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LACK OF JOBS DRIVES EXODUS FROM WORKFORCE IN NORTH CAROLINA:

Official Unemployment Rate Masks Growth in 'Missing Workers'

BY ALEXANDRA FORTER SIROTA, DIRECTOR

A quarter-million North Carolinians in their prime working ages are neither employed nor seeking work because their chances of finding a job are bleak. These "missing workers" are not reflected in the state's official unemployment rate and their ranks have grown 65 percent over the past year, another indication that North Carolina is failing to generate enough jobs despite an official drop in unemployment.

The state's unemployment rate would be nearly double what it is now if these missing workers were counted.

A new measure of the labor market's missing workers, developed by the non-profit, non-partisan Economic Policy Institute and adapted here for North Carolina, estimates the number of men and women who would have been working or seeking work if the Great Recession had never happened and job opportunities had remained strong over the last five years. These missing workers are not reflected in the official U.S. or North Carolina unemployment rate.

The growth in the number of missing workers is stifling the state's economic potential, as well as adding to the everyday struggles of tens of thousands of families who are finding it increasingly difficult to make ends meet nearly five years after the Great Recession officially ended. It is critical that North Carolina policymakers invest in education, job training, infrastructure development and subsidized employment that will lead to the creation of more jobs. At the same time, a focus on policies that strengthen the connection to the workforce for the state's men and women who are seeking work in a weak labor market is important.

Scarcity of jobs leads to growing number of missing workers

As of February 2014, there were 250,000 missing workers in North Carolina, a 65 percent increase since February 2013. If these men and women were included in the state's official unemployment rate, it would be 11.9 percent instead of 6.4 percent.

At the national level, the number of missing workers reached more than 5.6 million in February 2014. If those workers had been counted as unemployed, the unemployment rate would be 10 percent rather than the official 6.7 percent.[1]

In North Carolina, the trend has followed the fits and starts of a sluggish economic

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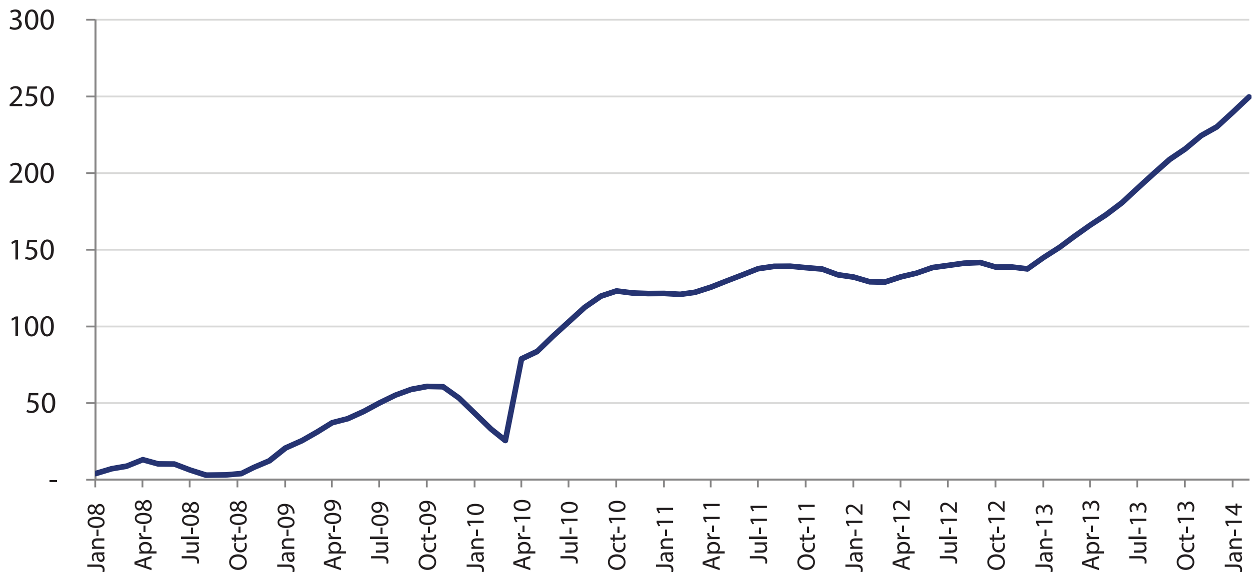
recovery creating far too few jobs (See Figure 1). After a brief decline from December 2009 to April 2010, the number of missing workers began growing again in 2010, as the recovery failed to gain steam in the state. In the past year, the number of missing workers has accelerated, in line with other measures that indicate a labor force decline.

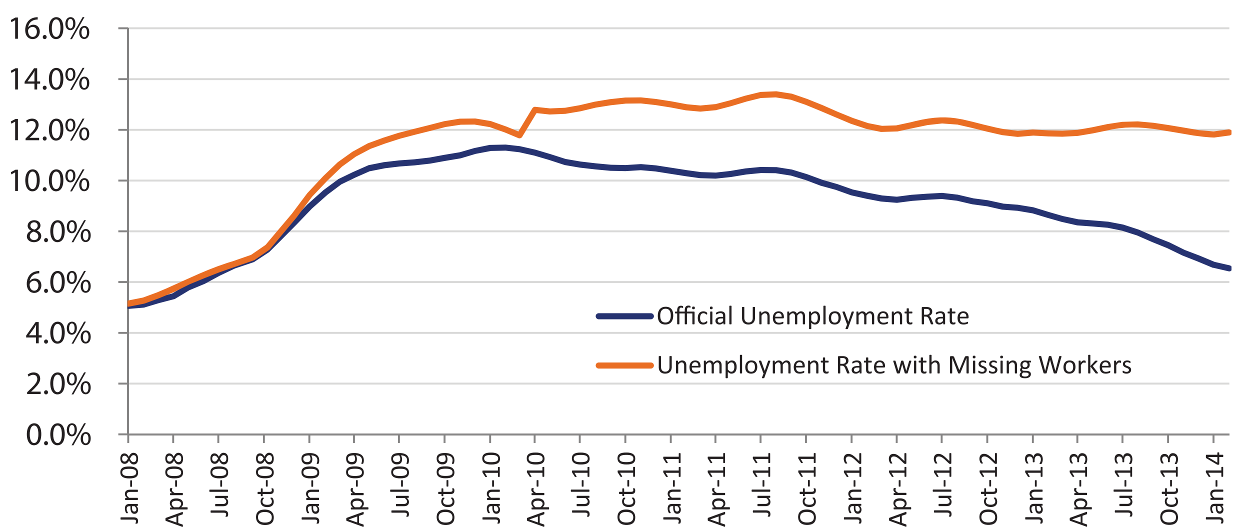
FIGURE 1: The number of missing workers in North Carolina continues to grow *(in thousands)*



