

# **Underemployment and the Employment Gap**

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*The views expressed are solely my own responsibility  
and should not be interpreted as reflecting the views  
of the IMF or of any other individual or institution.*

# Some Crucial Questions

*Definition: Underemployment refers to the incidence of part-time workers who are unable to work full-time because they **can't find a full-time job** or because their employers have **slack business conditions**.*

- To what extent do **cyclical vs. structural factors** account for the post-2007 surge in underemployment?
- Does the persistence of an elevated level of underemployment appear to reflect **insufficient aggregate demand or hysteresis**?
- What is the magnitude of underemployment compared with the **unemployment gap** and the **participation gap**; i.e., how much does the incidence of underemployment (gauged in terms of FTE jobs) contribute to the overall size of the **employment gap**?

# **Underemployment in Five OECD Economies**

*(PT workers seeking FT jobs, as percent of employment)*

	<u><b>2007</b></u>	<u><b>2009</b></u>	<u><b>2011</b></u>	<u><b>2013</b></u>
<i><b>Canada</b></i>	<b>4.0</b>	<b>5.3</b>	<b>4.1</b>	<b>5.2</b>
<i><b>Italy</b></i>	<b>4.4</b>	<b>5.4</b>	<b>6.8</b>	<b>9.1</b>
<i><b>Spain</b></i>	<b>3.6</b>	<b>5.6</b>	<b>7.5</b>	<b>9.8</b>
<i><b>United Kingdom</b></i>	<b>1.9</b>	<b>2.8</b>	<b>4.0</b>	<b>4.1</b>
<i><b>United States</b></i>	<b>0.9</b>	<b>1.6</b>	<b>2.0</b>	<b>2.0</b>

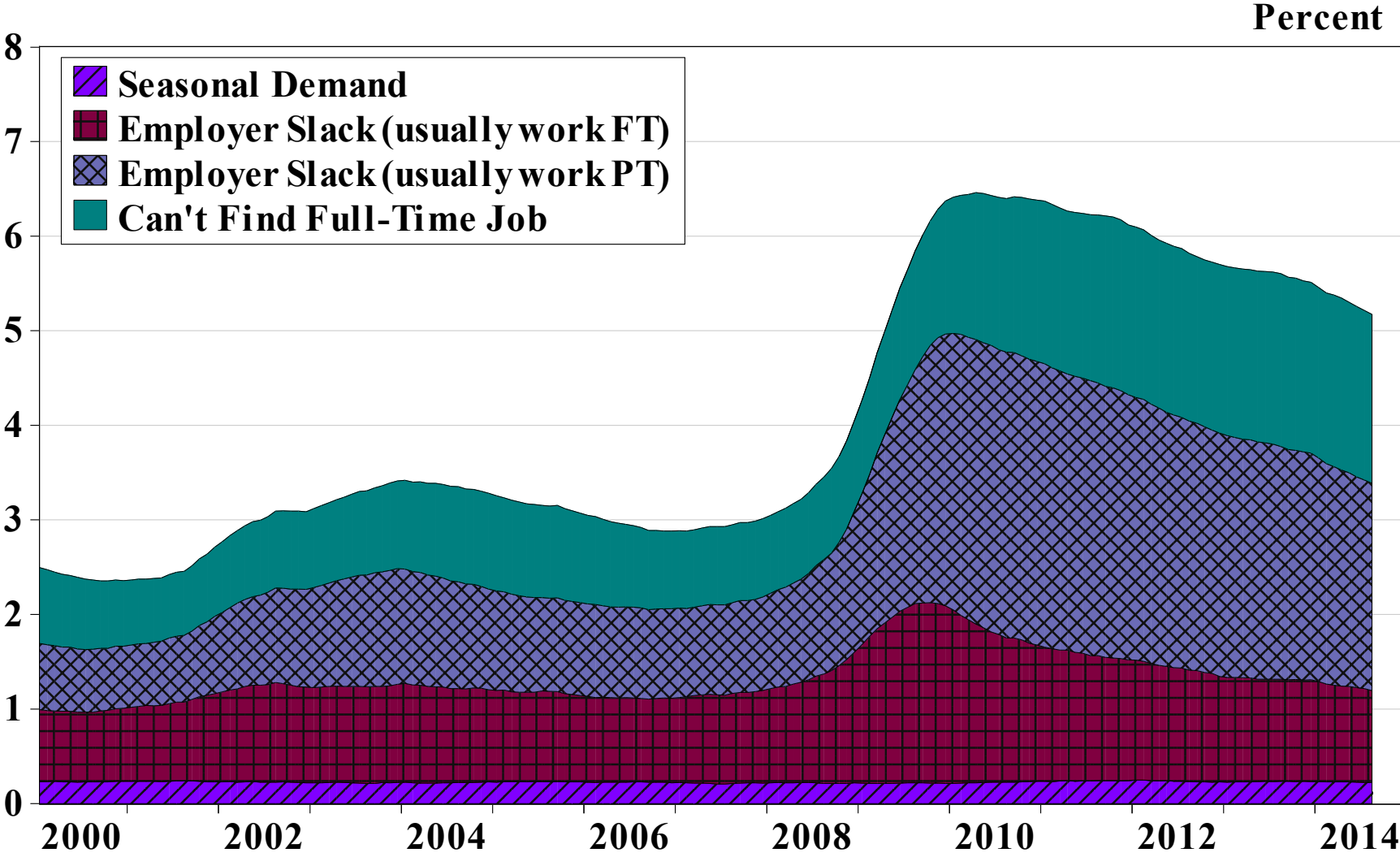
# Distinguishing Labor Market Functioning vs. Aggregate Demand Shortfalls

