ages 16 to 64 remain outside the workforce. JEC Chairman Dan Coats and Senate Republican Conference Chairman John Thune summarize the overall situation succinctly when they recently stated, "…[T]he Democrats' policies of overspending, overtaxing and overregulating are simply not working. To reverse this trend, Senate Republicans will continue to pursue pro-growth legislation that reduces our debt, modernizes our tax code and removes unnecessary regulations. Painfully slow economic growth cannot become our new normal."

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[1] This estimate is discussed in the section titled, "B. The Effect of an Aging Population on a Labor Market Recovery" of this report.
[2] The graphed curves in Figure 1 and Figure 2 are smoothed using a 12 month moving average.
[3] For more details on measuring unemployment refer to JEC's paper, "Is the "Full Employment" Glass Half Full?".
[4] More specifically, this population includes the civilians aged 16 years or older who are not in an institution.
[5] Note that the LFPRs *may* differ by 0.1 or less percentage points from that reported by BLS. The latter requires seasonal adjustments to be made to some LFPRs. All the numbers reported here are seasonally adjusted.
[6] For more information on labor market changes refer to the JEC's paper, "Not Your Mother's Labor Market".
[7] This refers to Figure 3 of the JEC report titled "The 'New Normal'? Part 1: Economic Stagnation".
[8] This figure represents real personal disposable income (1) per person, (2) deducted for taxes, and (3) accounting for inflation. Part 1 of this series outlines the amount of income per family lost during the current recovery period not adjusting for these variables.