

# The Case for a Weak Labor Market

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# Introduction

In October 2009, the unemployment rate broke double digits for the first time in over two decades. That month, nearly 15.4 million Americans found themselves out of a job. This represented a stark shift from just two years earlier, when the unemployment rate was 4.6 percent and seven million Americans were looking for work.

While unemployment remained elevated for a time, it has been falling quickly in recent years. This past January, the unemployment rate dropped below five percent for the first time in eight years. While there have been some monthly fluctuations since then, the unemployment rate has averaged 4.9 percent through the first six months of 2016.

Along with the relatively strong rate of job growth — the economy has added 2.4 million private-sector jobs over the past 12 months — the low unemployment rate has engendered discussions of whether the labor market is fully recovered. This debate is extremely relevant to both monetary and fiscal policy: if the job market is still weak, the Federal Reserve (“Fed”) should keep interest rates low and the government should run larger budget deficits; if the job market is nearly recovered, the Fed should begin increasing rates and the government should avoid fiscal stimulus.

This paper argues that the labor market is still weak despite the low unemployment rate. Many media outlets and policymaking institutions have argued the opposite — as one Fortune headline recently put it, “The U.S. Economy Is Finally at Full Employment.”<sup>1</sup> Similarly, the Congressional Budget Office (CBO), which is tasked with advising members of Congress on economic policy, estimates that unemployment fell to its natural long-term rate in the first quarter of 2016.<sup>2</sup> Perhaps most importantly, the Fed seems to accept this view as well. Earlier this month, Kansas City Federal Reserve President Esther George said that “the economy is at or near full employment”; in May, San Francisco President John Williams said it was “basically at full employment.”<sup>3</sup> Fed Chair Janet Yellen has expressed a similar position, stating that the labor market is close to full employment.<sup>4</sup> Finally, in their June “Summary of Economic Projections,” voting members of the Federal Open Market Committee (FOMC) — the group tasked with setting interest rate policy — estimated that the long-run unemployment rate lies between 4.6 and 5.0 percent, with the median forecaster

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1 Matthews (2016). See Geewax (2016) for a second example.

2 Federal Reserve Bank of St. Louis (2016), <https://fred.stlouisfed.org/graph/?g=5tae>.

3 Long (2016) and EconoTimes (2016).

4 Lawler (2016) and Randow, Condon, and Boesler (2016).

projecting a rate of 4.8 percent.<sup>5</sup> In line with this view, Fed officials predicted five rate hikes through the end of 2017.

If the labor market is weaker than the Fed believes, raising rates in the near future will needlessly throw many Americans out of work. This paper presents evidence that the job market remains weak; in general, the estimates indicate that the economy is about two-thirds recovered from the Great Recession.

## Misleading Indicators of a Strong Job Market

The current pace of job creation is quite strong. As stated previously, the economy has added 2.4 million private-sector jobs over the past 12 months. This is a stronger rate of job growth than from any year during the previous business cycle, when annual job growth only once broke two million.<sup>6</sup> However, strong job growth typically follows a severe recession in order to make up for the previous period of job loss. Between 2004 and 2007, the economy added an average of 148,000 private-sector jobs per month. Had it continued growing at that rate since 2007, employment would have increased by 15 million rather than the actual figure of six million. Today, there are approximately 122 million private-sector jobs in the U.S., a figure that would be 7.4 percent higher (131 million jobs) if growth had stayed constant. The percentage of Americans with jobs was about 63 percent in the years leading up to the recession but has been below 60 percent since March 2009.

The unemployment rate can be a similarly misleading measure. In order to be counted as “unemployed,” a jobless worker must have actively searched for work within the prior four weeks. This definitional constraint means that the unemployment rate can be biased downward following a long, hard recession. If a worker has been actively searching for a job for months or even years without getting so much as a call-back from a prospective employer, he may become discouraged about his job prospects and stop searching for work entirely.<sup>7</sup> This will cause the unemployment rate to fall not because the worker has landed a job, but simply because he hasn’t searched for one within the past four weeks.<sup>8</sup>

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5 Federal Open Market Committee (2016), pg. 2.

6 Job growth was just shy of 2.4 million in 2005. Otherwise, annual private-sector job growth never broke two million between 2000 and 2010.

7 A Harris Poll conducted in May 2016 found that about half of unemployed workers had not been interviewed for a job since 2014 or earlier (Funk 2016).

8 In 2014, three researchers from Princeton University looked at the probability of reemployment for workers who had been unemployed six months or longer during the Great Recession. They found that 15 months later, 34 percent had stopped looking for work, while another 30 percent were still unemployed and searching. Just 11 percent had found steady, full-time jobs

This exact problem is one of the primary factors behind the recent drop in unemployment. Long-term unemployment spiked tremendously during the recession, with the average duration of unemployment climbing from 17 to 18 weeks in 2006–2007 to over 40 weeks in late 2011 and early 2012. The number of Americans unemployed for over a year went from 700,000 before the recession to 4.3 million in 2011. Not surprisingly, the drop in unemployment in recent years has been driven partially by an increase in the number of Americans who have stopped looking for work. In 2007, just 34 percent of Americans 16 and older were neither employed nor searching for employment; by June 2016, that figure had risen to 37.3 percent.

## A Low-Employment Economy

Because a large number of people have dropped out of the labor force and are likely to return if they see good job opportunities, the unemployment rate is not currently providing a reliable measure of the strength of the labor market. Therefore, it is better to focus on employment rates, though there are problems with this measure as well. Most importantly, the overall employment rate will be affected by the shifting age distribution of the population. If the population is aging — as it currently is — a greater percentage of the population may hit retirement age and voluntarily stop working, which does not imply a weaker job market. Conversely, if the population is becoming younger, a greater percentage of the population may enroll in high school or college. Yet this tells us nothing about employment opportunities for working-age Americans.

This paper presents three measures which control for the changing age distribution of the population: the prime-age employment rate; an age-adjusted employment rate; and the gap between the maximum employment rate and the actual rate.

**Figure 1** below shows the prime-age employment rate — the percentage of Americans aged 25 to 54 with a job — from 2007 to present. In 2007, when the economy was still relatively strong, the prime-age employment rate was 79.9 percent. The rate fell to 74.8 percent in December 2009 and remained low for the next two years before it finally began trending upward in late 2011. Since then, the prime-age employment rate has risen 3.0 percentage points; in both May and June of 2016,

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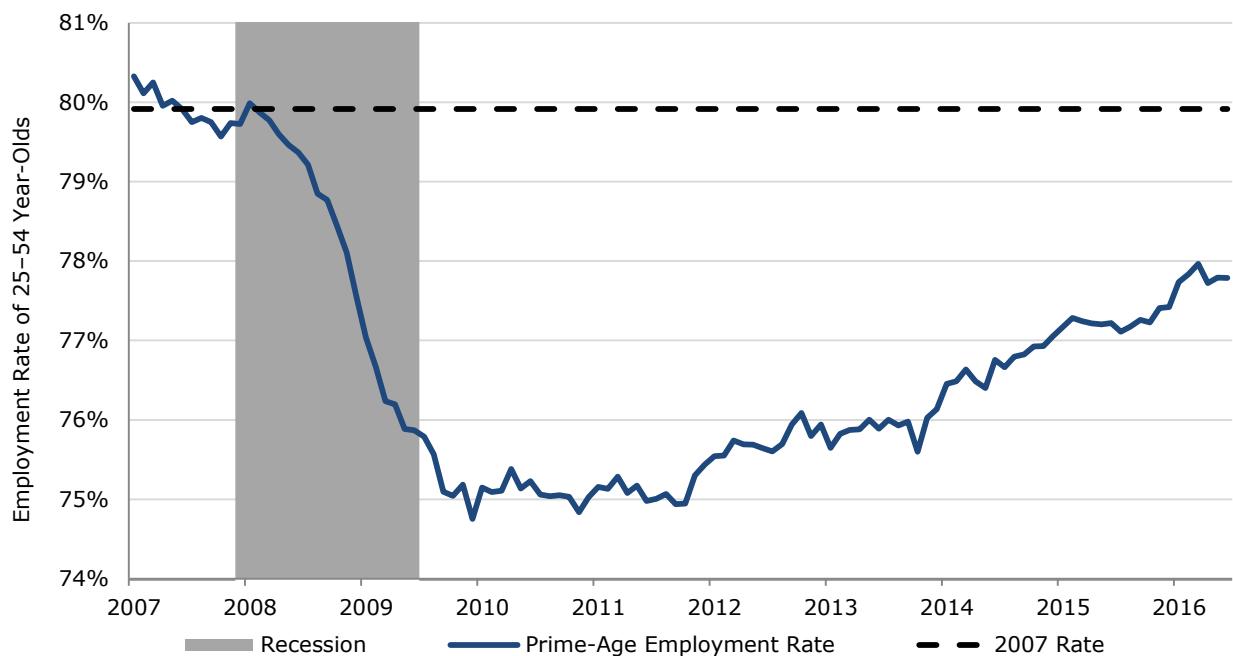
(Krueger, Cramer, and Cho 2014). Not surprisingly, in the aforementioned May 2016 Harris poll, the unemployed cited “being out of work too long” as their primary barrier to landing a new job (Funk 2016).

approximately 77.8 percent of all prime-age Americans had a job. According to this measure, the labor market has recovered about three-fifths of the employment lost during the recession.

