ISSUE BRIEF

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Heritage Employment Report: Economy Runs in Place in May

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The May employment report from the Bureau of Labor Statistics shows an economy running in place. Over the past year, employers have created an average of 172,000 net jobs a month. In May, they added 175,000 jobs, and the unemployment rate slightly increased by one-tenth of a percentage point to 7.6 percent. Other measures of labor market strength, such as the employment-to-population ratio, were flat.

Neither the fiscal cliff tax hikes nor sequestration has pushed the economy into a recession. However, there are no signs of acceleration in the labor market's lackluster growth. Further, millions of Americans have left the labor force, and there are few signs that they will return any time soon.

The May Employment Report. The May employment report showed the economy growing at the same pace it has grown over the past year. The payroll survey showed employers adding 175,000 net new jobs—in line with economists' expectations. The professional and business services (+57,000), leisure and hospitality (+43,000), and retail trade (+28,000) sectors showed the strongest growth. Employment in health care also continued to increase (+11,000). Within professional and business services, temporary help services (+26,000) and computer systems design (+6,000) showed the strongest gains.

Jobs in most other industries barely moved: Manufacturing, transportation and warehousing, financial activities, wholesale trade, and construction employment all remained essentially flat. Government employment fell negligibly (–3,000) over the month. This overall number masked a noticeable compositional change: Federal employment fell (–14,000), but increased local government hiring (+13,000) offset that drop.

The payroll survey also showed little change in either hours or earnings. The average workweek for all employees remained constant at 34.5 hours, while average hourly earnings rose by one cent.

The household survey paints a similar picture. The headline unemployment rate rose one-tenth of a percentage point to 7.6 percent. A drop (–231,000) in those outside the labor force drove this increase. Many Americans started looking for work, but many of them (101,000) also did not find jobs and now count as unemployed. Consequently, the unemployment rate rose while the employment-to-population ratio (58.6 percent) remained unchanged.

Fewer Participating in the Labor Force. The fact that unemployment rose but the employment-to-population ratio did not rise illustrates a larger problem facing the economy: While unemployment has dropped, the proportion of Americans with jobs has scarcely increased since the recession ended. Unemployment looks better only because millions of Americans are no longer looking for work and thus do not count as unemployed.

The labor force participation rate rose 0.1 percentage point to 63.4 percent in May. Except for March

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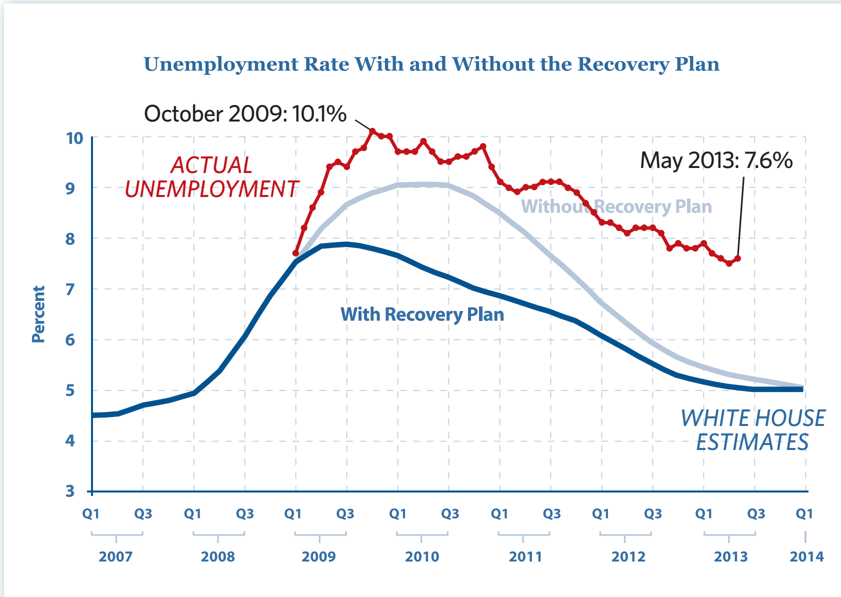
CHART 1

Unemployment Rate: May 2013

President Obama promised that government spending would "stimulate" the economy and quell rising unemployment by "creating or saving" millions of jobs. In January 2009, Obama's advisers produced a chart visualizing the positive results of his recovery plan. But actual unemployment (in red) has far exceeded the White House estimates.



Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 10, 2009.

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and April of this year, this is the lowest rate since May 1979—a time when far fewer women worked in the economy. Labor force participation among men remains at its lowest level since the government began tracking these figures 65 years ago. Just 72.7 percent of adult men are either working or looking for work.

Some analysts argue that changing demographics explain this shift. This explanation contains a measure of truth: The baby-boom generation is aging and starting to retire. An older population naturally has fewer workers. Such demographic factors explain the modest drop in labor force participation between 2000 and 2007, when labor force participation fell by just over one percentage point.

