

ISSUE BRIEF

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Heritage Employment Report: Dog Days of August Howl in the Labor Market

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The Bureau of Labor Statistics reported that the economy created on net 96,000 new jobs in August and that the unemployment rate fell to 8.1 percent. The decline in the unemployment rate was entirely due to a steep decline in the percentage of people in the labor force, which reached a 30-year low.

Forward-looking indicators tell a grim story as the labor market continues to struggle and revisions to the previous jobs reports for June and July reduced job growth by over 40,000 jobs total. The next few months will offer little relief to the unemployed, as many businesses are already cutting back in anticipation of Taxmageddon.

The August Report: Fall in Labor Force Participation. The household report indicated that the labor force participation rate declined to 63.5 percent, the lowest

level in over three decades. Almost 400,000 potential workers exited the labor force, and this explained why the unemployment rate fell from 8.3 percent to 8.1 percent. In August, the participation rate of adult men in the labor force fell to an all-time low. While the number of men in the labor force has been trending down, their participation rate was expected to climb as the economy recovered. Instead, the participation rate has continued to fall even as the economy began expanding.

For long-term unemployed workers, their situation worsened in August, with the average duration of unemployment climbing back over 39 weeks and the median duration of unemployment climbing to 18 weeks. The good news is that this figure is still lower than the one from the same time last year: In August 2011, the average duration of unemployment was over 40 weeks. However, this is very slow progress given the magnitude of the recession.

The payroll survey contained even worse news. Private-sector job growth was 103,000, while the government workforce declined by 7,000 workers. Manufacturing jobs (–15,000) declined, as did temporary help services (–4,900). Temporary help is usually an omen for future job

growth, so this decline indicates that future labor market growth will be slow. Revisions to the June and July employment reports were also negative, reducing job growth by a total of over 40,000 jobs.

Hours of work were flat, but the number on wages is alarming: Hourly wages actually declined in August. This indicates that the slack in the labor market is increasing, which again means that the prospects for robust future job gains are bleak.

Smaller Labor Force. The labor market is much weaker than the headline unemployment rate suggests. Since the recession ended, job growth has only kept pace with population growth. The share of the adult population with jobs has remained flat for the past two years. Unemployment has fallen because fewer Americans are looking for work.

The labor force participation rate—the proportion of Americans either working or job searching—has fallen by 2.5 percentage points between December 2007 and August 2012. The drop in August is part of a longer trend. If the participation rate had remained at pre-recession levels, over 4.6 million more Americans would either have jobs or be looking for them.¹