Distinct demographic groups have had far different experiences with the recession. **Figure 2** shows prime-age employment rates for both men and women from 2007 to 2016. During the recession and its aftermath, employment fell 7.1 percentage points among prime-age men compared to just 3.8 percentage points for prime-age women.<sup>9</sup> And although men have experienced a stronger recovery than women have, it is clear that even today the depressed labor market is disproportionately hurting men. Last month, the prime-age employment rate for men was 2.5 percentage points below its 2007 average, while for women it was down 1.7 points.

**FIGURE 1**

**Prime-Age Employment Rate**



Source and notes: Bureau of Labor Statistics (2016).

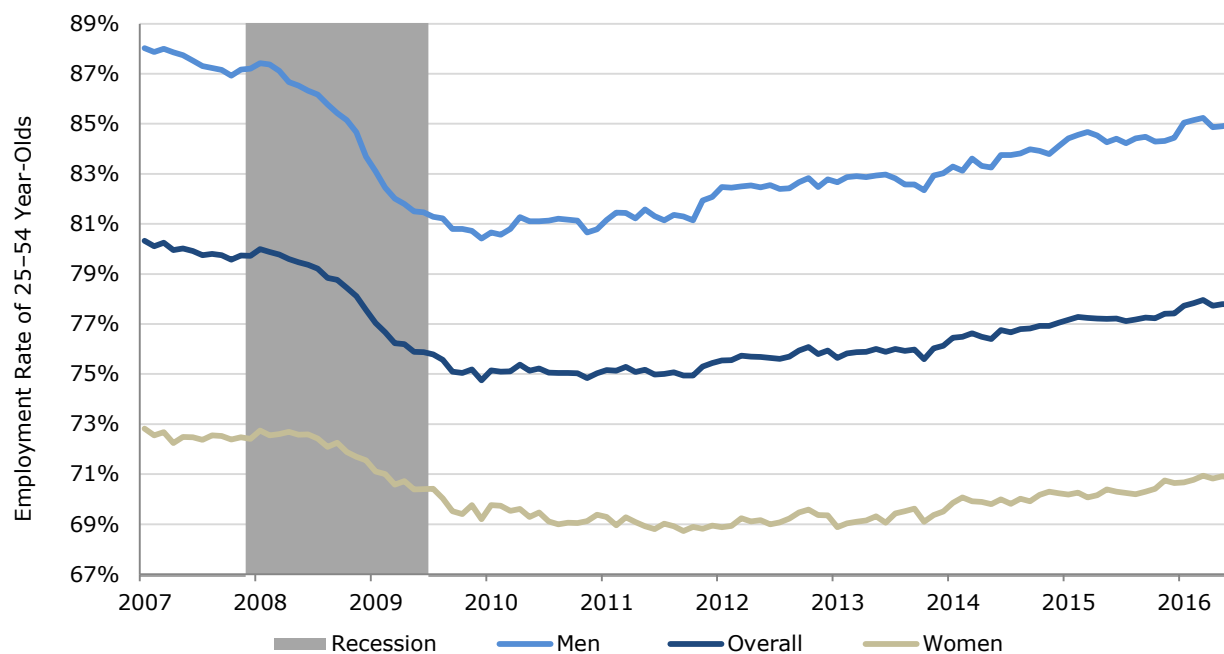
Prime-age employment rates can also be used to analyze racial disparities. Through the first six months of 2016, the prime-age employment rate is down 1.9 percentage points for whites, 2.0 percentage points for Latinos, and 2.2 percentage points for Blacks relative to the first six months of 2007. Looking at changes in employment by both gender and race, employment is down the most

<sup>9</sup> It should also be noted that the prime-age employment rates for men and women hit their respective troughs at different times. Whereas the prime-age employment rate for men reached its low point in December 2009, the prime-age employment rate for women did not bottom out until September 2011.

for black women (2.7 percentage points) and white men (2.6 percentage points). This can be seen in **Figure A1** in the appendix.

**FIGURE 2**

**Prime-Age Employment by Gender**



Source and notes: Bureau of Labor Statistics (2016).

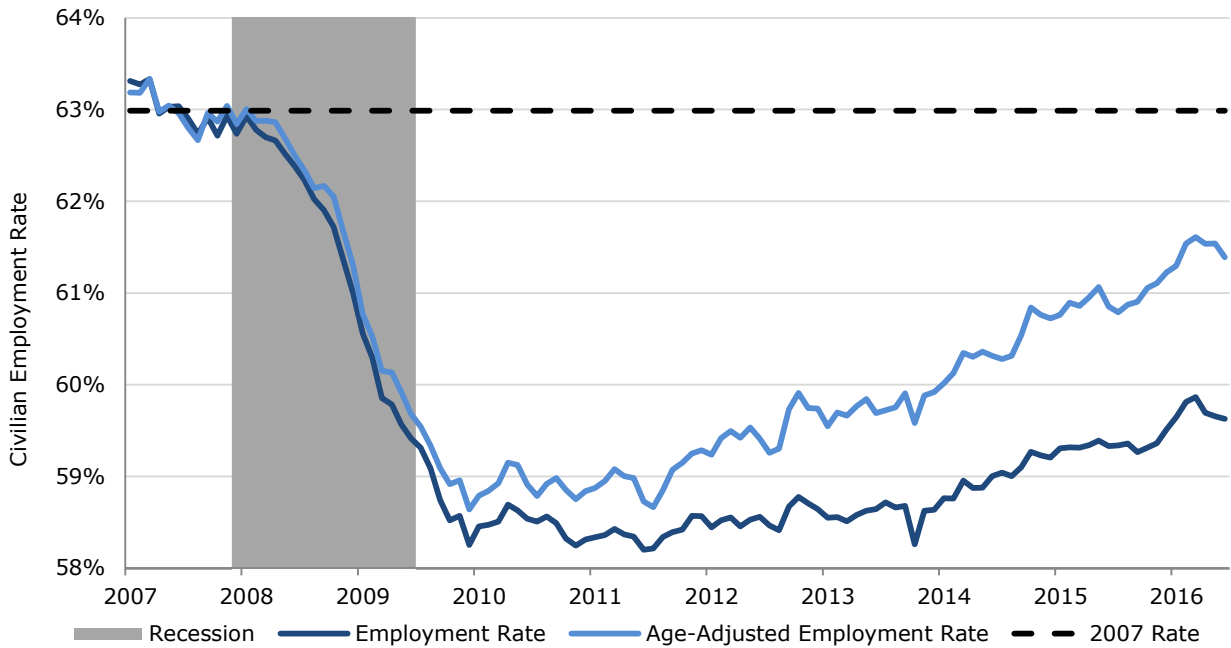
The second way of correcting for an aging population is by holding the age distribution of the population constant. This allows us to properly isolate the effect of changes in employment within each age group.

**Figure 3** compares the actual employment rate to an age-adjusted employment rate from 2007 to present. The age-adjusted employment rate shows what the employment rate would be if the population had the same age distribution as it did in 2007. Both these employment rates are compared to the average rate from 2007. Clearly there is a large effect from aging — in fact, the gap between the actual employment rate and the age-adjusted rate is slightly greater than the gap between the 2007 rate and the current age-adjusted rate.<sup>10</sup> Nonetheless, the economy remains unrecovered. Between 2007 and December 2009, the age-adjusted employment rate fell from 63.0 to 58.6 percent. Since then, the age-adjusted rate has risen 2.7 percentage points. At this point, it will have to rise another 1.6 points to fully recover.

