Mitchell's Musings 10-27-14: Where to Find Labor

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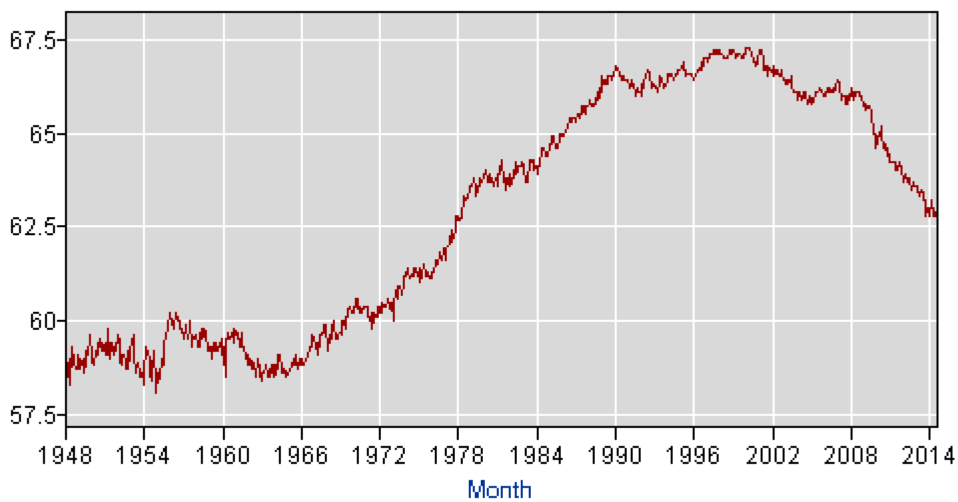
In our previous musing, we looked at various measures of the labor market. Among them was the civilian participation rate, shown on the chart below. As can be seen, participation rose for decades until around 2000. Thereafter, it dropped, particularly in the wake of the Great Recession.

Civilian Participation Rate: All 16+



Nowadays, there is beginning to be discussion of labor shortages. The construction industry has been particularly vocal, although when measured by the job openings (vacancy) rate, construction does not especially stand out.[1] (The August 2014 private sector job openings rate was 3.6%; construction reported 2.9%.) Nonetheless, there could be spot shortages in construction not reflected in national average data. A Proquest search for "labor shortage" in the U.S. produced references to shortages of pilots, truckers, construction workers, teachers, health care professionals, and longshore workers.

Let's assume labor shortages are now occurring or will occur soon. The drop in labor force participation seems to reflect a contradiction. If employers can't find workers, and if – as the interpretation often is – the drop in participation reflects a kind of discouragement on the part of potential workers, there is a problem. Possibly, the paradox reflects some sort of structural mismatch; potentially available workers don't have the right skills. However, I suggested last week that employers may simply be slow to react to the change in circumstances – perhaps as a result of all the "new normal" talk of recent years which suggested that they could expect a line of applicants at their hiring doors indefinitely.

Either way, if you as an employer want workers but can't find them, you'll ultimately have to work at the problem rather than bellyache about it. That means some combination of relaxing hiring standards,

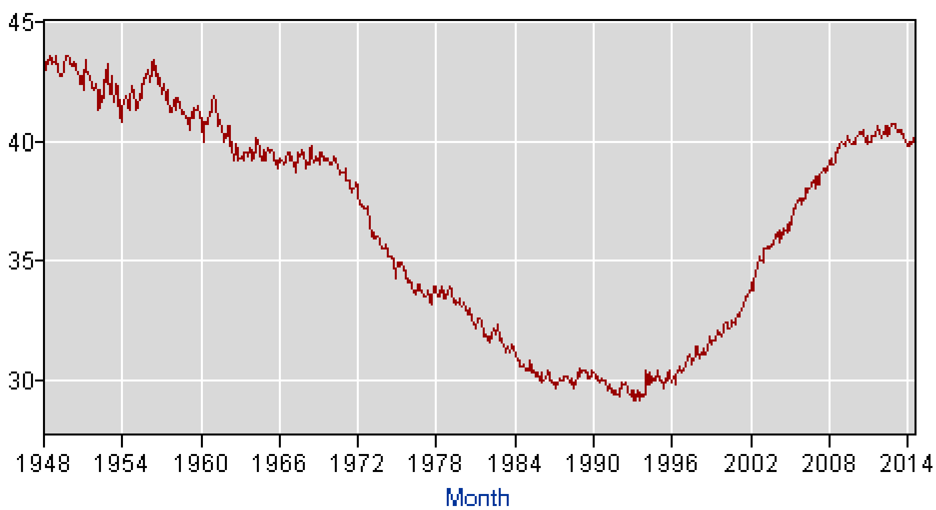
[1] http://enr.construction.com/business_management/workforce/2014/0827-contractors-turning-down-work-due-to-labor-shortages-says-agc-survey.asp.