SOURCE: Author's calculation using Economic Policy Institute, February 2014, Job Watch. See Appendix.

Over the past year, 6 out of 10 unemployed workers left the labor force,[2] which is the main driver behind the drop in the state's unemployment rate. The more accurate measure of the number of unemployed which includes missing workers has remained stable since 2010 reflecting the persistence of joblessness (See Figure 2).

FIGURE 2: Joblessness remains stable at elevated levels when missing workers are taken into account.



SOURCE: Author's calculation using Economic Policy Institute, February 2014, Job Watch.

A lack of jobs is the primary reason the number of missing workers has surged, not demographic trends such as an increase in retirements. While Governor McCrory and his allies cite a Philadelphia Federal Reserve study that points to retirees as the explanation of the labor force decline, that study is an outlier and relied on data that was not as comprehensive as that used in the other studies.[3]

Looking at the national data, researchers at the Federal Reserve Bank Boston and others have concluded that most of the labor force decline is due to the lack of job opportunities, not the retirement of baby boomers or an increase in the number of young adults going to college.[4] A rigorous analysis by Julie Hotchkiss at the Federal Reserve Bank of Atlanta into the drivers of labor force decline that takes into account behavioral changes as well as the business cycle and long-run trends has found that all of the labor force decline can be attributed to labor market conditions.[5] These studies are in line with a November 2007 projection of the U.S. workforce by the Bureau of Labor Statistics. It took account of the anticipated increase in retirements and higher college attendance and predicted much higher labor force participation through 2016 than has been the case so far. That indicates that the historic job losses of the Great Recession and the slow recovery are behind the surge in missing workers and drop in the labor force.[6]

The reasons that workers leave the labor force are important to understanding when and whether an improvement in the level of labor force participation can be expected in the future. While those leaving the labor force due to retirement or disability are less likely to rejoin the labor force in the future, others are more likely to return when the labor market improves. In fact, each newly employed person in a given month is nearly twice as likely to have been classified as “not in the labor force” in the previous month than classified as “unemployed.”[7] This fact, in combination with the research above, demonstrates that the current labor force decline is not an inevitable result of demographics but rather something that can be addressed through improvements in the job picture.

Missing Workers and Labor Force Declines are a Big Problem for the State’s Economy

Without steady growth in the labor force the long-term health of the state’s economy and its growth potential will suffer.[8] When jobless workers get discouraged about finding work and leave the labor force, that not only indicates that the economy is in worse shape than the official unemployment rate and other measures indicate, it is also bad news for the economy overall. Unless the amount each worker produces grows substantially, a decline in the labor force will hold down the potential for the economy to grow. Given that private investment and entrepreneurial activity is also impacted during a recession and slow recovery, the potential for adoption of innovations and technology that can enhance worker productivity is also compromised reducing the potential for each worker to be more productive. It is therefore critical that labor force levels increase over time, particularly when the population is growing. At a more individual level, workers who are unemployed for long stretches are likely to see their skills erode, find it more difficult to get a job due to gaps in their employment history and suffer severe financial and health challenges.[9] This economic scarring can also create hurdles for these workers’ children, who may fall into poverty and find it difficult to move up the economic ladder.[10]

Generating too few jobs for those who want to work remains the primary challenge in North Carolina’s economic recovery. State policymakers have so far failed to address the problem. Instead of investing in proven job creation measures through education and job training and more direct investments in infrastructure development and subsidized employment, policymakers have pursued tax cuts that will fail to deliver jobs. Given the current state of the workforce and the rise in missing workers, it is critical for policymakers to make sure jobless men and women have the supports they need to keep looking for work in a job market with too few jobs and that investments truly support job creation..

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APPENDIX. How do we estimate the number of missing workers?

The lack of state-level projections of labor force participation made our methodology distinct from the Economic Policy Institute's national measure of missing workers. At the state level, in order to get a sense of how many workers would likely be in the labor market if job opportunities were better, it is necessary to apply a simpler methodology. The pre-recession labor force participation rate of 65.3 percent was applied to each month's state population estimates. This percent is conservative given that the 20 year-average for labor force participation in North Carolina is 66.8 percent.

Since demographics and long-run trends contribute in part to explaining the changing rate of labor force participation – for example, baby boomers hitting retirement age – an adjustment is made based on research findings at the national level that 25 percent of the labor force decline is driven by demographics and long-run trends.[11] North Carolina's demographics are similar to the nations. The state's median age is 37.8 while the nation's is 37.4.

The calculation is as follows:

Population * 65.3% = initial estimate of missing workers * .75 (adjustment for demographics and long-run trends) = missing workers

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