Unemployment Decline Masks Deeper Problems

Howard F. Rosen says that while private sector jobs are up, more Americans have stopped looking for work, and government jobs have dropped dramatically.

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Steve Weisman: The first week of August has brought grim [economic] news. This is Steve Weisman at the Peterson Institute for National Economics with Howard Rosen, who has been studying the labor figures and unemployment figures that came out August 5. They showed a slight drop in the unemployment rate. But Howard, that belies a deeper problem.

Howard Rosen: The headline numbers show that there's been a slight, better-than-expected increase in employment, and that has resulted in the slight decline of the unemployment rate.

But when you dissect the data further, what you find is that one of the most important reasons why the unemployment rate has been falling is because people are continuing to drop out of the labor market. And that means that less people are looking for jobs. That's not a good thing. And that's why the unemployment rate is kind of artificially coming down.

The second factor, which is quite curious at this point in a recovery, is that although the private sector creates jobs -- and they are creating jobs, although not as much as we would like to see – the government retrenchment in employment is really taking away from the whole story.

In this month alone, private sector jobs increased by over 150,000. But government employment fell by 37,000. And most of that decline in employment was in just one episode in Minnesota, when workers were furloughed because of a political argument.

When you take away the government decline in employment from the private sector increase, you only get that 113,000 that was reported.

When you look year over year, this phenomenon is magnified. Total private employment has increase by 1.8 million over the last year, but government employment has declined by a half a million. And that's been mostly in state and local government.

And so the net is only 1.3 million. Actually, currently the government employment is working against the recovery that we're trying to get in the labor market.

Steve Weisman: Is there any indication that some of the people dropping out of the labor market might be going back to school or trying to get training for other jobs?

Howard Rosen: You know, we would like to think that way. In fact, the Bureau of Labor Statistics try to put in some seasonal adjustments to take into account the fact that it is summertime, and people may be going on vacation and not looking for a job during that period. But the numbers are so large that it really does appear that the factor is much more important than just some anecdotal kind of thing.

Steve Weisman: Sure.

Howard Rosen: Just to put out some of these numbers: total working-age population in the United States increased by 1.8 million over the last year. But the number of people in the labor force declined by 400,000. Almost close to half a million.

Steve Weisman: Year over year?

Howard Rosen: Year over year, from this July to last July, we have a larger number of people in the working-age population, but at the same time we have almost a half a million, 400,000 people who have actually dropped out of the labor market. So over the same period, we've had a decline of about 700,000 in the number of unemployed.

The number of unemployed reported today was 13.9 million, down from 14 or 15 million that we had been hearing about over the last couple years. But, at the same time we're learning that there are less people in our labor force.

Steve Weisman: As you mentioned a minute ago, the smaller number of the labor force is because of state and local government, especially in the big states. California, New York, Michigan have all had to lay off people to consolidate. In some cases they've also increased taxes. This was hardly avoidable, though, unless the federal government had stepped in and renewed the aid to the states.

Howard Rosen: What this points to again is the combination of factors that have come together during the last couple of years. Think about it this way: We started this recession, this decline in the business cycle with, in the worst situation across the board: financial crisis, bubble in construction, so that there needed to be a re-adjustment in the housing industry.

Housing and construction is usually one of the engines pulling us out of a recession. That's taken off the table this time because of the correction that's taking place.

And then in addition, we came in with all of this large debt in government, both at the federal and at the state and local levels. So again, that potential engine, which was government spending and government stimulus, was also pretty much taken off the table. And in fact the opposite has happened, which is that we've had to do retrenchment in the governments.

Steve Weisman: The American public has wanted this retrenchment, ironically.

Howard Rosen: It is ironic that they are pushing for more retrenchment...

Steve Weisman: Yes.

Howard Rosen: At a time when it's already being taken...

Steve Weisman: Yes. Even the latest polls that I read in this morning's paper suggested that the majority of Americans criticized the default deal for saying that the cuts were insufficient.

Howard Rosen: What we see is that the traditional tools that policy makers have to help get us out of a recession or slow it down not only have not been that effective, but they're not even on the table.

Steve Weisman: Yes.

Howard Rosen: And those tools are both government tools. But also the private sector engines of growth that have also been problematic.

Steve Weisman: But the private sector is contributing jobs...

Howard Rosen: Exactly, what little there is.

Steve Weisman: What sectors are contributing? Also, bring the construction sector into the equation.

Howard Rosen: What's interesting is the pattern. The job losses back in 2008-09 were pretty democratic, meaning they were across the boards. Everyone got hit. Construction got hit worse, but manufacturing got hit and services got hit. But what we are seeing is an unevenness in the recovery. Heavy in services...

Steve Weisman: What kind of services?

Howard Rosen: Primarily in health care, personal services. Health care and education, leisure, that picks up almost half of the increase.

Steve Weisman: Not financial services?

Howard Rosen: Financial services are continuing to decline.

Steve Weisman: Right.

Howard Rosen: There is a bright light. The professional business services [sector] has been relatively strong. That's important, given the hope that those services could possibly be exported. So that might help us on another set of problems that we're having, which is that we need to start exporting more.

But manufacturing recovery has been relatively weak. Only nine percent of the increase in private sector employment has been in manufacturing, although manufacturing constitutes 11 percent of employment, so it's been hardly performing...

Steve Weisman: But manufacturing output has increased -- without an increase in employment.

Howard Rosen: Again, productivity is a two-edged sword.

Steve Weisman: Right.

Howard Rosen: Productivity is great because it makes you more efficient, and it gives you the potential to pay your workers more, but it also can mean that you need less workers.

Steve Weisman: It does mean that.

Howard Rosen: In this case it does mean that. But you want a rise in productivity, increasing efficiency, which then encourages private sector to invest more and take advantage of those efficiency gains. But the way private sector's currently is taking advantage of those productivity gains is not to expand output, but to restrict employment.

Steve Weisman: And sitting on their profits...

Howard Rosen: And sitting on their profits, yes.

Steve Weisman: Thank you very much, Howard.