Demographic factors explain about one-fifth of the drop in labor

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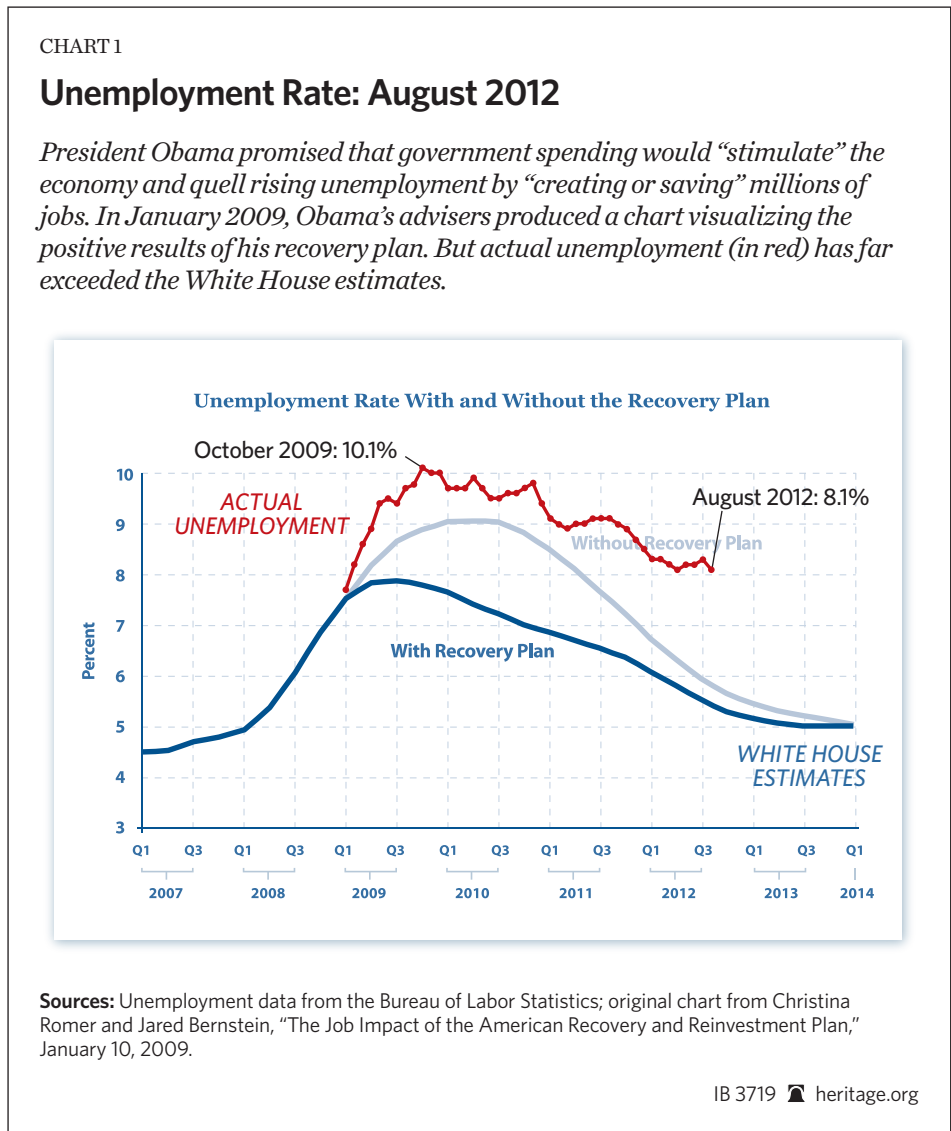
force participation: The baby boom generation has begun retiring. An older population has more retirees and fewer workers irrespective of the state of the economy.² The economy's weakness has caused the remaining four-fifths of the decrease.

School and Disability Benefits.

The workers now outside the labor force are primarily either studying in school or collecting disability benefits. Approximately 2.1 million more Americans report being outside the labor force and enrolled in school. The weak economy has both made it more difficult for students to find part-time jobs and reduced the opportunity cost of going to school. One of the major costs of studying is forgoing income from a full-time job. The difficulty of finding work has made studying relatively more attractive. Both of these factors—the difficulty of finding work and the increased attractiveness of school—have increased the number of Americans studying and outside the labor force.

The number of Americans collecting disability benefits has also grown notably in the recession. Almost 6 percent of the adult population reports being disabled and outside the labor force—an increase of 1.5 million people since 2007.³

Americans have not become sicker over the past four years; medical technology has only gotten better. Instead, studies show that a



significant number of workers who apply for disability benefits are not entirely disabled. They have medical conditions that qualify them for

benefits, but under other circumstances they could work at some type of job. Given the option of receiving benefits, however, they take them.⁴

1. See James Sherk, “Not Looking for Work: Why Labor Force Participation Rate Has Fallen During the Recession,” Heritage Foundation *Backgrounder* No. 2722, August 30, 2012, <http://www.heritage.org/research/reports/2012/08/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession>.

2. Ibid. Note that some demographic factors are increasing labor force participation. More educated workers have a stronger attachment to the labor force than less educated workers. The generation currently retiring has less education (on average) than the generations succeeding it. All else being equal, this would increase labor force participation. However, the downward pressure on participation rates coming from the aging of the population has been larger than the upward pressure from rising education levels.