<sup>10</sup> 1.8 versus 1.6 percentage points, respectively.

The age-adjusted employment rate has recovered slightly better than the prime-age employment rate, with the former having regained 63 percent of the jobs lost during the recession.

**FIGURE 3**  
**Civilian Employment Rate, 2007 to Present**



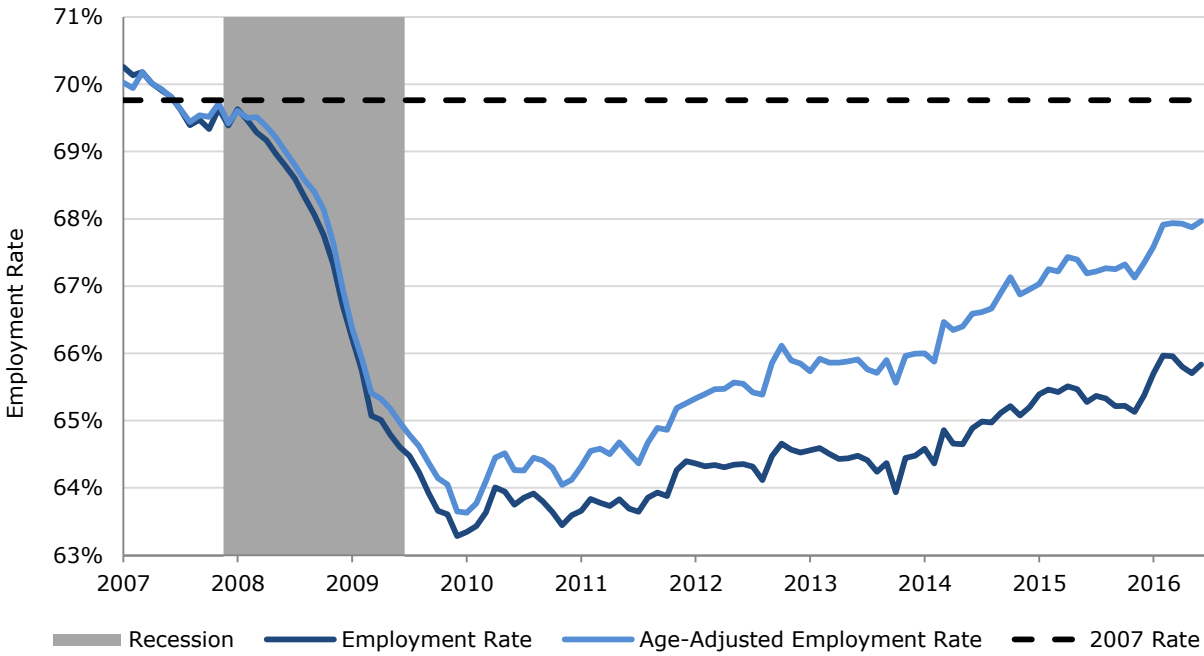
Source and notes: Bureau of Labor Statistics (2016) and St. Louis Federal Reserve (2016). Age-adjusted employment rate is generated using the methodology outlined in Buffie (2016).

Again, separate breakdowns are available for men and women. For men, employment fell from 69.8 percent in 2007 to an age-adjusted rate of 63.6 percent in January 2010, a drop of 6.1 percentage points. As of this past June, the age-adjusted employment rate for men had risen back to 68.0 percent. For women, age-adjusted employment hit a low of 53.3 percent in June and July of 2011, leaving employment 3.3 percentage points below its 2007 level. Over the past three months, women’s age-adjusted employment rate has averaged 55.5 percent. These trends are shown in **Figures 4 and 5**. Overall, employment is about two-thirds recovered for both genders, though it should be noted that because they lost more jobs during the recession, employment is still down more for men (1.8 percentage points) than for women (1.2 points).



**FIGURE 4**

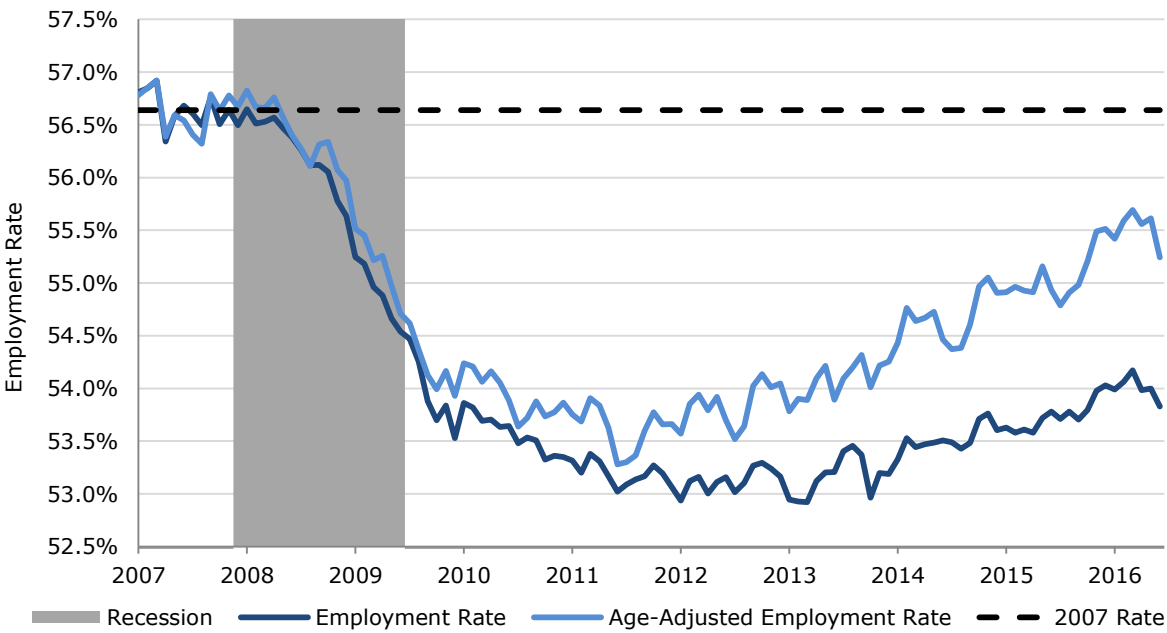
**Men's Employment Rate, 2007 to Present**



Source and notes: Bureau of Labor Statistics (2016). Age-adjusted rate is generated using the methodology outlined in Buffie (2016).

**FIGURE 5**

**Women's Employment Rate, 2007 to Present**

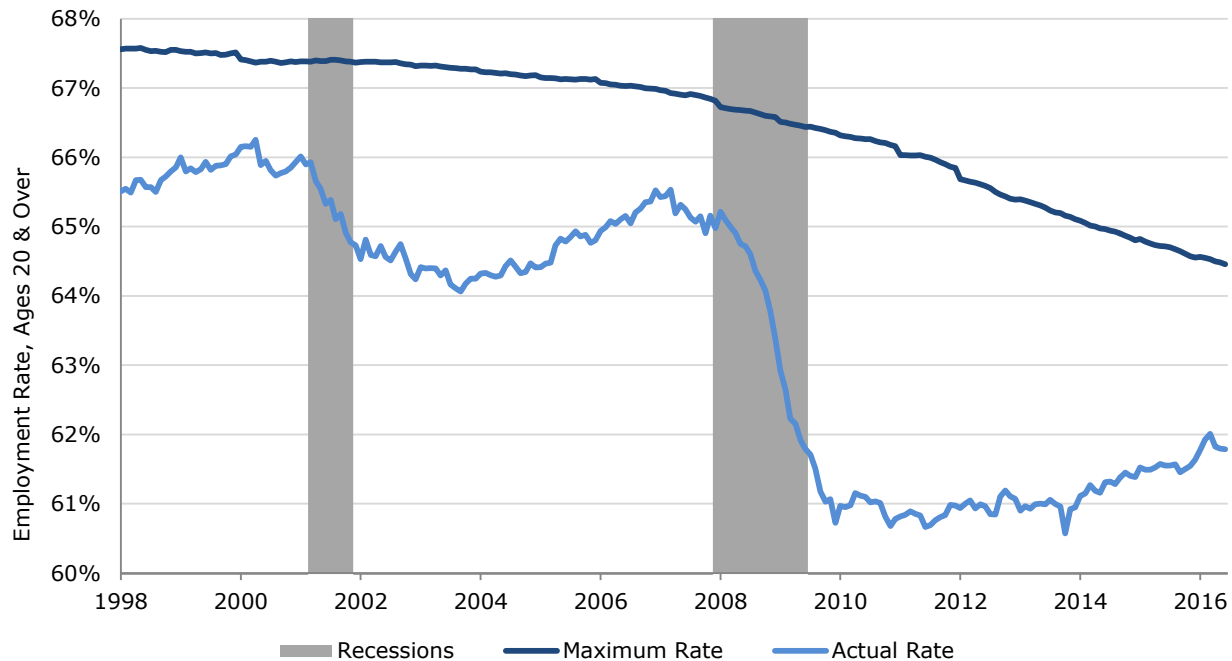


Source and notes: Bureau of Labor Statistics (2016). Age-adjusted rate is generated using the methodology outlined in Buffie (2016).