training applicants if they don't have all the required skills, and – yes – raising pay and benefits to make your workplace more attractive. In effect you have to forget about the supposed new normal and get out there and recruit. Employer behavior appropriate to a soft labor market is not appropriate to a tight one.

So – if the drop in participation represents a potential pool of workers who aren't knocking on your door *but could be enticed* – who exactly is not participating? Let's look at the issue by age group.

What about older workers? The chart below (for those aged 55 and above) suggests members of the older group haven't been discouraged. Older workers exhibit labor market behavior that somewhat of a mirror image of other workers. Their participation rate *dropped* in the post-World War II era until the 1990s. Presumably, that period of drop reflected growing availability of Social Security, pensions, and other sources of support that reversed the practice of work-until-you-drop. The reversal in the 1990s and beyond may well be the discovery that those income supports, absent adequate private saving would not support an expected lifestyle. Whatever the reason, despite all the talk about folks living longer and so desiring to work longer, there seem to be limits to how far that motivation can go. If nothing else, health issues limit this source of incremental labor supply.

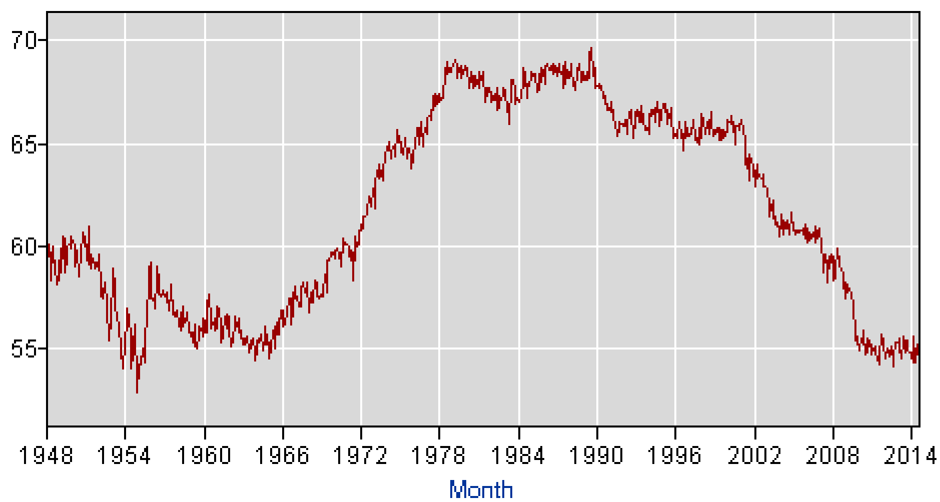
Civilian Participation Rate: All 55+



If the aging baby boomers aren't going to fill the gap – or at least not much more so than they already do – what about the other end of the age spectrum? The data suggest in fact that a good place to look for workers is in the youth range of the market. You can grumble about problems in K-12 education, poor writing ability, too much social media, etc., for young people. But – again – if there is a labor shortage and folks are not lining up at your hiring door, you have to adapt to the available labor supply. Grumbling is for the now-old new normal. But if the new normal is now disappearing, grumbling time is over.