3. Ibid. This increase reflects how many fewer people would report being disabled in 2011 if disability rates had remained at 2007 levels.

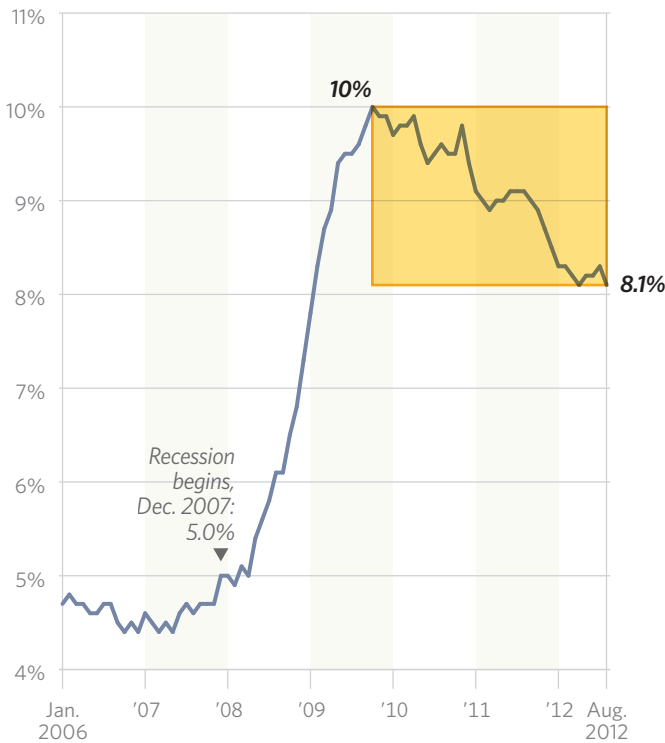
4. David H. Autor and Mark G. Duggan, “The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding,” *Journal of Economic Perspectives*, Vol. 20, No. 3 (Summer 2006), pp. 71-96, <http://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71> (accessed September 7, 2012); and David H. Autor and Mark G. Duggan, “Distinguishing Income from Substitution Effects in Disability Insurance,” *American Economic Review*, Vol. 2, No. 97 (May 2007), pp. 119-124, <http://economics.mit.edu/files/1478> (accessed September 7, 2012).

CHART 2

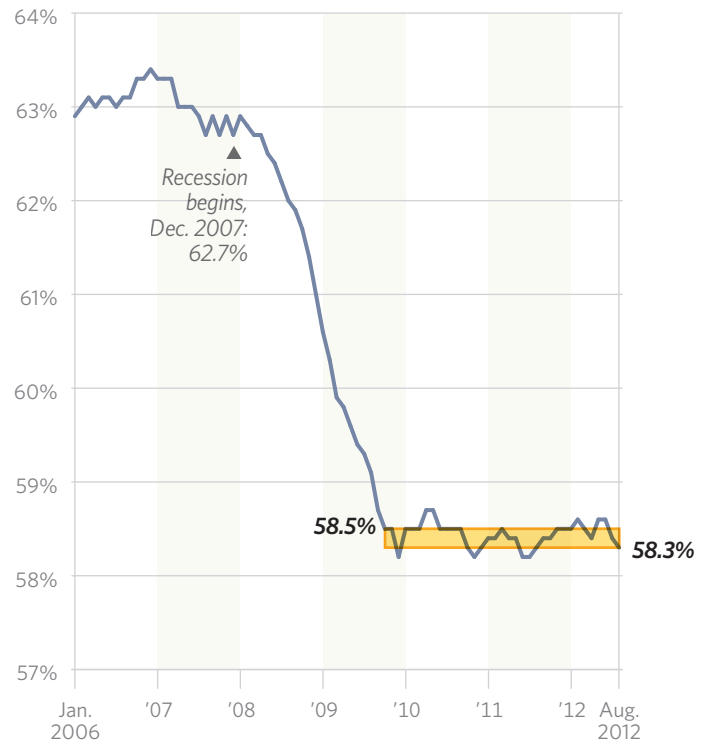
Unemployment Rate Has Improved—Employment-Population Ratio Has Not

The civilian unemployment rate rose and peaked in October 2009, reaching 10 percent, and has slowly declined over three years. During that time, however, the ratio of employed people to the entire population has remained nearly unchanged.

