Structural Unemployment and the Election

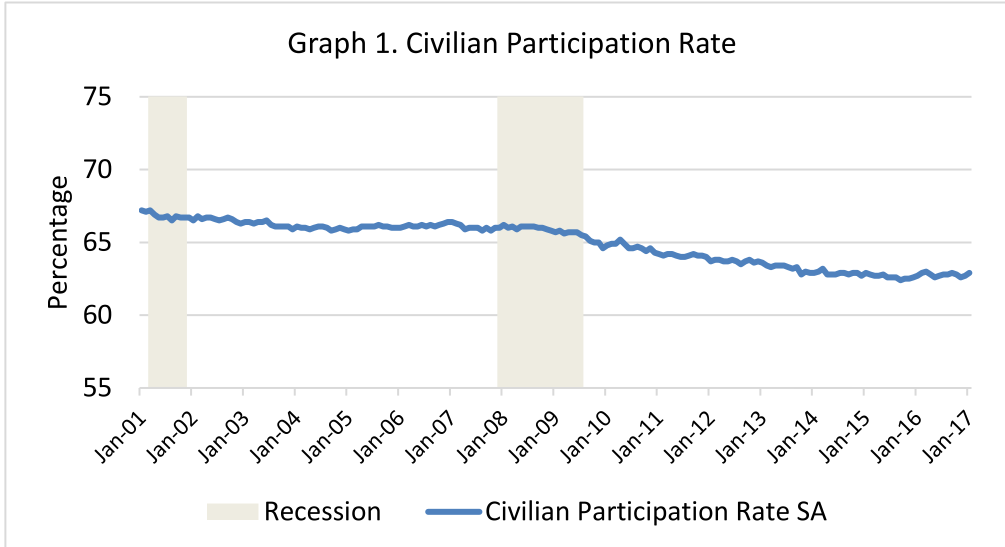
by Tatiana Bailey

Regardless of political affiliation, most individuals would agree that the 2016 U.S. presidential election had a surprising outcome. Some would even call it ironic since much of President Trump's platform centered on re-establishing an economically viable base for U.S. workers who are left behind because they do not necessarily fit well into today's economy, which does not have the manufacturing base of 50 plus years ago. The irony is that it has typically been the Democratic party that has been labeled the guardian of the middle and lower income echelons. Consider that the Democratic party has usually been affiliated with unions, and yet many states that are considered union bastions, voted Republican (e.g. Michigan). This highlights a somewhat obvious point that the Democratic party does not appear to be fully connected to what used to be its core constituency.

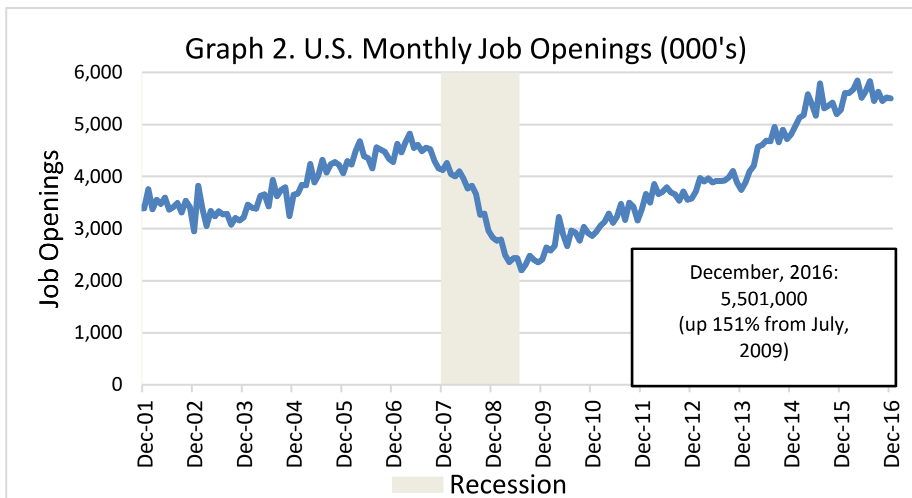
Aside from the political party observations, the election outcome highlights another important point that is now receiving overdue attention. This relates to structural unemployment, which is mostly encapsulated in what economists call the U-6 rate. The headline unemployment figure is the U-3 rate, and it only counts individuals who have been looking for work in the past four weeks. For all of 2016, the U-3 rate was 4.9% in the U.S., 3.3% in the state of Colorado, and 3.8% in El Paso County. Most economists say that the "natural" rate of unemployment is somewhere around 4.5%, and this would incorporate the normal churn implicit in fluctuating business needs and employee preferences for jobs. This makes the 2016, national 4.9% unemployment rate look pretty decent, and it certainly makes our state and regional economies look stellar. However, if we look at the U-6 rate this past January, it was 10.1% (not seasonally adjusted). The U-6 rate includes those marginally attached to the labor force, plus part-time workers who would rather work full time. In January, there were 1.8 million people who were marginally attached to the labor force. These are individuals who wanted and were available for work, had looked sometime in the past 12 months, but were not counted as unemployed because they had not looked for work in the past 4 weeks. Approximately 30% of these 1.8 million marginally attached workers were "discouraged workers," who were no longer looking for work because they either didn't feel they had the requisite skill sets, or they could not find a job with a wage that would make working worthwhile. In addition, there were 6.2 million people in the U.S. who worked part time, but would have preferred full-time work. This is a high number considering we are at "full employment."

Another important indicator is the length of time individuals are unemployed. In January, there were 1.9 million workers who were long-term unemployed, or jobless for 27 or more weeks. These long-term unemployed comprise 24.4% of the unemployed meaning about 1 in 4 of the unemployed counted in the mainstream (U-3) unemployment rate have been looking for work at least 6 months.

These numbers help explain the decline in the proportion of the population that is participating in the labor force over the past 17 years (Graph 1). Although the declines have stabilized, both of these rates are well below 2001 levels. These declines are not all due to the aging population either: in January the U-3 rate for 20-24 year olds was 9.0% whereas it was 3.8% for 55-64 year olds (BLS).



All of these statistics point to significant, untapped productivity in the U.S. Yet, the number of job openings has been robust and in fact, increasing since August of 2009 (Graph 2). This underscores a structural disconnect that is apolitical. We have millions of people who do not feel they fit into today's American economic structure. Unfortunately, such structural issues do not typically have a quick fix as they call for fundamental changes in how we perceive and approach the long-term journey of training and education. Proactive communities are creating workforce asset maps that audit existing, local job openings against their education and training programs. Colorado Springs has started on this endeavor and it is a move in the right direction.



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