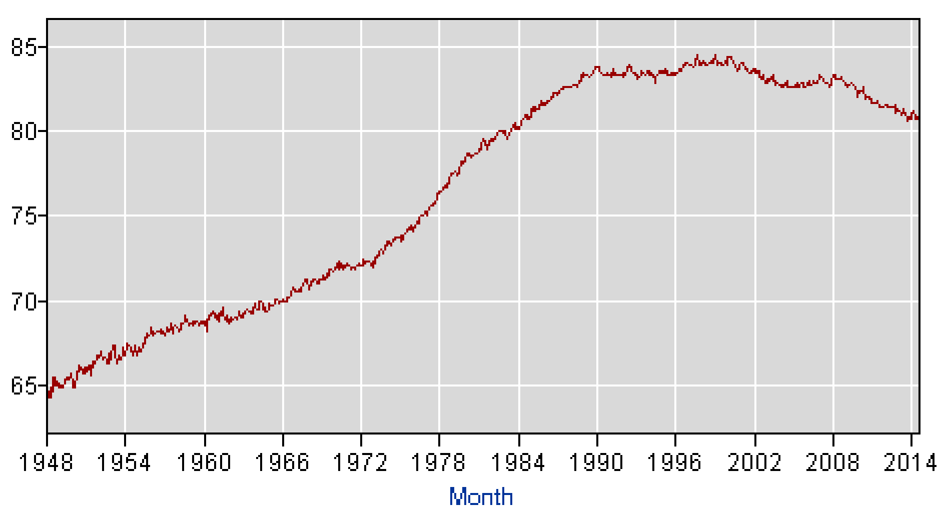
On the next page, the chart shows the participation rate for those 16-24 years old. And what you see there is a dramatic drop in participation that started in the 1990s, fell further in the 2000s, and especially declined in the post-Great Recession period. So the youth end of the labor market seems like a good place to be looking for, and recruiting, needed workers. At least for raw labor supply, that's where there is notable potential. If the supply is not exactly what you want, just reverse the old saying and instead note that you *can* teach a young horse new tricks.

Civilian Participation Rate: All 16-24



And what above the folks in the middle of the age spectrum. There are lots of them, of course. But as the chart below indicates, their participation drop is not as dramatic as that of the youth segment. And, as we have already noted, the older end of the market seems likely to be at capacity.

Civilian Participation Rate: All 25-54



The U.S. Bureau of Labor Statistics (BLS) defines a subset of those individuals not in the labor market (not participating) as “marginally attached.” The official definition is that persons who are "marginally attached to the labor force" are those who want a job, have searched for work during the prior 12 months, and were available to take a job during the reference week, but had not looked for work in the past 4 weeks.[2] Not looking in the last four weeks cuts them out of the official definition of being unemployed. Note that the precise count will be sensitive to the definitions used for marginally attached. But there were about 2.4 million such marginally attached individuals in 2013.

When broken down by age, about 31% of them were in the 16-24 year old age bracket. Yet only 16% of the civilian population 16+ was in the same age group. Those in the midyears, 25-54, constituted about half of the population and about half of the marginally attached individuals. In the 55+ group, however, despite accounting for about a third of the population, individuals in this group were only about 21% of the marginally attached.

Suppose instead of taking the BLS definition, we eyeball the charts shown earlier and note the following. Since 2008 (the Great Recession), participation of the youth group (16-24) has dropped by about 5 percentage points. Participation in the middle range (25-54) seems to have dropped by about 2 percentage points. And participation of those in the older group (55+) seems not to have dropped at all. Putting these numbers together suggests that about 44% of the Great Recession’s impact in marginalizing potential workers (pushing them out of the labor force) fell on the youth group (16-24), even though that group is only 16% of the civilian population. Fifty-six percent of the impact was on the middle age range (25-54 and there was zero impact on the older group. In short, poking around the youth group for potential workers will produce a disproportionate “yield” for employers. Poking around aging baby boomers will not; quite the opposite.[3]

Back in the early 1970s, the late Brookings Institution economist Arthur Okun described the impact of a “high pressure” labor market such as existed in the late 1960s. Employers back then looked in unconventional places and aggressively recruited to cope with labor shortages.[4] Widespread concerns about labor shortages arose again in the late 1980s.[5] Labor shortages also cropped up during the dot-com boom of the late 1990s.

We’re not yet in the high pressure labor market that occurred in these earlier episodes. And one can easily imagine external or internal events that could impede or reverse the ongoing economic recovery. However, at least for now, new normal expectations of employers that workers should be presenting themselves at the hiring gate and have an ideal set of skills are becoming obsolete.

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[2] http://www.bls.gov/cps/cpsaat35.htm.

[3] http://www.bls.gov/cps/cpsaat03.htm and http://www.bls.gov/cps/cpsaat35.htm.

[4] http://www.brookings.edu/~/media/Projects/BPEA/1973%201/1973a_bpea_okun_fellner_greenspan.PDF.

[5] http://www.brookings.edu/~/media/projects/bpea/1989-2/1989b_bpea_mitchell.pdf.