However, between December 2007 and May 2013, labor force participation fell by 2.6 percentage points. Demographics account for only a minority of this drop. Heritage Foundation research finds that the aging of the baby-boom generation explains one-fifth of the drop in labor force participation.[1] The liberal Economic Policy Institute finds that demographics accounts for only one-third of the recent drop.[2] Economists at the Federal Reserve Bank of Chicago estimate the demographic-related component at one-quarter.[3]

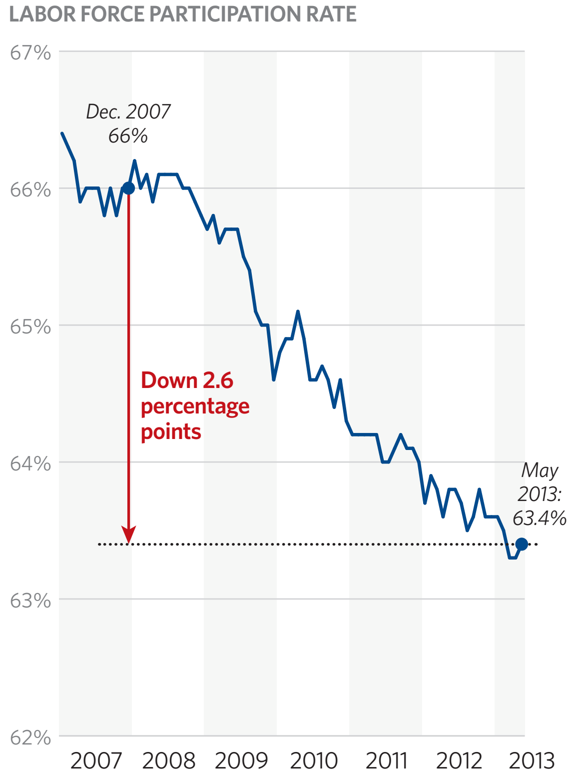
Heritage research shows that most workers now outside the labor force are either enrolled in school or collecting disability benefits.[4] The former is mixed news, and the latter poses serious economic problems for America.

The number of Americans outside the labor force but enrolled in school increased by 2.1 million

1. See James Sherk, "Not Looking for Work: Why Labor Force Participation Has Fallen During the Recession," Heritage Foundation *Backgrounder* No. 2722, August 30, 2013, http://www.heritage.org/research/reports/2012/08/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession.
2. Heidi Shierholz, "Labor Force Participation: Cyclical Versus Structural Changes Since the Start of the Great Recession," Economic Policy Institute, May 24, 2012, http://www.epi.org/publication/ib333-labor-force-participation-since-great-recession/ (accessed June 7, 2013).
3. Daniel Aaronson and Jonathan Davis, "Explaining the Decline in the U.S. Labor Force Participation Rate," Federal Reserve Bank of Chicago, March 2012, http://www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2012/cflmarch2012_296.pdf (accessed June 7, 2013).
4. See Sherk, "Not Looking for Work."

CHART 2

Labor Force Participation Has Fallen Sharply in the Recession



Source: U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," January 2007 to May 2013, Table A1, http://bls.gov/news.release/empsit.a.htm (accessed May 7, 2013).

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between 2007 and 2011. The vast majority of these potential workers will return to the labor force. To the extent that they become more productive through their schooling, they will benefit from their additional education. However, some of these new students will acquire student debt without also gaining marketable skills. Further, part of the increase in the "not in the labor force, enrolled in school" category comes from students who want part-time jobs giving up on finding them.

The number of Americans outside the labor force but collecting disability benefits increased by 1.5 million between 2007 and 2011.[5] Very few of these workers will return to the labor force. Just 9 percent of Social Security Disability Insurance (SSDI) beneficiaries who leave the system do so because their health has improved enough so that they no longer qualify.[6] Even fewer leave voluntarily.

In 1999, Congress created the "Ticket-to-Work" program, which allowed SSDI beneficiaries to return to work while keeping their health coverage. Over the next seven years, fewer than 1,400 claimants used the program successfully.[7]

This decrease in labor force participation is probably permanent and will pose serious fiscal challenges for the country.

Minimal Growth. Four years after the Great Recession officially ended, the economy shows little signs of improvement. Employment grew in May at the same rate it has grown over the past year. The headline unemployment numbers have improved only because millions of Americans have left the job market and have stopped looking for work. When they return to the job market, unemployment will increase, as happened in May.

Job growth rates remain far below the levels necessary to restore full employment. Government policies that have raised taxes and increased regulatory burdens have weakened the desire for businesses to expand hiring.

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5. Ibid., Table 4.
6. U.S. Social Security Administration, Office of Retirement and Disability Policy, "Annual Statistical Supplement, 2011," Table 6.F2, http://www.ssa.gov/policy/docs/statcomps/supplement/2011/6f.html (accessed June 7, 2013).
7. 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 June 7, 2013).