CIVILIAN UNEMPLOYMENT RATE



EMPLOYMENT-POPULATION RATE



Source: Heritage Foundation calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics/Haver Analytics.

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The effect is particularly pronounced for lower-income workers, who are much more likely to be affected by the difficult job market.

Long-Term Consequences.

While the vast majority of students will return to the labor force, few starting on disability insurance will ever work again. Congress created the “Ticket-to-Work” program in 1999, which allowed Social Security

Disability Insurance (SSDI) beneficiaries to return to work while keeping their health coverage. Over the next seven years, fewer than 1,400 claimants used the program to return to work.⁵

The drop in labor force participation will do long-term economic damage. Fewer employees will be responsible for working to sustain an increasing number of people outside

the labor force. This will lead to either higher taxes or lower benefits, resulting in lower standards of living for all Americans. Congress will have to address this problem soon. The Social Security trustees project that the SSDI trust fund will run out by 2016.⁶

A Non-Recovery Recovery. The August report shows that the labor market is continuing its non-recovery.

5. Autor and Duggan, “The Growth in the Social Security Disability Rolls.”

6. Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, “The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds,” April 25, 2012, <http://www.socialsecurity.gov/OACT/TR/2012/tr2012.pdf> (accessed September 7, 2012).

TABLE 1

Change in Employment Status of the Adult Population, Adjusting for Demographic Changes

	Employed	Unemployed	Not in the Labor Force	BREAKDOWN—NOT IN LABOR FORCE						
				Retired	Disabled	Sick	School	Family	Other	
2007	63.0%	3.1%	34.0%	15.7%	5.3%	0.2%	5.8%	6.0%	1.1%	
2011	58.4%	5.7%	35.9%	16.1%	5.9%	0.2%	6.6%	5.8%	1.2%	
2011 with demographics held constant	58.6%	5.9%	35.5%	15.2%	6.0%	0.2%	6.8%	6.1%	1.3%	
<i>Figures in Percentage Points</i>										
Actual change	-4.6%	2.7%	1.9%	0.4%	0.6%	0%	0.9%	-0.2%	0.2%	
Change with demographics held constant	-4.4%	2.8%	1.6%	-0.5%	0.7%	0%	1.1%	0.1%	0.2%	
Change in 2011 Workforce Had Employment Status Remained at 2007 Rates, in Millions										
Actual change	-11.1	6.4	4.6	1.0	1.5	0	2.1	-0.4	0.4	
Attributable to economic changes, demographics held constant	-10.5	6.7	3.7	-1.3	1.8	0	2.6	0.2	0.4	
Attributable to demographic changes	-0.6	-0.3	0.9	2.3	-0.3	0	-0.5	-0.6	0	

Notes: The change in millions reports the change relative to the number that would have occurred if the 2007 employment status occurred in the 2011 population. Numbers may not sum to totals due to rounding.

Source: Heritage Foundation calculations using monthly data from the U.S. Census Bureau, Current Population Survey, 2007 and 2011. Figures are for individuals ages 16 and older.

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Average job growth for 2012 is worse than average job growth in 2011. The labor market should simply be stronger at this point in the recovery than it is right now. Instead, several indicators are not recovering at all or even continuing to decline.

Fiscal policies from Washington have made the situation worse.

While President Obama has promised to reduce regulations, which would help job creation, his largest initiative—Obamacare—will harm employment. The Obamacare tax hikes coincide with the expiration of the 2001 and 2003 tax cuts in January 2013. This will throw the economy into another deep recession,

and businesses are already delaying investment and hiring as a result.

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