- Labor market functioning was persistently impaired in the wake of the Great Recession; cf. new jobless claims, quit rates, etc.
- As macroeconomic uncertainty has diminished in the past few years, those labor market indicators have reverted toward historical norms.
- Nonetheless, normal labor market functioning does not imply that aggregate demand has been restored to its equilibrium level.

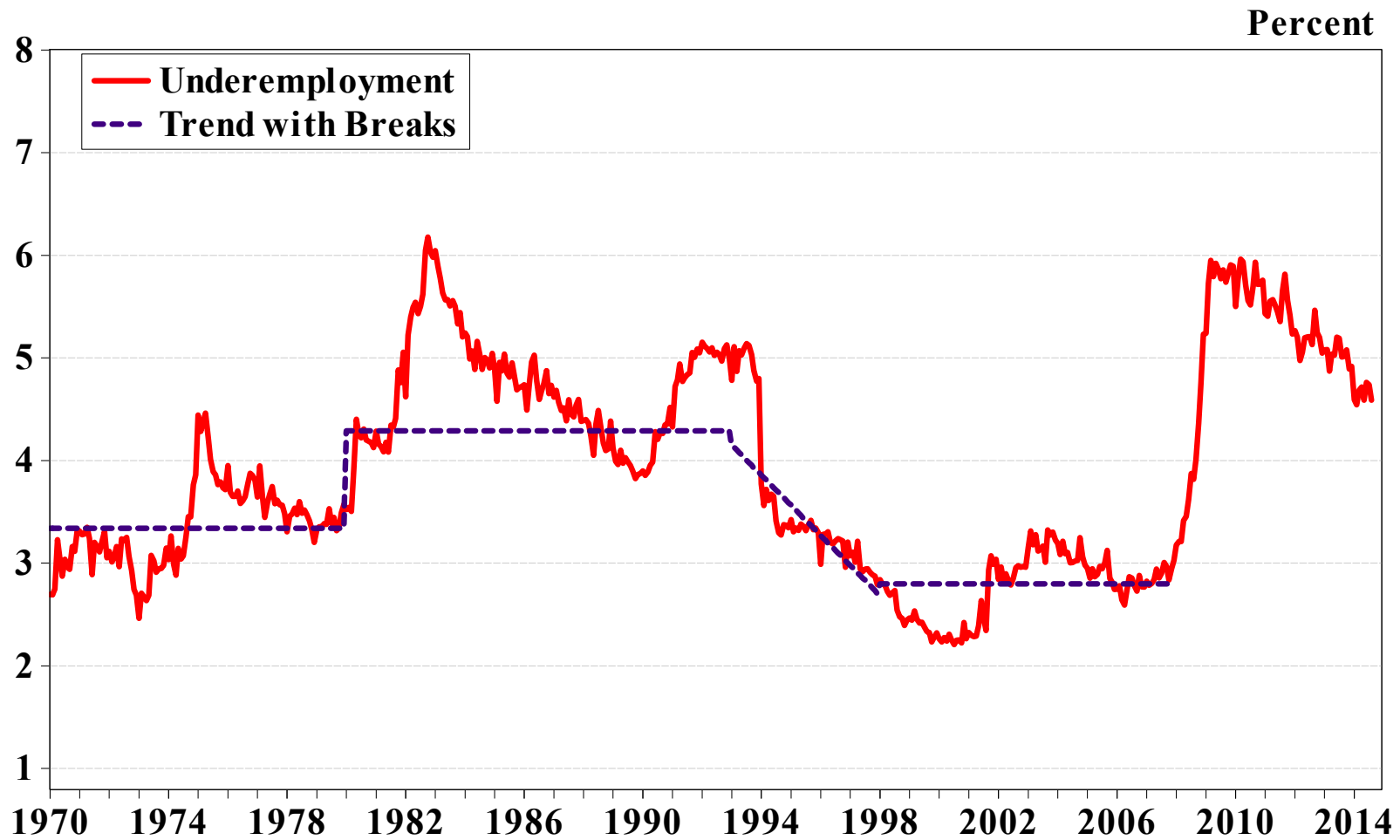
*Analogy from financial markets: bid-ask spreads vs. risk premiums*

- **Thus, an index or weighted average of a wide array of labor market indicators may not be useful for gauging the degree of resource slack.**

