

Business **Outlook**



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Job-loss data understates deeper woes

Unemployment rates today mask structural changes in society

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The law of the land says that the United States must strive, always, to achieve a 4 percent unemployment rate.

The country has almost never reached 4 percent unemployment since the Humphrey Hawkins Act was passed in 1978, and today's economic crisis could signal significant structural changes to the job market that will keep unemployment high for years to come.

At normal labor participation rates, about 6.8 million more jobs need to be created to reach 4 percent unemployment, assuming the workforce doesn't grow.

However, the workforce is growing, thanks to

demographic changes and migration. About 150,000 new jobs are required every month to keep up with the growth in the working population.

The economy added 200,000 jobs in December and 243,000 in January, according to the Bureau of Labor Statistics.

The latest BLS report says the national unemployment rate is 8.3 percent, but that number, as the BLS acknowledges, understates how bad the nation's jobs picture is. Unemployment rates are based on surveys of workers and include only those people who are actively looking for work.

If labor participation in December, when the unemployment rate was 8.6 percent, had matched the long-term norm, the unemployment rate would

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JOURNAL FILE

Kristen Brice, facing camera, a Sitel recruitment specialist, talks to a job seeker during a job fair at the Albuquerque Marriott Pyramid North in Albuquerque last August.

Job-loss data understates deeper woes

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have been 11.4 percent.

New Mexico's unemployment rate was 6.6 percent in December. January's numbers are not yet available. Unemployment in the state was 5.1 percent in January 2009, reached 8.1 percent in January 2010, and was at its worst during this economic cycle in January 2011 when it reached 8.7 percent.

'Marginally attached'

Nationally, there were 2.5 million people described as "marginally attached to the labor force" in the year-end BLS jobs report who are not counted as unemployed because they hadn't looked for work in the previous four weeks. Almost a million of those are called discouraged workers because they have stopped looking for work. Another 8.1 million people worked only part-time in the survey period not out of choice but because they couldn't find full-time work or because their work hours were cut back.

Recent studies by Carmen Reinhart and Kenneth Rogoff show that recessions caused by financial crises, like the one that hit the United States in 2008, are generally deeper and much longer than normal recessions.

In that context, is there any hope of achieving a 4 percent unemployment rate?

The country's unemployment rate reached 4 percent or less in only 11 months since 1978, according to the federal Bureau of Labor Statistics. Unemployment reached 4 percent in December 1999 and bounced between 4.1 percent and 3.9 percent through December 2000.

The average unemployment rate from 1950 through 2010 was 5.9 percent.

The Humphrey Hawkins Act, named for its two sponsors, demands 4 percent because at the time it was enacted the sponsors' advisers thought that rate would result in an acceptable trade-off with an inflation rate of about 3 percent. The idea of an employment-inflation trade-off was based on the work of British economist A.W.H. Phillips. Economists no longer think that trade-off is so simple.



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A job applicant receives advice on his résumé while attending a job fair in Southfield, Mich., last August.

However, the 2000 inflation rate averaged 3.4 percent.

Government involvement

The language of the Humphrey Hawkins Act makes it clear that Congress believed getting to a 4 percent rate would require active government involvement in the economy. The law says that while the government needed to rely to the extent possible on "the resources and ingenuity of the private sector of the economy," government needed to set "explicit short-term and medium-term economic goals" and implement employment policies to supplement normal monetary and fiscal policies, including policies "to reduce structural unemployment within regional areas and among particular labor force groups."

Economist James K.

Galbraith, who as a House Banking Committee staff member helped write Humphrey Hawkins, wrote last year in Boston Review that the only lasting effect of the law has been to require the Federal Reserve chairman to report to Congress regularly on the employment situation. "None of (the law's provisions) amounts to a full-employment policy," Galbraith wrote. "Not even close. No part of the government acted as though the mandates mattered."

Gerry Bradley, an economist and research director for New Mexico Voices for Children, says normal business cycles can be counted upon to bring jobs back but that full employment is attained through policies that support wages, which have been under pressure for some time. According to IHS, an economic forecasting firm,



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People wait in line to enter a December job fair in the Pacific Northwest.

wages declined from 59 percent of gross domestic product in 2000 to 54 percent last year.

The BLS says December's labor force participation rate — the portion of the labor pool that is working or trying to get work — was 64 percent. The long term rate is almost 66 percent.

Bradley said that when the economy starts to improve the unemployment rate could worsen.

"As the labor market firms up, usually what happens is the unemployment rate stays the same or even goes up a little bit as people come back into labor market when they see there's hope," Bradley said.

High demand for jobs

"We're finding people coming out of woodwork to work at Santa Teresa (since it was announced Union Pacific would build a \$400 million rail yard there)," Bradley said. "As the labor market firms up people will come out of the woodwork."

Most economists are predicting slow but steady growth in the nation's gross domestic product over the next two years. The Congressional Budget Office forecasts an unemployment rate of more than 8 percent for the next two years.

As a matter of arithmetic, a 4 percent unemployment rate could be achieved even if the American economy never performs any better, but it would require, given the size of today's labor pool, that about 25 million people become marginally attached to the workforce, a 10-fold increase from December's number. Short of the collapse of Western civilization as we know it, that seems unlikely.

There are signs employment prospects are improving.

- Employers hired more people last September than in any month since May of 2010.

- November hiring was up 3 percent from October.

- The number of available jobs has increased 30 percent since the recession ended in June 2009.

- The economy has added more than 100,000 jobs six months in a row, the longest such period in five years. New applications for unemployment benefits are down.

Other reasons to worry

There are also many other reasons to be concerned. In the early 1980s, the last time unemployment went over 10 percent, the average unemployed worker was without a job for 22 weeks. The average length of joblessness this time is 41 weeks.

Nigel Gault of IHS said in Albuquerque in January that it is possible almost 3 million of the nation's 13.1 million unemployed workers will never find a real job again largely because the economy no longer needs the skills they have to offer.

Bradley said that achieving full employment involves choosing winners and losers.

"It's not a Democrat or a Republican issue," he said. "It's a question of what class would be hurt or helped. A policy of full employment means rising wages. Maybe that's not entirely comfortable for employers. With a policy of full employment, you probably

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have some movement upward in price levels. That's good for borrowers and not so good for lenders."

Robert Pollin of the University of Massachusetts has written on policies he thinks lead to full

employment.

He recommends channeling public and private investment into industries that "efficiently generate an abundance of good domestic jobs." His economic models show an investment in education creates 29 jobs per \$1 million

in spending, investments in clean energy create 17 jobs per \$1 million, and investments in the military create 12 jobs per \$1 million.

Galbraith would create an infrastructure bank to help "rebuild the country to meet our energy needs and cope with climate change" and

create agencies to meet the needs of the country's aging population.

The millions of older workers who are likely never to get jobs should be given early retirement packages in the form of Social Security and Medicare benefits at age 62, he said. Galbraith argues

the policy would clear away workers standing in the way of younger workers' own job prospects and would turn jobless older workers into a source of demand for other people's labor.

The Associated Press contributed to this story.