Finally, a third way of adjusting for the aging of the population is through the creation of a “maximum employment rate.” This measure looks at the current age distribution of the population and asks what the overall employment rate would be if each age group were to achieve its highest calendar-year employment rate.<sup>11</sup> The gap between the actual and maximum employment rates is another gauge of cyclical weakness in the labor market.

**FIGURE 6**

**Maximum Employment Rate and Actual Employment Rate, Ages 20 & Over, 1998 to Present**



Source and notes: Bureau of Labor Statistics (2016).

**Figure 6** shows the maximum employment rate and the actual employment rate from 1998 to present. The fact that the maximum employment rate itself has declined is the result of the aging population. Still, in the year leading up to the recession, the gap between the actual employment rate (65.3 percent) and the maximum rate (66.9 percent) was just 1.7 percentage points. By December 2009, the gap had grown to over 5.6 percentage points; since then, it has gradually declined to just 2.7 points. This indicates that the labor market is about three-quarters of the way recovered from the 2008 recession. It should be noted, however, that this measure excludes 16–19 year-olds, who have seen their employment rate drop about 5.5 percentage points relative to 2007. Broadly speaking, the results from this third measure are consistent with the rates of recovery as measured by the prime-age and age-adjusted employment rates.

<sup>11</sup> The specific age groups are 20–24, 25–29, 30–34, 35–39, 40–44, 45–49, 50–54, 55–59, 60–64, 65–69, 70–74, and 75+. Because rising high school enrollment and graduation rates appear to have decreased employment among 16–19 year-olds, employment is only measured for Americans age 20 and over.

## Jobless Workers Not in the Labor Force

Moreover, there is evidence that many of those not currently in the labor force would choose to resume working if given the opportunity.

In both 2006 and 2007, the annual unemployment rate was 4.6 percent. Today's unemployment rate (4.9 percent) is not much higher — and in May of this year, unemployment dipped as low as 4.7 percent. However, as stated at the beginning of this paper, workers are only counted as “unemployed” if they have searched for a job within the past four weeks. Since the unemployment rate peaked at 10.0 percent in October 2009, approximately 12.7 million workers have gained jobs, while an additional 11.8 million non-employed Americans are no longer seeking work.

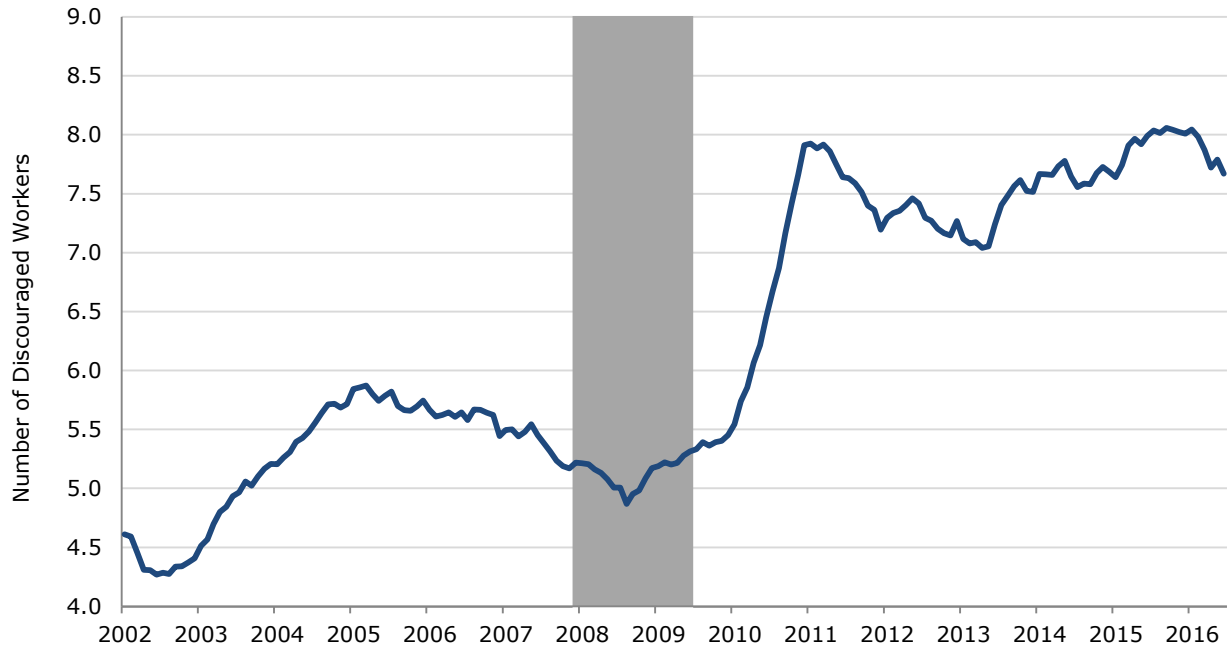
This suggests that the current unemployment rate is significantly underestimating the number of jobless Americans who would like to work. Fortunately, this hypothesis can be tested: the Current Population Survey (the survey measuring the unemployment rate) asks people who are neither employed nor unemployed whether they want a job. There are three categories for people who answer “yes”:

- *Job Wanter*: A prospective worker who wants a job but has not searched for one within the past four weeks.
- *Marginally Attached Worker*: A prospective worker who wants a job, is available to work now, and searched for employment within the past year but not the past four weeks. (Marginally attached workers are a subset of job wanters.)
- *Discouraged Worker*: A prospective worker who wants a job, is available to work now, and searched for employment within the past year but not the past four weeks. Discouraged workers must have given up looking for work specifically because they didn't think any jobs were available. (Discouraged workers are a subset of marginally attached workers.)

No matter the state of the economy, there will always be some discouraged workers, marginally attached workers, and job wanters. However, the number of such workers in today's labor market is abnormally high. For instance, **Figure 7** shows that the ratio of discouraged workers to unemployed workers is at an all-time high. Similar trends hold for the number of marginally attached workers and job wanters.

**FIGURE 7**

**Number of Discouraged Workers, Per 100 Unemployed Workers**



Source and notes: St. Louis Federal Reserve (2016). The figure above is a twelve-month moving average of the number of discouraged workers for every 100 unemployed workers.

**Table 1** shows the number of unemployed workers, job wanters, marginally attached workers, and discouraged workers for 2007 and the year ending in June 2016. While the number of unemployed workers is up 12 percent, this growth pales in comparison to the other increases: the number of job wanters is up 25 percent; the number of marginally attached workers is up 31 percent; and the number of discouraged workers is up 64 percent. By contrast, employment is up by just 3.0 percent.

**TABLE 1**

**Number of Non-Employed Workers**

(thousands)

	2007	Last 12 Months
Unemployed	7,078	7,893
Job Wanters	4,703	5,872
Marginally Attached	1,395	1,829
Discouraged Workers	369	605

Source and notes: Bureau of Labor Statistics (2016).

**Table 2** shows the number of job wanters, marginally attached workers, and discouraged workers per 100 unemployed workers for a host of distinct demographic groups. For all six groups, all three measures show that the unemployment rate currently captures a much lower share of today’s non-employed workers than in 2007.