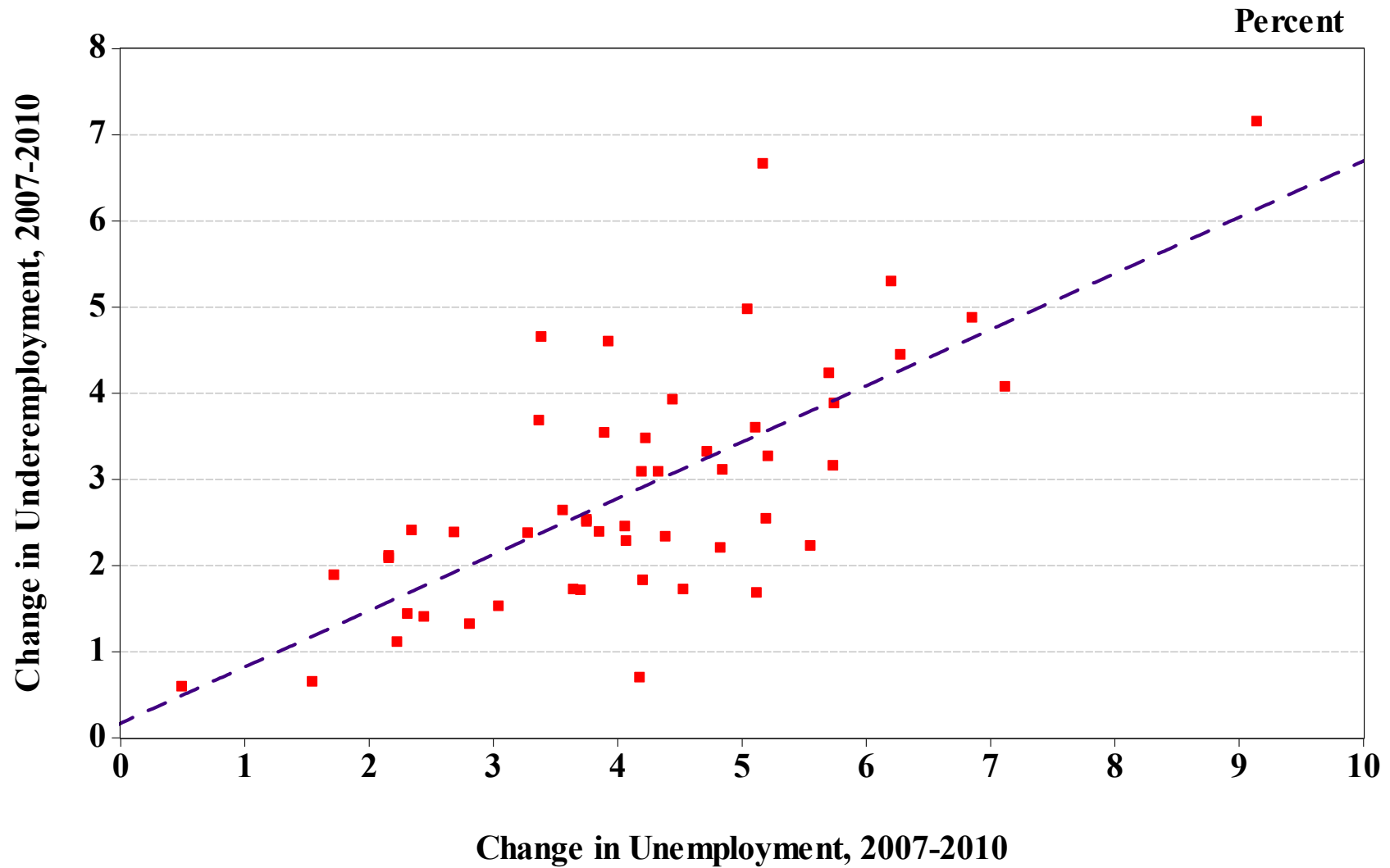
# The Composition of U.S. Underemployment *(as percent of total employment)*



