Unemployment is down, and we still have work to do

Jason Furman
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On Thursday we learned that the U.S. economy added 288,000 jobs in June, concluding the largest first-half-year for job growth since the late 1990s. Meanwhile, the unemployment rate has fallen by nearly 4 percentage points from its peak of 10 percent in October 2009, with the pace of decline doubling in the past year to the fastest drop in nearly three decades.

Even with this good news, it is essential to dig into the numbers to understand what they mean both for families still struggling to make ends meet and for the work we still need to do to create more jobs at higher wages. We have further to go — especially given a long-term unemployment rate that is still too high and wages that have been stagnant for decades — but our challenges should not distract us from understanding the progress we have made.

Skeptics point to the higher unemployment indicated by a broader gauge of unemployment and underemployment that includes people involuntarily working part time and those who have not looked for a job recently but who still want to work. But this criticism ignores that this measure is always higher than the official unemployment rate and that it has also come down steadily, falling by more than 5 percentage points from its peak in early 2010.

Another claim is that the only reason unemployment has fallen is because people are dropping out of the workforce, what economists call a decline in the participation rate. In fact, since October the participation rate has been stable, so the 1.1-percentage-point decline in unemployment since then stems entirely from more people finding jobs.

It is true that the participation rate has fallen over the course of the recession and recovery. But it is important to put that fact in context. According to a range of studies, including our own analysis at the Council of Economic Advisers, about half of the decline is due to the beginning of a retirement boom as the first baby boomers turned 62 and became eligible for Social Security benefits in 2008. This fully anticipated economic event will continue to put downward pressure on the participation rate for decades.

The retirement boom is layered on top of other trends unrelated to aging, such as the decline in participation by men between ages 25 and 54 since the 1950s and the decline by women in those same prime working years since the late 1990s. In fact, a 2006 study by economists at the Federal Reserve that considered these trends projected that the labor force participation rate would fall to 62.9 percent this year, almost exactly its current level.

Of course, in addition to these trends, whenever the unemployment rate is elevated, the participation rate will be lower, as people seek further schooling, delay reentering the workforce after leaving for reasons such as caring for a newborn, or get discouraged and stop looking for work. These effects have likely been exacerbated by the unique challenges associated with the worst recession since the Great Depression, but they have diminished as the labor market healed,
and further healing will continue to push the participation rate up, roughly offsetting the continued decline due to the population aging.

Correctly diagnosing the challenges we face points us to what we can do to spur more job creation, raise wages and bring more people into the labor market.

First, Congress should take steps to invest in infrastructure, extend unemployment insurance benefits and reauthorize the Export-Import Bank. In the absence of action from Congress, President Obama will press forward by using his executive authority to expand credit in mortgage markets, speed the permitting of infrastructure projects, launch new hubs of manufacturing innovation and attract foreign investment.

While a strong overall recovery is the most powerful solution to long-term unemployment, we should not overlook some of the unique challenges the long-term unemployed can face. That is why this year the president required the federal government to improve its hiring practices, announced new grants to expand some of the most promising public-private efforts to connect the long-term jobless with work, and rallied some of the nation’s largest employers to commit to best practices for hiring the long-term unemployed.

Second, a stronger economy will help raise wages, and, conversely, higher wages will help strengthen the economy. That is why it is essential to raise the minimum wage. While Congress has waited to act, many states and businesses are moving ahead. At the same time, investments in everything from preschool to college will raise longer-term wage growth.

Third, although the aging of the population will continue to slow labor-force growth, a range of measures could help offset this trend. For example, immigration reform could expand the working-age population and raise the labor force participation rate.

In addition, with women increasingly among our most skilled workers, boosting their participation is essential for strengthening growth. The president is working with employers and all levels of government to move forward on paid leave, greater workplace flexibility and other policies that can increase participation and productivity for both men and women. In line with that effort, he is pursuing legislative and executive actions to promote equal pay.

Finally, the unemployment rates for some groups, such as young men of color, have been a long-standing challenge that was compounded by the recession. That is why we should expand the Earned Income Tax Credit for workers without children and noncustodial parents and why the president has launched an initiative called My Brother’s Keeper designed to help young men of color succeed academically, at work and in their communities.

In June, the United States enjoyed its 52nd consecutive month of private-sector job growth, the longest such streak in U.S. history. That serves as evidence that our current policies have helped sustain job growth — but it also stands as a challenge to do more.