**TABLE 2**

	Number of Job Wanters, Marginally Attached Workers, & Discouraged Workers Per 100 Unemployed												
	Total		Age						Sex				
	2007 Avg.	Past Year	16–24 Years		25–54 Years		55 & Older		Men		Women		
		2007 Avg.	Past Year	2007 Avg.	Past Year	2007 Avg.	Past Year	2007 Avg.	Past Year	2007 Avg.	Past Year	2007 Avg.	Past Year
<b>Job Wanters</b>	66.4	74.4	71.8	76.2	53.5	58.8	112.2	123.6	54.7	64.0	80.8	86.4	
<b>Marginally Attached</b>	19.7	23.2	20.4	22.1	18.1	20.5	25.4	33.5	18.7	22.8	20.9	23.7	
<b>Discouraged Workers</b>	5.2	7.7	4.7	6.4	5.1	6.8	7.4	12.8	5.8	8.8	4.5	6.4	

Source and notes: Bureau of Labor Statistics (2016).

Among 16–24 year-olds, unemployment is actually *down* relative to 2007, but the numbers of job wanters, marginally attached workers, and discouraged workers have all increased. For workers age 55 and older, the level of unemployment is up about 50 percent, but the number of marginally attached workers has doubled, and the number of discouraged workers has nearly tripled. For workers of all ages and genders, the unemployment rate is overstating the strength of today’s labor market.

This is consistent with the decrease in employment discussed earlier. Since 2008, the number of people who have lost their jobs has been far greater than the number of people being added to the ranks of the “unemployed.” The increase in the number of job wanters, marginally attached workers, and discouraged workers suggests that people who have dropped out of the labor market actually want to work and are effectively “unemployed” even if they aren't being counted as such.

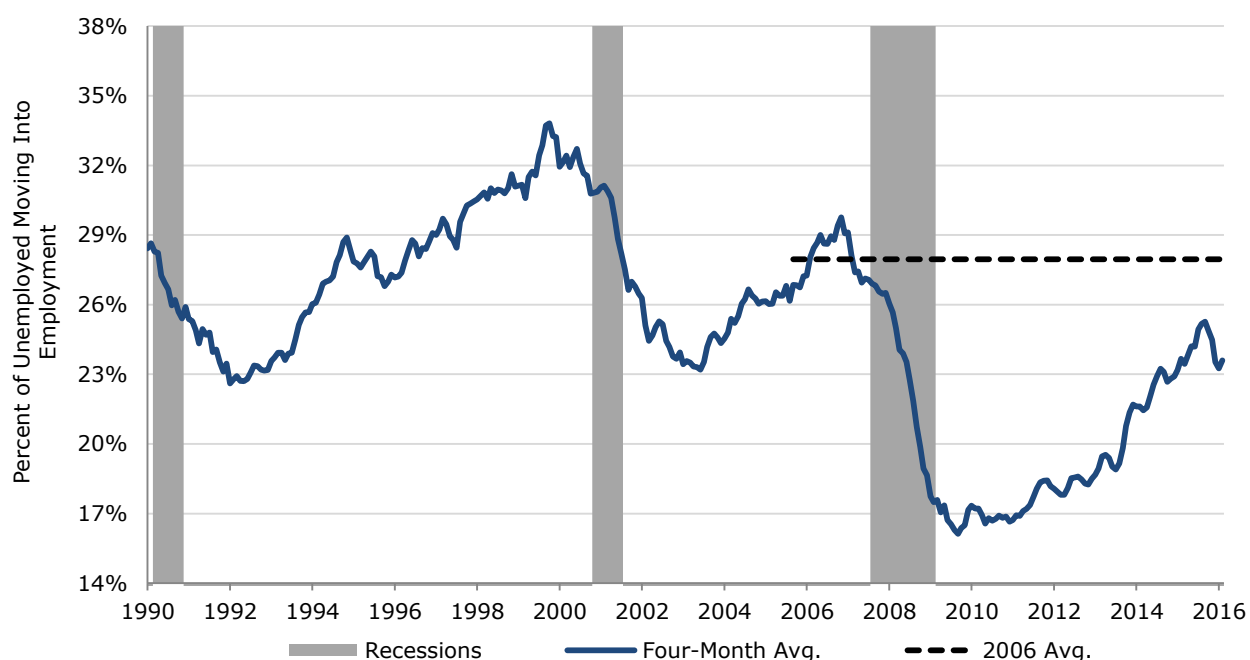
## Labor Force Status Flows

Data on Labor Force Status Flows (LFSF) — changes in a worker’s status through time — also support the case that many of the people not currently in the labor force would like a job.

**Figure 8** shows the percentage of unemployed workers moving into jobs by the next month since the Bureau of Labor Statistics (BLS) first began publishing the LFSF data in 1990. In 2006, approximately 28.0 percent of all unemployed workers could count on finding a job by the next month. That rate fell to 16.1 percent from October 2009 to January 2010, a drop of 11.8 percentage points. Since then, the four-month moving average has risen 7.5 percentage points, averaging 23.6 percent between March and June of this year. This tells us that while the unemployment rate may be low, unemployed workers are having more trouble finding jobs than they were before the recession. According to this measure, the economy is about 63 percent recovered.

**FIGURE 8**

**The Increased Difficulty of Finding a Job**



Source and notes: St. Louis Federal Reserve (2016).

One reason why relatively few unemployed workers are getting hired is that a large number of the newly employed had previously not been in the labor force. During the first four months of this year, a record-high 70.4 percent of all newly employed workers were counted as “not in the labor force” before they were hired.<sup>12</sup> How does this compare to past periods with a similar unemployment rate? Through the first five months of 2016, the unemployment rate averaged 4.9 percent. Between February and June, 29.8 percent of all newly employed workers were classified as “unemployed” the previous month. During past periods with similar unemployment rates,<sup>13</sup> 35.7 percent of all newly employed workers were *unemployed* the month before. Therefore, there are far more prospective workers competing for jobs than there were in previous periods when unemployment was this low.

12 Note that “newly employed workers” are not the same as “new hires.” A worker is not counted as “newly employed” if she moves from one job to another; she will only be classified this way if she was not employed at all during the previous month.

13 Through the first five months of 2016, the unemployment rate has averaged 4.90 percent. Between January 1994 and April 2008, there were 15 months when unemployment was within plus-or-minus 0.1 percentage points of the 2016 rate.

# Involuntary Part-Time Employment

A host of other measures also point towards a weak labor market. For example, the number of people who are involuntarily working part-time — people who would like full-time jobs but can only find part-time work — spiked during the downturn and remains far above pre-recession levels.

**FIGURE 9**  
**Involuntary Part-Time Employment as a Share of Total Employment**



Source and notes: Bureau of Labor Statistics (2016) and St. Louis Federal Reserve (2016).

In 2007, involuntary part-time employment represented just 3.0 percent of total employment. It surged to 6.7 percent of total employment by March 2010 and has most recently fallen to 4.0 percent.<sup>14</sup> By this metric, the job market is about 72 percent recovered from the recession. However, the incidence of involuntary part-time employment is still about one-third higher (1.0 percentage point) than it was in 2007.

<sup>14</sup> In this case, “most recently” means the first six months of 2016. Involuntary part-time employment was 4.0 percent of total employment in both the first and second quarters of this year.

## Low Labor Compensation

Another important measure is labor compensation. In a truly strong labor market, employers would be raising compensation in order to attract workers to their firms (when joblessness is low, employers must compete to hire workers). It is important to focus on total compensation — a measure which includes wages, health insurance, pension benefits, etc. — and not just wages, since the share of pay in the form of benefits (especially health care benefits) has changed over time.

**Figure A2** in the Appendix shows labor compensation as a share of net corporate income from the fourth quarter of 1947 to the present. The measure is clearly cyclical, though it tends to lag the business cycle slightly; that is, labor compensation peaks as a share of income at the ends of recessions, falls for a number of quarters, then rebounds. However, from 1970 to the mid-2000s, labor compensation generally remained within the range of 71 to 74 percent of national income.