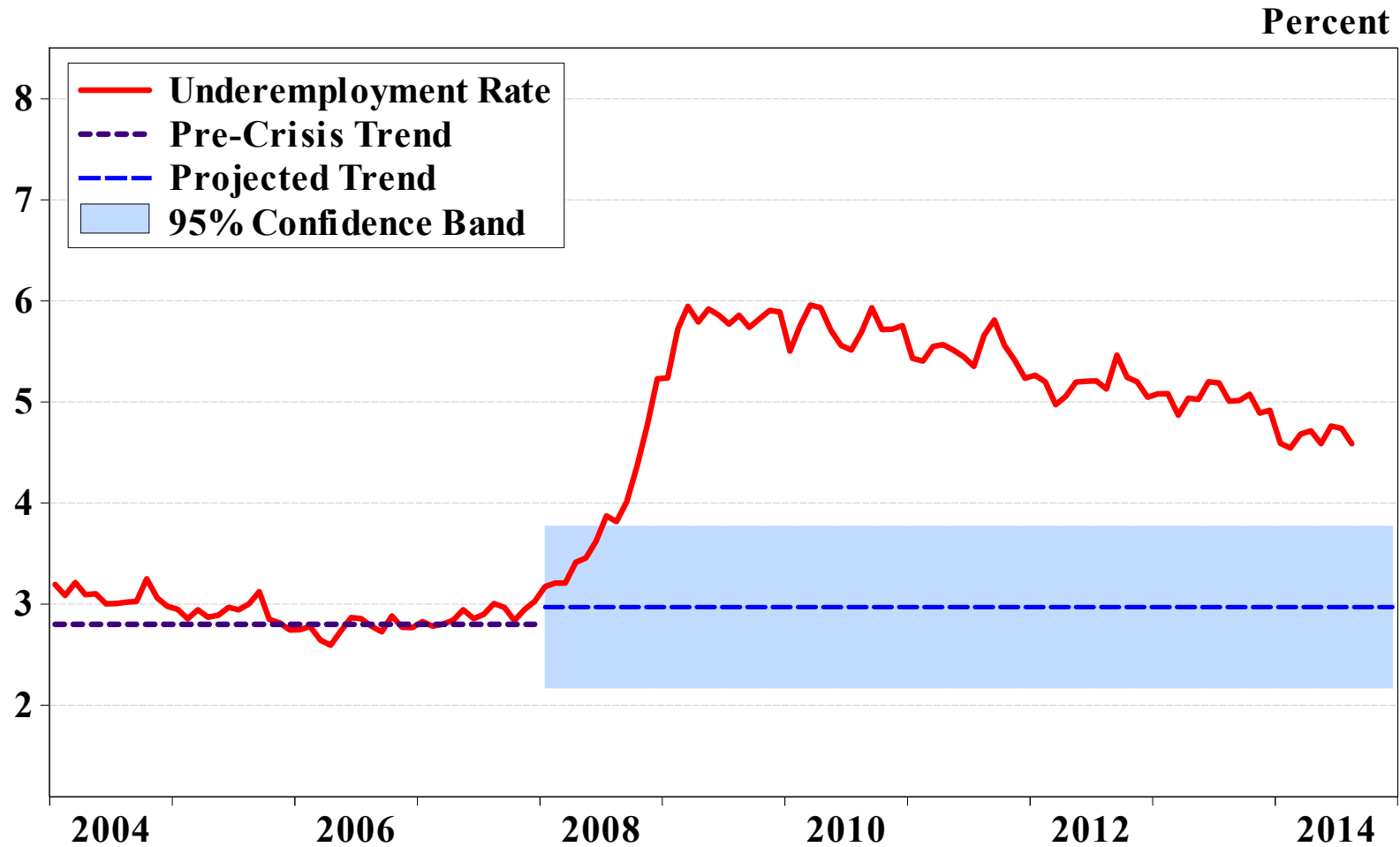
# The Evolution of Underemployment Since 1970



