

It's the **taking part that counts**

Is America overestimating employment?

Are 5.1m Americans missing from the unemployment figures?

HOW strong is the American labour market? Around this time last year, few questions fascinated Washington more. Twelve months and one election later, much of the political heat has gone out of the issue. In June, unemployment fell to 5%, the lowest rate since September 2001. In what may be his last report to Congress as chairman of the Federal Reserve, Alan Greenspan warned legislators that the "slack" in the labour market was being taken in, and that unit labour costs had "turned up of late".

A new paper by Katharine Bradbury of the [Federal Reserve Bank of Boston](#) should keep the question open for a while longer. The unemployment rate, she suggests, may be a poor measure of slack in the labour market. By her yardstick, there may be as many as 5.1m Americans who do not appear in the unemployment rolls, but who might rejoin the job queue if work were more forthcoming. If so, the "true" unemployment rate could be over 8%, not 5%; the true number of jobless 12.6m, not 7.5m.

Looking for work is a full-time job. Many job-hunters quit, despairing of ever landing their quarry. Some of these "discouraged workers", as economists call them, fall back on the earnings of a partner or spouse, some go back to school, others discover disabilities that qualify them for government benefits. Since they have dropped out of the labour force, they also drop out of the unemployment numbers.

They show up instead as declines in the "labour-force participation rate". These falls have been quite striking since the 2001 recession. In March of that year—the month the economy peaked—67.2% of Americans over 16 years of age either had a job or sought one. For the past 18 months or so, the figure has hovered stubbornly around 66%, refusing to recover even as output has rebounded. The difference may seem small—only one percentage-point or so. But that is 1.2 out of every 100 adult Americans, or more than 2.7m people.

In past recoveries, all but the most discouraged workers had taken heart by now, tempted back into the labour force by rising jobs and wages. What is different this time around? Ms Bradbury digs deeper among the discouraged, sifting their numbers by age and by sex. In this upswing, it seems, the young and middle-aged are uncharacteristically work-shy, but the elderly are rolling up their sleeves in surprising numbers. If this recovery had followed the pattern set by the previous five, she calculates, another 5.1m Americans under 55 years of age would be in the workforce by now. But 3.4m Americans over that age would not be. The shortfall in young and middle-aged workers is partly offset by a windfall of older workers. This raises two critical questions: will the missing millions under the age of 55 enter the workforce in due course? And will those over 55 stay?

To the second question, Ms Bradbury answers in the affirmative. The industriousness of the elderly has little to do with a jobs boom and more to do with the baby boom, she argues. The first of the post-war baby boomers turned 55 in the past few years. Thus the over-55 age group is unusually "young" at the moment, containing a bulge of people at the lower end of the age range. Eventually, of course, the baby boomers will retire. But there is no reason to think they will drop out in the next year or two.

The answer to the first question is less certain. The 2001 recession interrupted the longest expansion in post-war history. In that golden age, students cut short their studies, the elderly deferred their retirement, criminals hung up their swag bags—everyone showed up for work in the new economy. Peaks that high may never be scaled again, Ms Bradbury points out. If so, some of the 5.1m Americans she thinks are missing from the labour force may be gone for good.

The other mystery is women. During the four decades from the 1960s, women have been marching into America's labour force in ever greater numbers. Their participation rate showed an upwards trend which the occasional recession would slow or flatten, but not reverse. This meant that three or

four years into a normal recovery, the female participation rate would not only regain its pre-recession peak, it would surpass it.

Women play a large role in Ms Bradbury's calculations. Almost 4.1m of her 5.1m missing workers are female. But this enormous gap assumes that the 40-year trend of rising female participation should have continued apace. In particular, it implies that the female workforce should by now be almost 2.2m larger than it was even in March 2001.

Ms Bradbury is quick to concede that this assumption may not hold. With about 60% of women already participating in the job market, their long march into work may be drawing to a close. From now on, the female workforce may grow and shrink with the ups and downs of the economy, much as the male workforce does. Under this scenario, perhaps only 1.3m of the missing 4.1m women should have been expected to return to the workforce as the economy picks up. This would leave a less spectacular shortfall of 2.3m, not 5.1m, workers overall.

If Ms Bradbury is right, then full employment in America is a more distant goal than it currently appears. Her calculations also imply that the economy can continue to grow apace for some time before the Fed needs to worry about labour shortages, wage hikes and inflationary pressure.

Mr Greenspan himself, of course, is due to drop out of the labour force in January of next year, a month or so shy of his 80th birthday. It will fall to his successor to decide whether the labour force's missing millions need coaxing out of their more premature retirement.