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Not Losing Sleep During the Jobless Recovery

Dr. Kevin Christ

Assistant Professor of Economics

Rose-Hulman Institute of Technology

During the final week of January, the Commerce Department reported that GDP had risen for the ninth consecutive quarter, the Conference Board said that its consumer confidence index had risen five points, and a Lafayette manufacturer announced plans to hire 300 new workers. Despite such news, it is increasingly commonplace to hear people express concern about the "jobless recovery."

The experts who decide these things tell us that the recession which began in the spring of 2001 ended in the late fall of that same year. When it began, unemployment stood at 3.9%. Today, a little more than two years after the official *end* of that recession, the unemployment rate stands stubbornly at 5.7%. But is this so unusual?

Nobel laureate Robert Lucas, once observed that "all business cycles are alike." One way in which this is certainly true is that unemployment is a lagging indicator of business activity. Consider the recession that occurred during the *first* Bush administration. When that recession began in the summer of 1990, the unemployment rate was 5.2%. Two years after it was declared over, the unemployment rate was still 7.1%. Historically, the unemployment rate behaves sluggishly after a recession.

Still, the concerns over the present recovery are not focused only on persistent unemployment. There is another, more subtle, concern over something called job creation. To fully understand this concern, it is helpful to look at another labor market indicator -- the employment rate.

Now the employment rate is not simply the opposite of the unemployment rate. (That would be too easy – after all, this is economics.) Instead, it measures the number of Americans employed as a percentage of those who *could* be employed. To fully appreciate the difference between these two statistics consider the following simple example:

Suppose there is a country with 100 people. Of these, 80 choose to seek employment, 72 find a job, leaving 8 people unemployed. The unemployment rate would be 10% (8 out of 80), while the employment rate would be 72% (72 out of 100). Now suppose that only 70 of the 100 actually seek employment, and that of these, 7 cannot find a job. Thus, 63 are employed, the unemployment rate is still 10%, but the employment rate drops to 63%. In this way, a falling employment rate might indicate that people are leaving the workforce, perhaps because they are discouraged.

So the employment rate offers some insight into how our economy is doing at creating jobs which actually attract people into the workforce. At the beginning of the most recent recession, this indicator stood at 64.3%. Today it is 62.8%. The statistics for the recession of 1990 were similar.

So what's going on with the labor market, and should we be concerned? First, the patterns we observe in labor market statistics are not all that different from other recoveries. That doesn't ease the pain, but it does offer some perspective.

Second, if productivity grows faster than the population (which it has been for many years in the U.S.), then we don't need as many people working to maintain, or even to improve, our standard of living. Our productivity growth has been so good in recent years, that we could actually enjoy improvements in our average standard of living with fewer people working.

This is a key insight of economics: as productivity increases, societies can take the benefits of that productivity either in the form of more stuff, more time off. Our labor force participation and employment rate have been rising steadily since World War II. But nothing can grow (or has to) forever. To the extent that our phenomenal productivity allows us to produce and buy the things we want with 63% of our population out there working instead of 64%, is that necessarily a bad thing?