# State-Level Data on Underemployment



# Assessing the Underemployment Gap



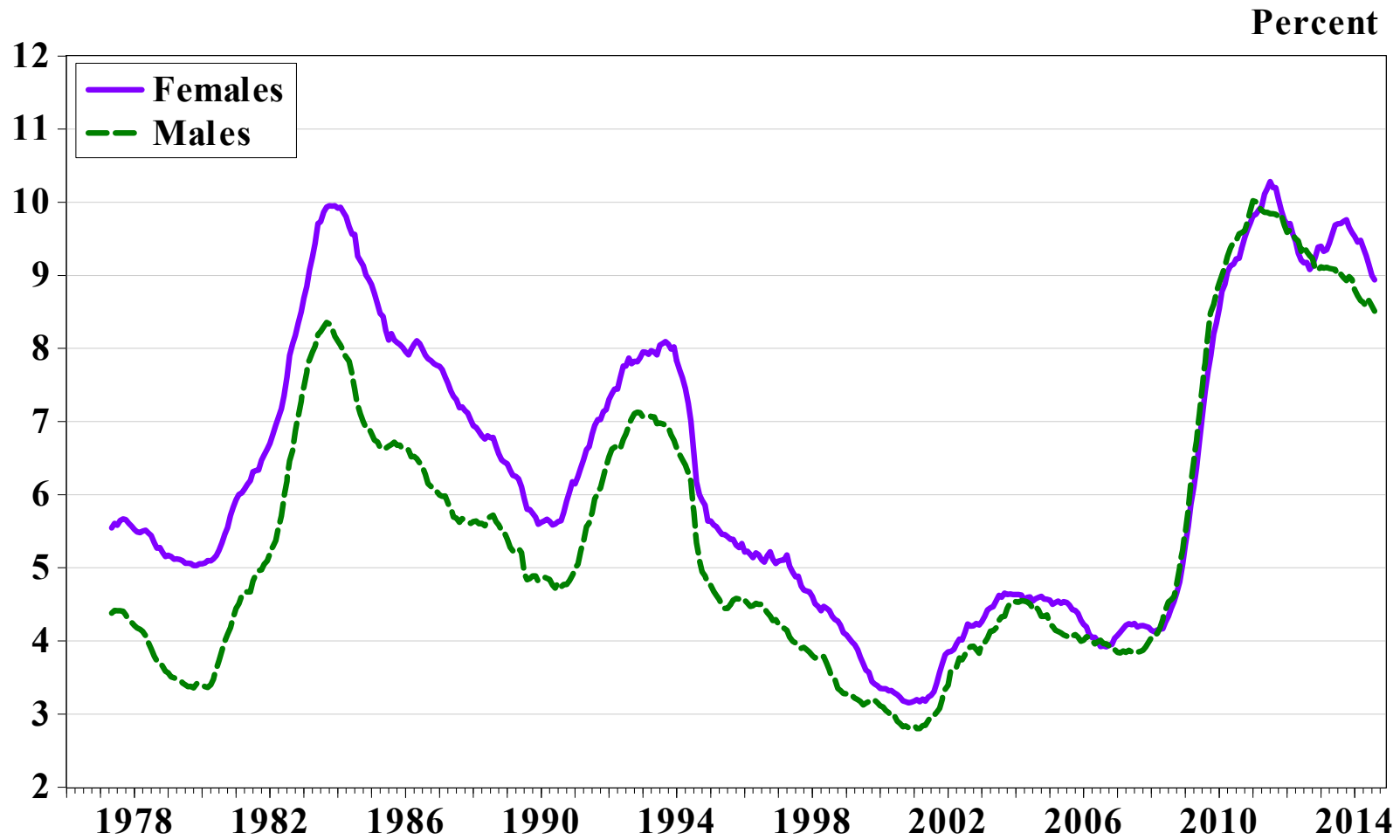


# Potential Concerns about Hysteresis

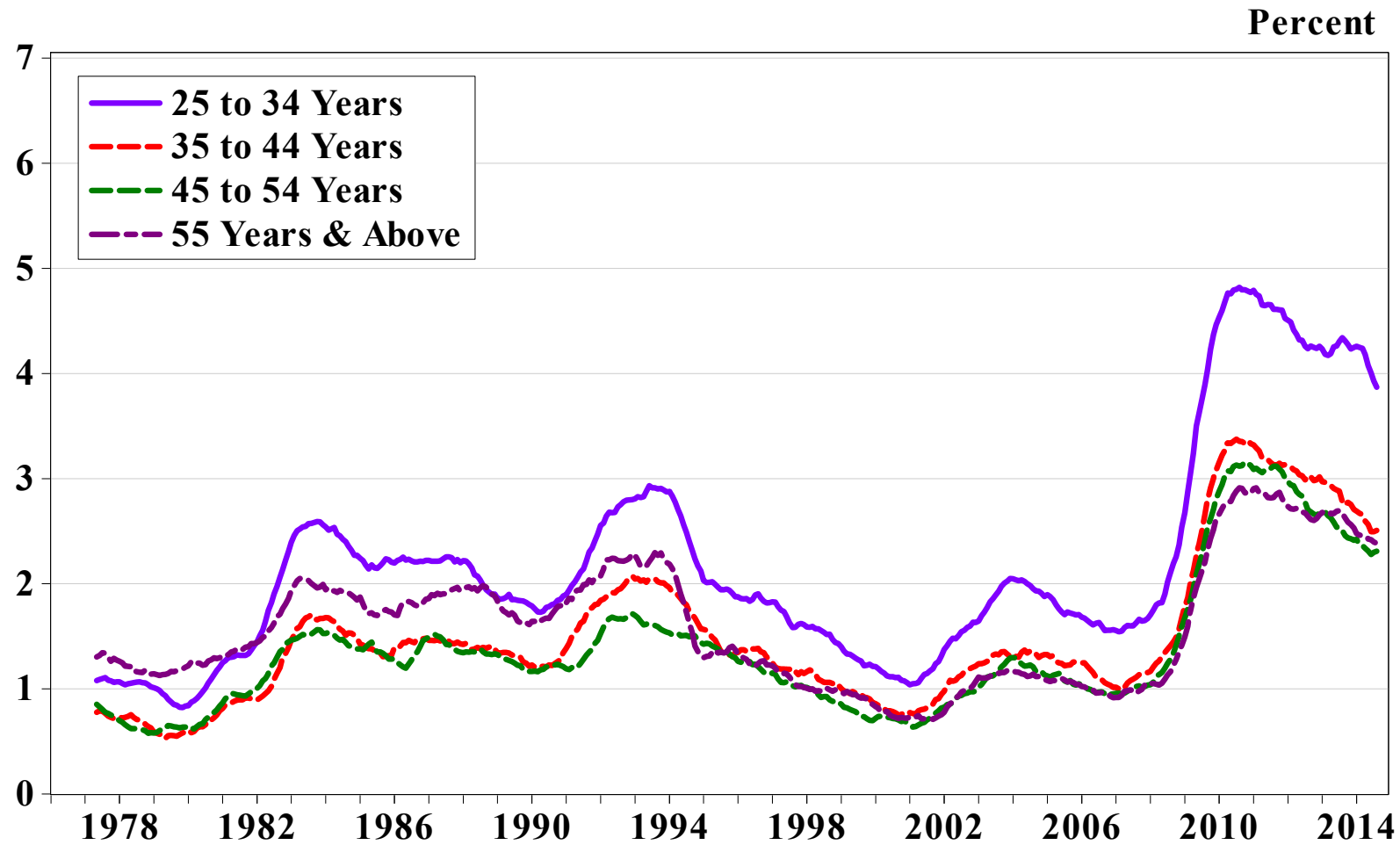
- **Is the incidence of underemployment relatively widespread or confined to specific demographic groups, industries, and occupational categories?**
- **Are there substantial flows into/out of underemployment, or does it appear that those individuals who are currently underemployed are stuck in that status and may no longer be employable in full-time jobs?**
- **Does the prevalence of underemployment have any influence on wage-setting patterns for the broader labor market?**

