The Unemployed

Most of us spend much of our lives working for a paycheck. We are awake for an average of 459,000 hours during our lifetimes. Consequently, we spend 24% of our lifetime waking hours at work. This includes all of the time we are children and retired elders. Working for a paycheck is a staple of most of our lives – it is part of most of our identities.

Why do people work? For many reasons, but the more universal reasons are survival and self-worth. We all need shelter, clothing and food. Work provides the means to acq uire these needs. The other reason – self-worth – seems to be a dying reason to some to clean up and go to work each day. This observation leads to the topic of this week's piece – why the *labor participation rate has declined and why, after five years of economic growth, the rate remains low.*

Labor Participation Rate

What do we mean when we talk of the "Labor Participation Rate"? This is the measure of folks who are working as compared to those who are capable of working. The measure captures not only the unemployed – those folks who are out of work and are looking for a job – but also those folks who, age-wise, are within the labor pool but voluntarily or involuntarily are not working. As compared to the more well-known unemployment rate which only measures those out of work and looking for employment, the Labor Participation Rate measures those who are able to work but for various reasons may choose not to.

Currently, 63.2% of those able to do so are working (see chart). As recently as the year 2000, that rate was 67.2%, an all-time high. The civilian labor force is 156 million workers. Consequently, the Labor Participation Rate reflects that 57.4 million workers are not currently participating – either voluntarily or involuntarily – in the active labor pool. The number from the recent employment report, which registered 10.5 million unemployed individuals, is excluded from this calculation because that number represents those who are both unemployed and actively seeking work. With the Labor Participation rate at 63.2%, the number of folks who could work but have decided not to do so has grown by 6,240,000 workers in the last 14 years.

This all raises the question: Why are more than 57 million Americans not actively participating in the labor pool? *These are Americans who are of age (between 16 and 65) and who are able to work. They simply are not doing so. This includes younger adults and stay-at-home parents. There is always a significant portion of those who can* *work, but, due to life circumstances, choose not to. Today's piece attempts to provide detail as to why, since the year 2000, 6.2 million more workers who are able to work have decided not to do so.*

A Relevant Number

Statisticians know they can construct an argument – any argument – with the shading of statistical data. Our goal in this piece is to accurately display a more complete employment picture than a simple look at the current unemployment rate can provide. By looking at a more complete picture, we can attempt to more fully answer the question posed above.

We need a starting point in this analysis. To more accurately answer the question, we need to look at a base year, view the data during that time, compare that data to current information, and then ask: what has changed over that period of time that may have affected the Labor Participation Rate?

We choose the year 2000 as that was the high-water mark for the Labor Participation Rate. At that time, the Labor Participation Rate was 67.2%. ***There are currently 10.5 million workers who are officially unemployed. Add in the 6.2 million jobs represented by the decrease in the Labor Participation Rate, and we can gain a sense of the amount of potential slack in the nation's employment base.***

Will They Return to the Employment Hunt?

In attempting to answer the question of whether the participation rate will move back to historical highs, we need to understand why the rate has declined so significantly. Demographers and economists believe the following factors have led to the decline in the Labor Participation Rate:

- **Demographics** – the aging of the baby-boom generation has led to folks taking early retirement. It has been estimated in a study completed by the Federal Reserve of Chicago that about 25% of the decline in the participation rate is due specifically to demographics. For our argument, we will assume that 1.5 million workers have retired early since the year 2000.
- **Inequality in Geographic Opportunities** – the reality that one part of the country is showing more growth in jobs than another is always part of the labor situation. The disparity during the economic growth phase seems particularly important. For example, the current unemployment rate in North Dakota is a meager 2.6%, while the rate in nearby Illinois is 8.7%. Energy fracking activities have provided serious job opportunities in the Dakotas that have had no beneficial impact in Illinois (and other states).
- **Depth of Recession** – another reason some highlight is the structural nature of the last recession in which major industries were negatively impacted. According to this argument, the severity of the recession has led to a base rise in the long-term unemployment rate as measured for people who have been looking for work for 27 weeks or more. In other words, after 6-12 months of searching without any success, some folks eventually simply give up.
- **Government Policies** – it is my argument that government policies enacted since the year 2000 have at times created myriad disincentives to work, from making it easy to get Social Security disability and food stamps to health-care subsidies. My thinking goes: reduce the rewards of working and provide an alternative way to support people through transfer payments, and many people will choose to work less. Ronald Regan once said, "If you want more of something, subsidize it. If you want less of something, tax it." A number of government policies have, in the name of being humanistic, subsidized unemployment.
- **Lastly, the increased utilization of part-time workers** as compared to more full-time jobs needs to be studied. This is not to say that part-time jobs are not needed in our economy, but many employers have decided to hire more workers – and have them work less than 30 hours per week – due to rising employee benefit costs. This is negatively affecting the nation's full-time job base.

I suggest all factors mentioned have led to a decline in the participation rate, which won't be easily changed without changes in the following factors:

- **Structural changes in the economy.** Our economy doesn't need as many mortgage bankers as it did from 2000-2007. Additionally, retail is changing dramatically. With more consumer economic activity occurring using the Internet as a distribution system, growth in brick-and-mortar retail sales will be lower than history would suggest. These are only two industries whose demand for labor has structurally changed over the last five years. The folks who have become displaced need to say goodbye to their old jobs and be trained for jobs in growth industries. Capitalism is a "creative destruction" system.
- **Change the balance of policy response from Washington.** As an example, constantly extending unemployment benefits may in some minds be a humane exercise, but this activity has, in some cases, led to folks not seeking retraining and instead entering the ranks of the unemployable. The current policy status of Disability Insurance and a change in Social Security payroll taxes on older workers both need to be addressed.
- **Time.** While it is a quaint thought, time tends to heal most wounds. It appears to us that the labor environment is improving and may eventually positively affect not only the current unemployed but also the longer-term systemically unemployed.

We recently wrote a piece on our view that the possibility of a slight upward push in inflation could lead to a rise in interest rates later this year and early next. We suggested an improvement in the unemployment rate could lead to this outcome. We stand by that view, as we suspect the labor market is improving on a cyclical basis. Today's piece attempts to address a longer-term, structural issue our economy faces as we move forward.

Just For Fun

Our firm is loaded with serious baseball fans. From the Cardinals to the Reds to the Royals, we have the bases covered. As most know, baseball season is back upon us – it is a great time of the year…a great time to be an American. Hotdogs are part of the baseball tradition. Humphrey Bogart once said, "A hot dog at the game beats roast beef at the Ritz".

According to a recent article in Barron's magazine, the average price of a hot dog at a Major League Baseball stadium is up 34% over the last 10 years. For those counting, inflation is up 20% over the same period. Over the 10-year period, baseball ticket prices have risen by 32%, and beer is up 14% in price.

The most expensive "dog" at one of the stadiums? The standard hotdog at Citi Field (home of the Mets) runs $6.25 this season, the league's priciest "standard" dog. The cheapest hotdog in the Bigs? In Cincinnati, the Reds' Great American sells the standard hotdog for $1. The Dodgers fans can boast the highest level of hotdog consumption. According to the National Hot Dog and Sausage Council, folks visiting Dodger stadium are expected to eat 3.1 million dogs.

Yes, it's time to Play Ball – and pass the mustard.

We will be back next week.

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