Over the last decade, that has no longer been the case. **Figure 10** shows labor’s share of net corporate income during each of the last three expansions. Notably, the “troughs” of labor’s post-recession income share have been falling since the 1990s. Moreover, it is clear from this data that labor compensation has yet to recover from the most recent recession: compensation fell from a peak of 72.3 percent of income to just 66.1 percent in early 2015, and currently stands at just 67.9 percent.<sup>15</sup> This is not only well below the previous business cycle peaks of 72.3 to 75.3 percent; it is also lower than the *trough* from the 1990s, when labor compensation bottomed out at 70.9 percent of net corporate income. In fact, labor compensation over the past year has been just 0.03 percentage points higher than the 2006 Q3 trough.<sup>16</sup>

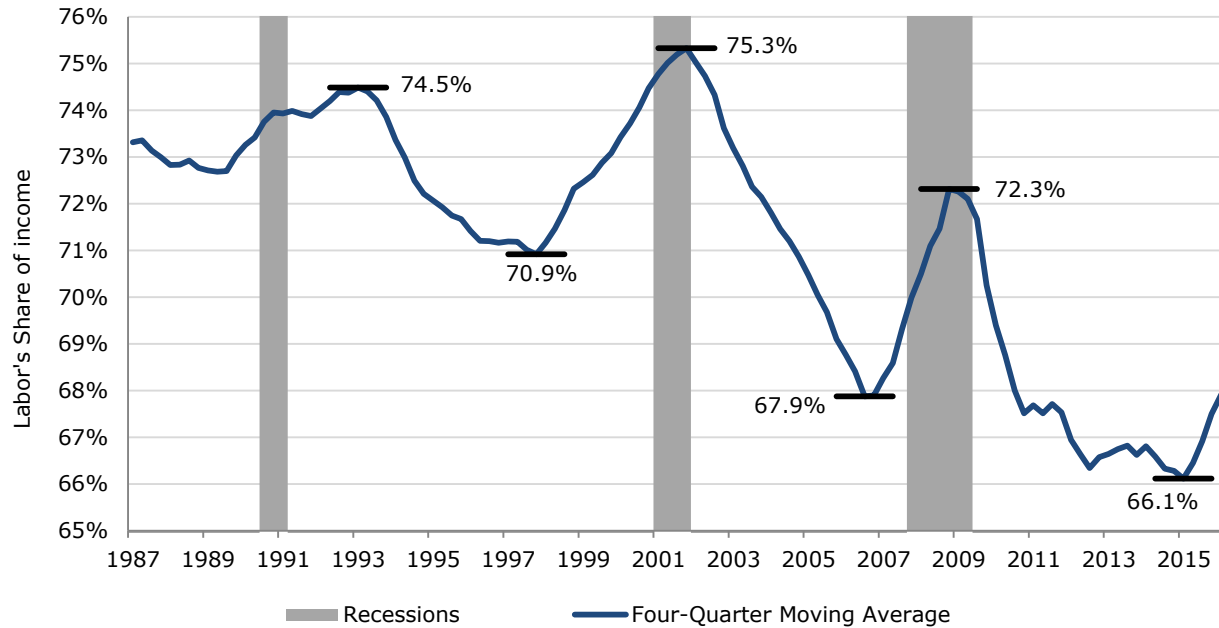
This represents a substantial sum of money being left on the table. If labor’s share of national income returned to where it was during the 1990s trough, hourly compensation would be 4.4 percent higher; if it returned to its pre-recession peak, compensation would be 6.5 percent higher. And if labor compensation were currently 75.3 percent of national income — as it was in 2001 — compensation would be a full 10.9 percent higher. In short, if the labor market were fully recovered, labor compensation would be much higher than it is today.

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<sup>15</sup> Note that this is a four-quarter average, so it represents an average of the last 12 months’ data. Labor compensation was 67.3 percent of income in the second quarter of 2015; 67.6 percent in the third quarter; 68.5 percent in the fourth quarter; and 68.2 percent in the first quarter of this year.

<sup>16</sup> Over the past year, labor compensation has averaged 67.91 percent of national income; between the fourth quarter of 2005 and the third quarter of 2006, it was 67.88 percent.



**FIGURE 10****Labor's Share of Net Corporate Income**

Source and notes: National Income and Product Accounts, Table 1.14.

## The Long Duration of Unemployment

Another feature of the labor market that is inconsistent with the current unemployment rate is the duration of unemployment spells. In both 2006 and 2007, the average duration of unemployment was 17.9 weeks.<sup>17</sup> The duration more than doubled during the downturn, reaching a peak of 40.7 weeks — over nine months — in July 2011. As of June 2016, the average unemployment spell was 27.7 weeks in length. This suggests that unemployed workers are having much more trouble finding jobs in today's economy than they were eight years ago.

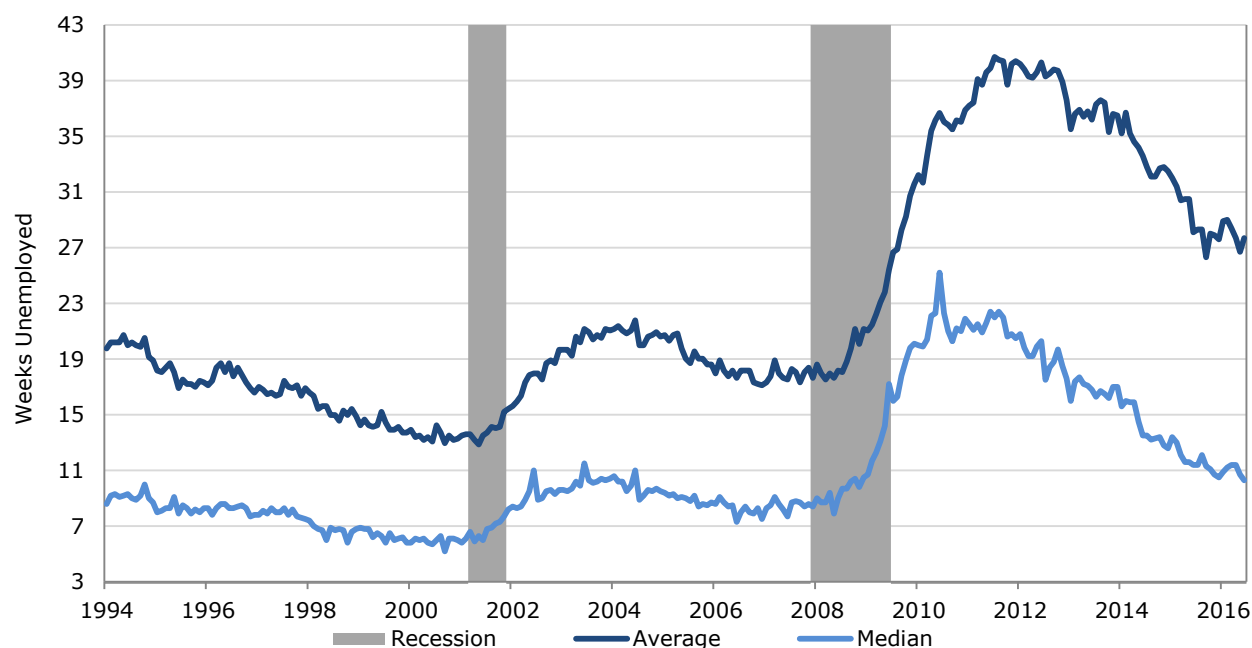
**Figure 11** below shows the average and median durations of unemployment from 1994 to present. While both durations are up relative to 2007, the average duration has increased far more than the median duration.<sup>18</sup> This discrepancy reflects the rise of long-term unemployment (itself a measure of labor market weakness), which has a more pronounced effect on the average duration than on the median duration.

17 The Bureau of Labor Statistics changed how it measures the average duration of unemployment in January 2011. The new methodology increased the estimated average duration by a little over six percent. Figure 10 and all pre-2011 average durations cited in this section have been adjusted accordingly. The median duration was unaffected by the changes.

18 The average duration of unemployment is up by a factor of 1.6, while the median duration is up by a factor of 1.2.

**FIGURE 11**

**Average and Median Durations of Unemployment**



Source and notes: St. Louis Federal Reserve (2016).

Long-term unemployment — defined as unemployment spells of 27 weeks or longer — spiked tremendously during the recession. In 2007, just 17.6 percent of all unemployed workers were long-term unemployed; by June 2010, the long-term unemployed were 45.8 percent of the unemployed.<sup>19</sup> And the rate stayed high for a significant period of time, remaining above 40 percent for three straight years.<sup>20</sup> Extreme long-term unemployment — a year or more of uninterrupted joblessness — was about 30 percent of total unemployment between 2010 and 2012.