*Analogy: cf. parallel questions regarding labor force participation*

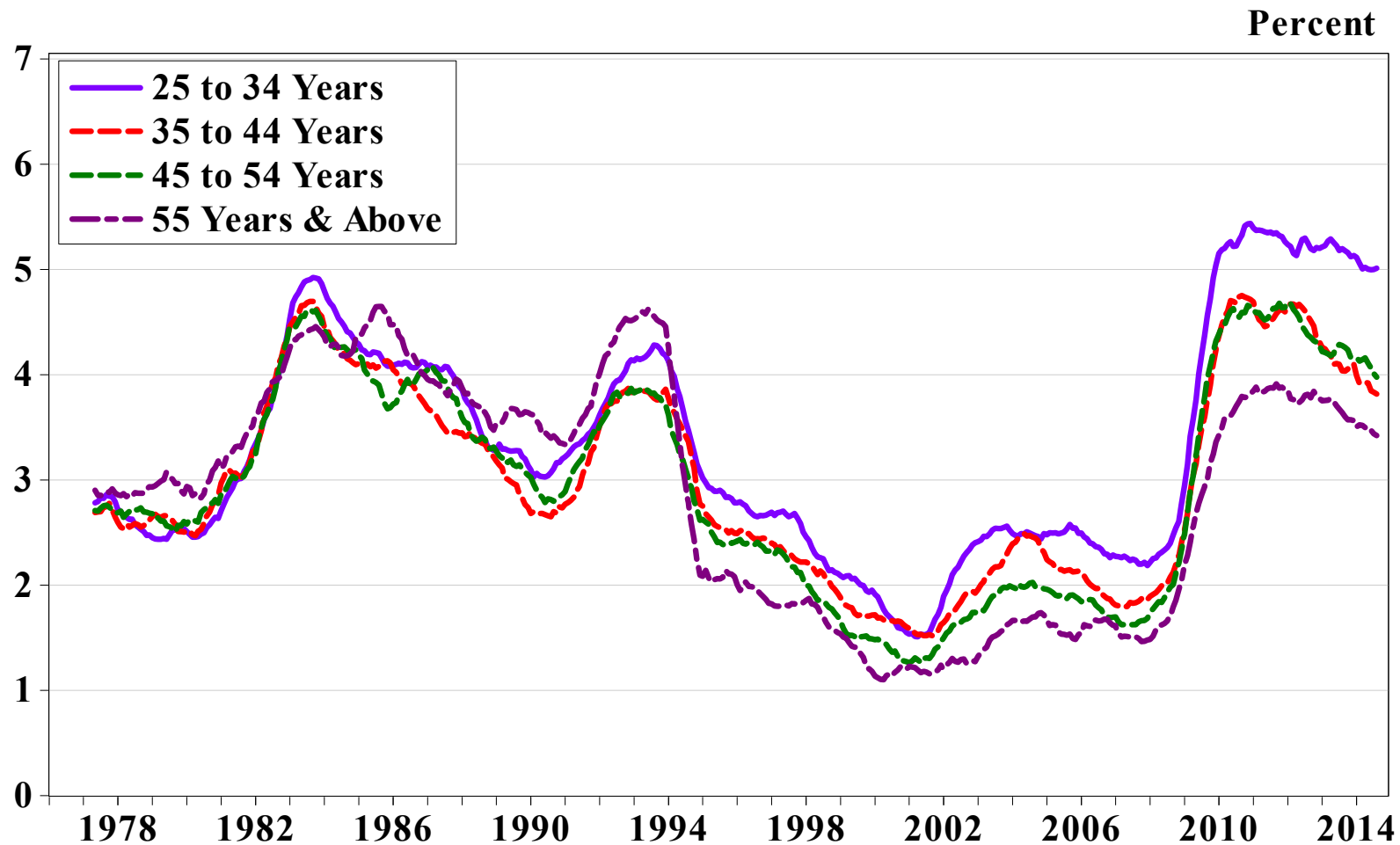
# Youth Underemployment (Ages 16-24)



