

Evaporating Unemployment

Binyamin Appelbaum: February 4, 2014

Before the recession in December 2007, about 63 percent of American adults at jobs. Six years later, in December 2013, less than 59 percent of adults have jobs.

And a new analysis says that the recession and very little to do with it.

The study, by two economists at the Federal Reserve Bank of New York, asserts that workforce participation is in long-term decline. If the recession had never happen, or the economy had since we turn to complete health, the office estimate 59.3 percent of adults would have jobs, instead of 58.6 percent.

Employment fell sharply during a recession, of course, and the number of jobs still has not recovered completely even as the population has continued to grow. But as the baby boom ages into retirement, you are those are you with your people want those jobs. The problem of unemployment is a vibrating right before our eyes.

The assertion has large consequences. It suggest that the rapid fall in the unemployment rate, which reached 6.7 percent in December, is an accurate measure of a labor market that is almost done healing. It follows that the feds stimulus campaign has nearly served its purpose, that it is time to retreat, perhaps even more quickly, and then some Fed officials are right to worry about doing too much.

But this analysis is unlikely to be taken as the final word on the subject.

Perhaps the most simple counterpoint is to consider adults in their prime working years, between 25 and 54. About 80 percent has jobs at the end of 2007; only 76 percent had jobs at the end of 2013. Indeed, the president of the New York Fed, William Dudley, has porn it to this data as evidence that the decline was caused by the recession, and I was just a petition for continuing the Fed's stimulus campaign.

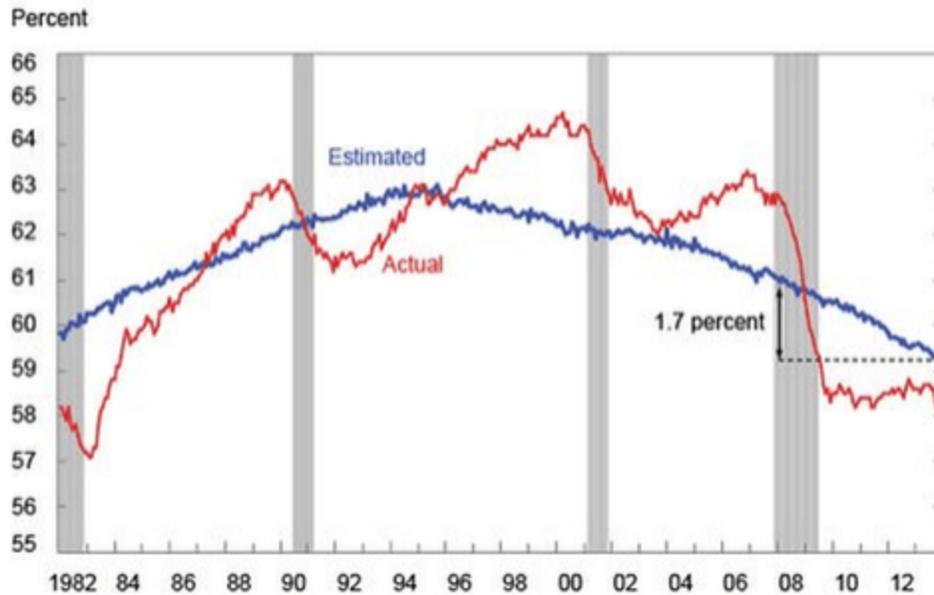
"Since the previous business cycle peak at the end of 2007, the decline of the labor force participation rate has been more than accounted for by a decline in participation of people in the prime working age of 25 to 54." Mr. Dudley said in November.

Other analysts have reached a wide range of conclusions about the relative contributions of demographics and economics. Some are in general agreement with the new study; most agree with Miss the Dudley in ascribing a large role to economics.

A study published Tuesday but the Congressional Budget Office, for example, estimated that 60.8 percent of American adults would have jobs in a healthy economy, a significantly higher sure then the 59.3 percent estimated in the New York Fed study -although still well below the 63 percent level that prevailed before the recession.

The new study we also rests on an odd bit of methodology. In calculating the long-term trend in workforce participation, it assumes the Fed has been successful in keeping unemployment at a minimum sustainable level. (The Fed text review that some unemployment is natural as people change jobs, and some is necessary to limit inflation. In practice, the Fed once about 5 percent of workers to be out of work.)

Employment-Population (E/P) Ratio vs. Estimated E/P Ratio



The blue line on the chart above is derived from this assumption. It shows the sustainable level of employment expressed as a share of working age adults. The implication is that, in effect, there were too many jobs before the recession - and, as a result, that some of the recent losses should be seen as a return to health.

But Josh Blevins of the Economic Policy Institute noted Monday, the Fed in recent decades has actually tolerated higher unemployment for long periods because it was focused primarily on controlling inflation. The methodology of the new study, in effect, is basically using the Fed's long history of allowing unnecessary unemployment as a justification for continuing the same policy.