Since then, long-term unemployment has declined somewhat. Part of the drop may be attributable to the fact that Congress cut off unemployment benefits for the long-term unemployed at the end of 2013. In addition, many states imposed further cuts in duration and tightened eligibility in other ways. Academic research indicates that losing unemployment insurance causes workers to stop searching for new jobs.<sup>21</sup> Nonetheless, despite this potential downward bias, long-term unemployment is far higher than it was before the recession: as of June 2016, over a quarter (25.8

19 It should be noted that long-term unemployment was unusually high even in 2007. The rates observed since then have been historically unprecedented. See **Figure A3**, which shows long-term unemployment since 1948, in the appendix.

20 The long-term unemployed represented between 40.5 and 45.8 percent of all unemployed workers for 35 straight months from December 2009 to October 2012.

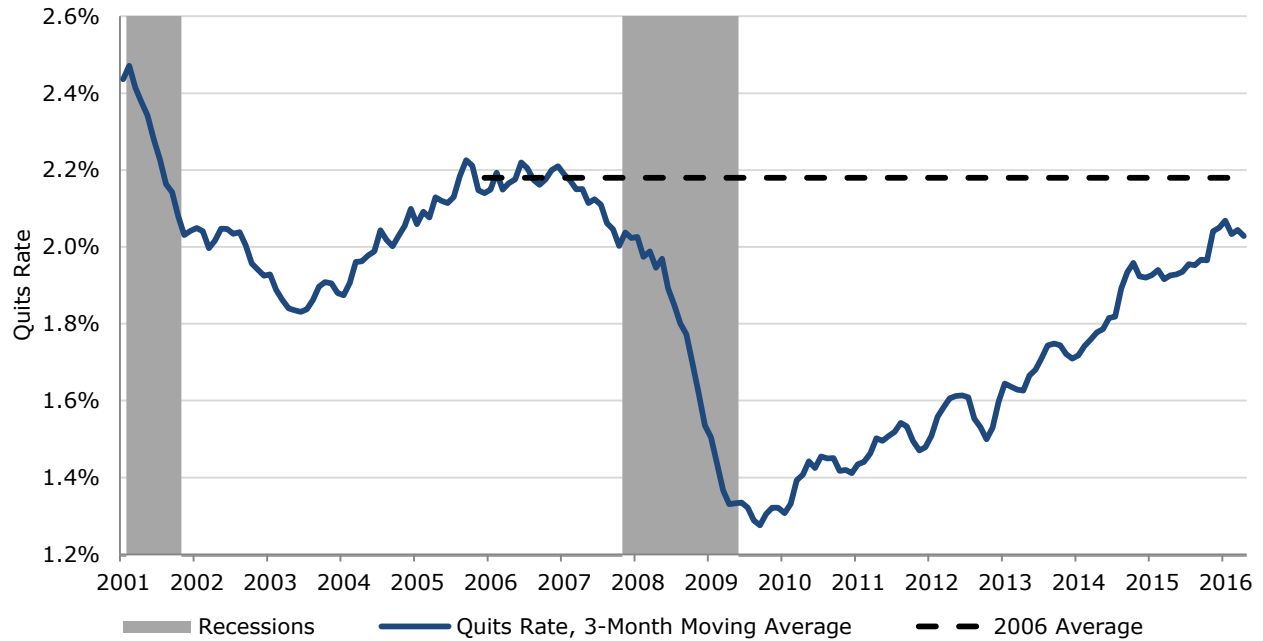
21 Furman (2016). It should be noted that jobless workers must be actively searching for work in order to receive unemployment insurance (UI) benefits.

percent) of the unemployed had been out of work 27 weeks or longer. Despite the low unemployment rate, finding a job remains much harder today than it was in 2007.

## Workers Just Won't Quit

A final gauge of the job market is the rate at which workers are quitting their jobs. While “workers quitting their jobs” may sound bad in theory, a high quits rate is actually a signal of a strong labor market: when workers feel that there are ample employment opportunities, they are more likely to leave their jobs, because they know that they are likely to find new ones. Moreover, in a strong labor market, employers are likely to poach workers from other firms by offering raises, which will also cause workers to quit their jobs.

**Figure 12** shows a three-month moving average of the quits rate from February 2001 to present. Because the quits rate seems to move slightly ahead of the business cycle — the quits rate began declining before the start of the recession and began recovering before any of this paper’s other measures — the current quits rate is compared to the 2006 (rather than 2007) average. In 2006, the monthly quits rate averaged just south of 2.2 percent; it fell to less than 1.3 percent in late 2009 and has just recently broken 2.0 percent.

**FIGURE 12****Total Nonfarm Quits Rate**

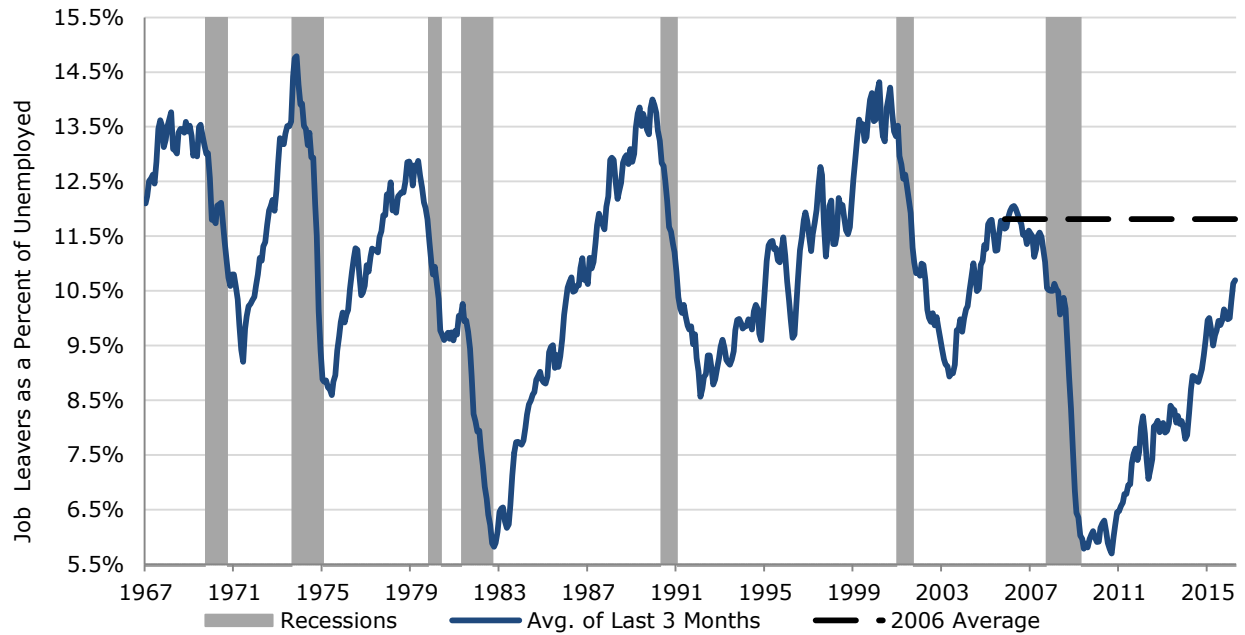
Source and notes: St. Louis Federal Reserve (2016).

As with other measures presented in this paper — most notably labor compensation and long-term unemployment<sup>22</sup> — today’s quits rate seems to be out-of-line with the historical norm. Unfortunately, data on the quits rate only go back to December 2000, but there is a good proxy going back to 1967: job leavers as a share of the unemployed. “Job leavers” are people who are unemployed after having quit their last job. **Figure 13** shows that at previous troughs, job leavers typically constituted 8.5 to 9.5 percent of all unemployed workers; their share would usually rise to 13 to 14 percent before the next recession. However, following the 2001 recession, job leavers never returned to their pre-recession share of total unemployment. Even between April and June 2006 — when job leavers peaked as a share of unemployed workers — just 12.1 percent of the unemployed were job leavers. (The 2006 average was 11.8 percent.) A three-month moving average of the job leaver share fell to 5.7 percent by November 2010 and has since rebounded to 10.7 percent. This metric never fully recovered after the 2001 recession, and it has yet to recover from the most recent recession either.

<sup>22</sup> See Essig (2015) for a brief discussion on the historical incidence of long-term unemployment.