# Underemployment for Prime Age & Older Males



# Underemployment for Prime Age & Older Females



# Underemployment by Sector

*(percent change from 2007)*

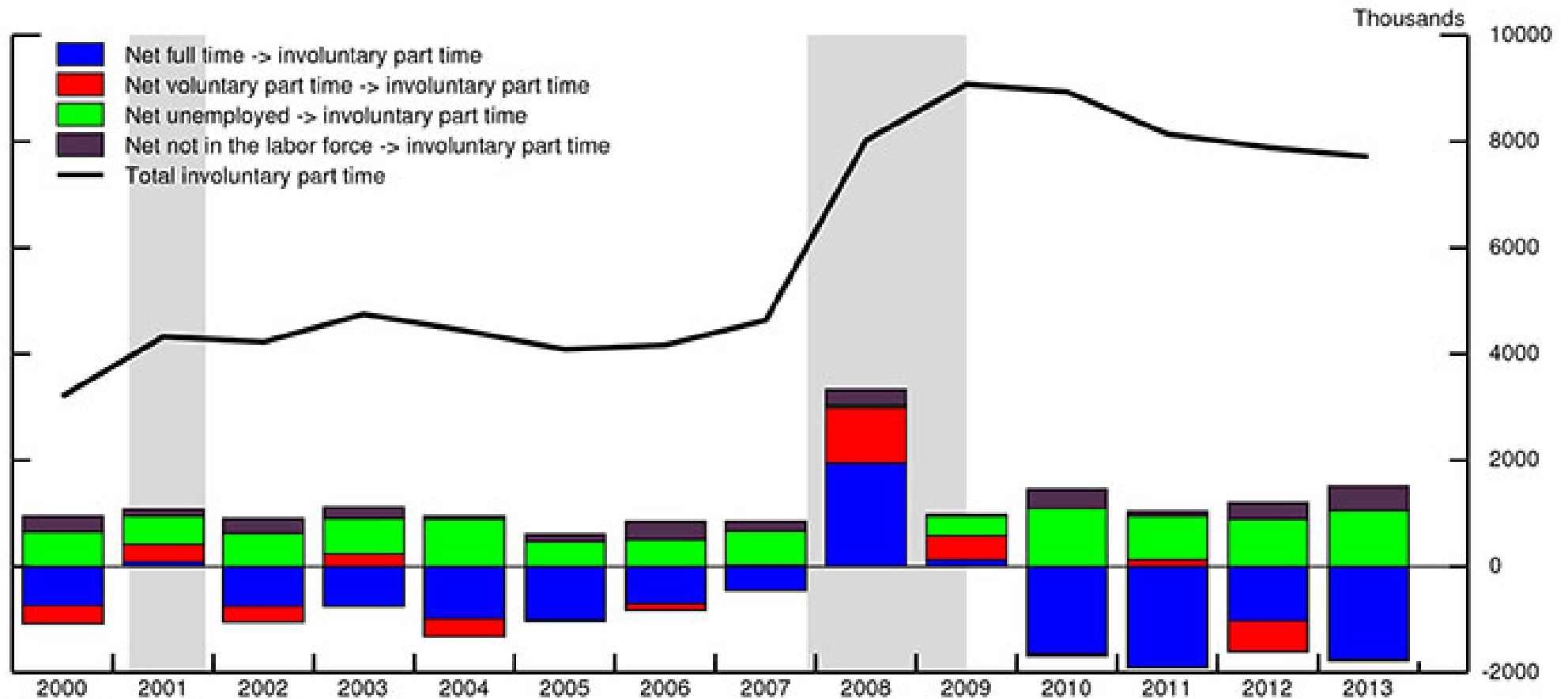
	<u>2009</u>	<u>2011</u>	<u>2013</u>
<i>Manufacturing</i>	179	61	31
<i>Construction</i>	86	42	10
<i>Transp. &amp; Util.</i>	99	68	68
<i>Financial Svcs.</i>	79	66	62
<i>Wholesale &amp; Retail Trade</i>	109	128	113
<i>Hosp. &amp; Leisure</i>	106	113	111
<i>Health &amp; Educ.</i>	94	112	111

# Underemployment by Occupation

*(percent change from 2007 )*

	<u>2009</u>	<u>2011</u>	<u>2013</u>
<i>Production</i>	148	73	32
<i>Maintenance &amp; Repair</i>	140	95	58
<i>Services</i>	102	110	109
<i>Management</i>	103	98	94
<i>Sales</i>	101	113	101

# Flows into/out of Underemployment



*Source: Cajner et al., "Why is Involuntary part-Time Work Elevated?"  
FEDS Notes, April 14, 2014. (Available at [federalreserve.gov](http://federalreserve.gov))*