FIGURE 13

Job Leavers as a Percent of Unemployed



Source and notes: St. Louis Federal Reserve (2016). Pre-1994 data have been adjusted based on calculations presented in Polivka and Miller (1998), pp. 264-67.

## Concluding Remarks

In 2007, the economy was doing pretty well. Unemployment stood at 4.6 percent, and 63.0 percent of Americans — including 79.9 percent of Americans ages 25 to 54 — had jobs. Involuntary part-time employment was just 3.0 percent of total employment, and long-term unemployment, while high by historical norms, was a relatively uncommon experience.

Today, the unemployment rate is back below five percent, and job growth is even stronger than it was in 2007. However, the economy is far from fully recovered. **Box 1** below shows the various measures presented in this paper; by every single metric, the economy appears unrecovered. (Note that the box excludes the percentage of newly employed workers who were not in the labor force the previous month because it is not, *by itself*, a measure of economic recovery.<sup>23</sup>)

The weakened state of the economy suggests the need for fiscal and monetary stimulus. While there is currently very little public discussion about whether the government should be running larger budget deficits, there is a serious debate about whether the Federal Reserve should raise interest rates. Those favoring higher rates have argued that the labor market is at or near full employment and that it makes sense to begin increasing interest rates. This paper suggests the opposite. Given the depressed state of the job market, raising interest rates would throw thousands or even millions of Americans out of work.

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23 The “percentage of newly employed workers who were not in the labor force the previous month” is not a measure of economic recovery — at least not when considered by itself. Rather, this measure tells us something about the unemployment rate. Specifically, it suggests that if the pool of non-employed workers seeking jobs is to fall back to its 2007 level, the unemployment rate itself will have to dip *below* 4.6 percent since a 4.6 percent unemployment rate in today’s economy implies far more jobseekers than it did before the recession.

**BOX 1****Has the Labor Market Recovered?**

(Yes/No)

	<b>Primary Measure</b>	<b>Sub-Measures</b>
<b>Employment</b>	No	
Prime-Age Employment Rate		No
Age-Adjusted Employment Rate		No
Gap between Maximum and Actual Employment Rates		No
<b>Involuntary Part-Time Employment</b>	No	No
<b>Labor Compensation</b>	No	No
<b>Jobseekers Not in the Labor Force</b>	No	
Job Wanters		No
Marginally Attached Workers		No
Discouraged Workers		No
<b>Duration of Unemployment</b>	No	
Average Duration of Unemployment		No
Median Duration of Unemployment		No
Long-Term Unemployed as Share of Total Unemployed		No
<b>Quits</b>	No	
Nonfarm Quits Rate		No
Job Leavers as Share of Total Unemployed		No
<b>Labor Force Status Flows</b>	No	
Percent of Unemployed Moving to Employment		No
<b>Total</b>	<b>0/7 Recovered</b>	<b>0/14 Recovered</b>

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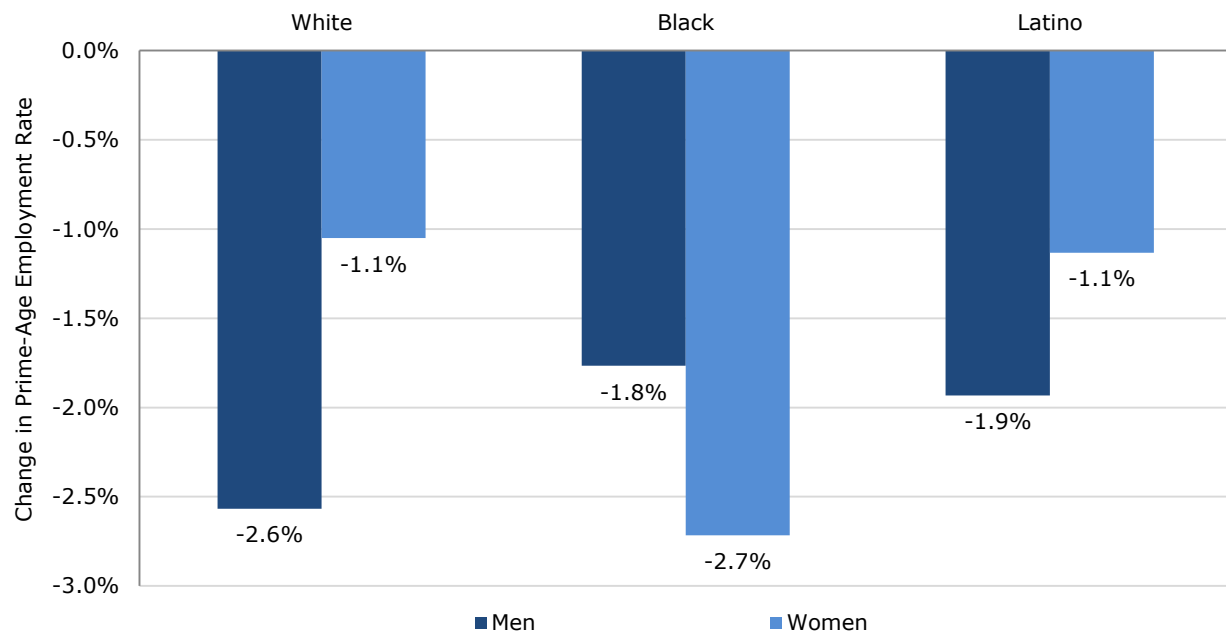
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# Appendix

FIGURE A1

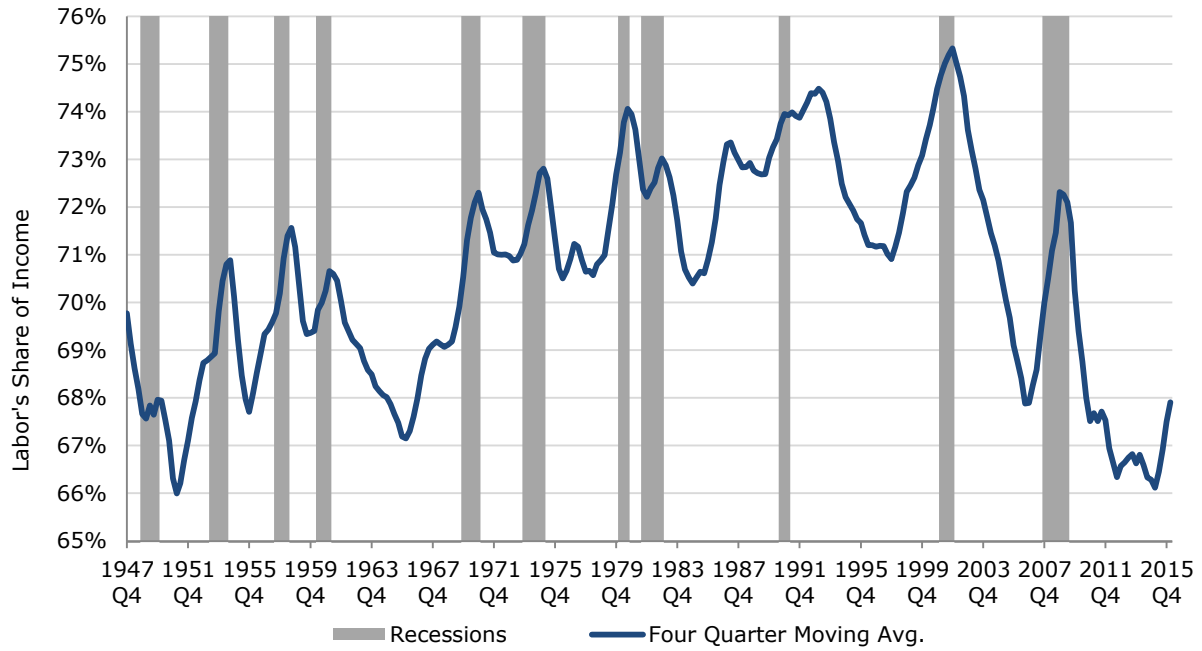
Change in Prime-Age Employment Rate, First Six Months of Year, 2007 to 2016



Source and notes: Bureau of Labor Statistics (2016).

FIGURE A2

Labor's Share of Net Corporate Income



Source and notes: National Income and Product Accounts, Table 1.14. Labor's share of income is represented as a four-quarter moving average.

FIGURE A3

Long-Term Unemployed as a Share of All Unemployed



Source and notes: St. Louis Federal Reserve (2016).