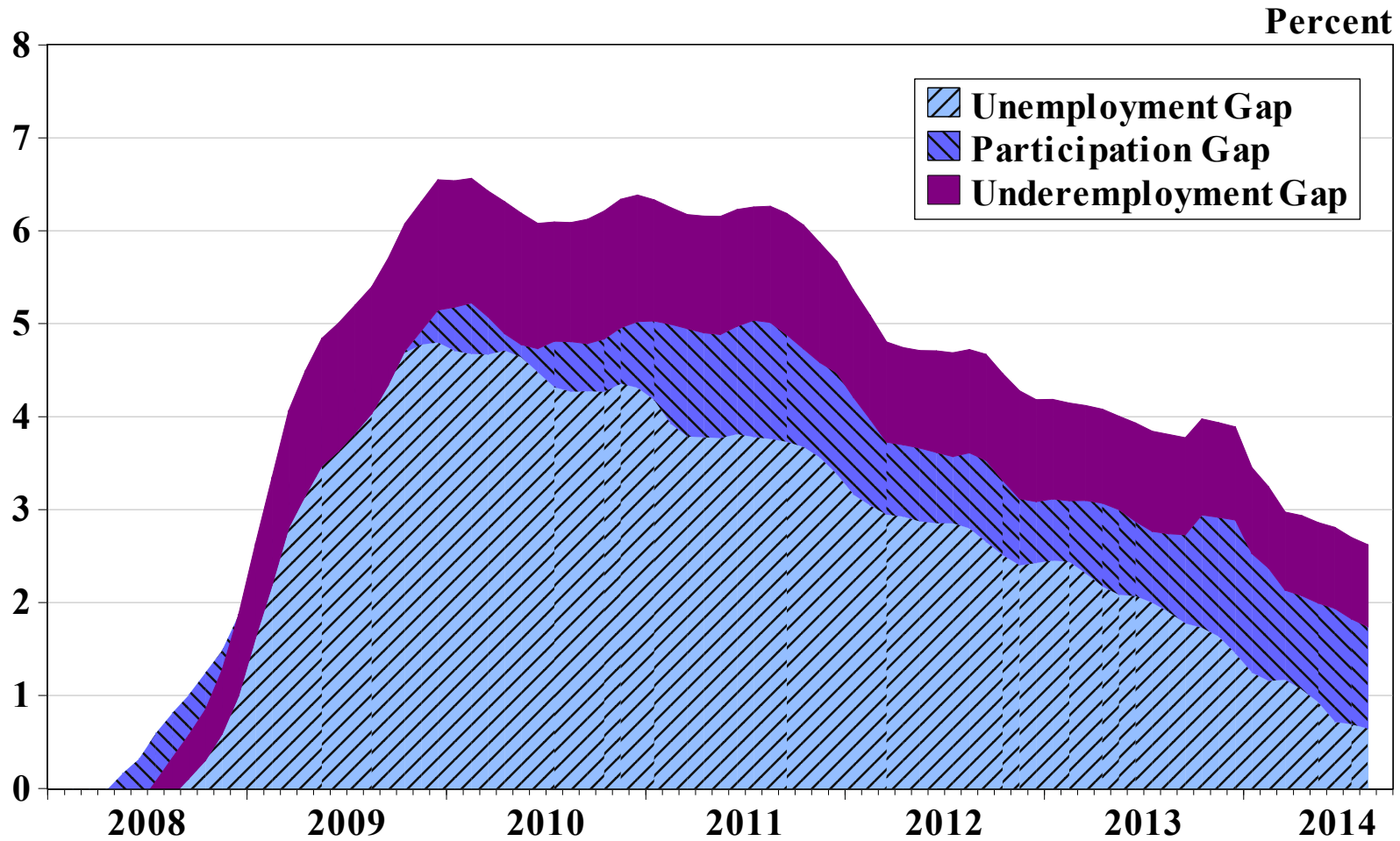
# Gauging the Employment Gap

- The magnitude of the overall **employment gap**—that is, the deviation of actual employment from its maximum sustainable level—can be expressed as the sum of three specific components:
  - (1) **unemployment gap**: *the deviation between actual unemployment and its longer-run normal rate*
  - (2) **participation gap**: *the deviation between the actual labor force and the level that would solely reflect demographic and structural factors*
  - (3) **underemployment gap**: *the extent of involuntary part-time work (measured in FTEs) relative to its longer-run normal incidence*



# The Magnitude and Composition of the Total Employment Gap

*(gauged in terms of full-time equivalent jobs)*



# The FOMC's Monetary Policy Framework

“The FOMC seeks to explain its monetary policy decisions to the public as clearly as possible....**the Committee's policy decisions must be informed by assessments of the maximum level of employment**, recognizing that such assessments are necessarily uncertain and subject to revision....In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and **deviations of employment from the Committee's assessments of its maximum level.**”

*FOMC Statement of Longer-Run Goals and Policy Strategy*