

LABOR MARKETS

The Stanford Center on Poverty and Inequality

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KEY FINDINGS

- The current prime-age employment rate in the United States, 84 percent for men and 70 percent for women (in November 2015), is lower than that of peer countries in Europe (i.e., France, the United Kingdom, and Germany). Relative to the full set of 22 well-off countries in the LIS, the U.S. ranks 16th in men's prime-age employment and 18th in women's.
- The prime-age employment rate in the U.S. was hit especially hard by the Great Recession. The U.S. had the sixth largest decline in prime-age employment between 2004 and 2010 among the 22 countries, with only Ireland, Hungary, Greece, Spain, and Iceland experiencing bigger declines.
- The prime-age employment rate in the U.S. still languishes well below pre-recession levels. If the current (slow) rate of improvement continues, the U.S. will likely fall into another recession before the male rate returns to its pre-recession level.

The Great Recession of 2007 to 2009 began as a financial crisis, but played out as an enduring employment crisis for American workers. The “housing bubble” burst, the financial sector tumbled, banks stopped lending, construction workers lost their jobs, sales of building materials and appliances plummeted, tax revenues fell, and the downward spiral threatened to spin ever lower. The federal government saved the banks, and stimulus spending broke the fall in employment. But employment has barely kept pace with population growth since the recovery began in the summer of 2009. The U.S. economy enters 2016 with payrolls increasing and the official unemployment rate down to 5.0 percent. But 31 percent of the unemployed have been out of work for 27 weeks or more, and the employment to population ratio is only 59 percent.

These are big problems, but they might nonetheless be understood as the generic employment problems of all well-off mature economies. The simple question that we accordingly take on here: Is the U.S. facing *special* employment problems? Is there, in other words, “employment exceptionalism” in the U.S.? Or are pretty much all well-off economies facing employment problems of this magnitude?

We address this question by focusing exclusively on the employment to population ratio of 25-to-54-year-old people. This is the prime age range for labor force participation: Those within it are old enough to have completed schooling but are mostly too young to retire. The more familiar unemployment

rate gives a reasonably accurate picture of employment during good times, but during recessions, many people who would prefer to be working become discouraged and stop looking for a job. The unemployment rate includes only people who were looking for work in the month of the employment survey; excluding people who have stopped looking makes the economy look better than it is. As a recovery starts, those people start looking for work again, distorting the unemployment rate in the opposite way—the economy looks worse until the labor market stabilizes again. The prime-age employment ratio overcomes this “discouraged worker” problem by keeping tabs on everyone whether they are looking for work or not.

Although we are mainly interested in how the U.S. fares comparatively, we will start off with a brief review of the U.S. case alone, focusing on recent trends in prime-age employment in the U.S. We then use the LIS data set (formerly the Luxembourg Income Study)¹ to carry out harmonized cross-national comparisons of prime-age employment.

Historic Collapse, Very Slow Recovery

Figure 1 takes the long view of prime-age employment in the U.S. It plots the prime-age employment ratio for men and women (separately) from January 1985 to November 2015 (the most recent data), with recession months shaded gray. In January 2007, before the Great Recession, 88 percent of American men 25–54 years old were employed; at the low point three years later, 80 percent were (a decline of 8 percentage points). The

path upward from that low point has been very unsteady; by November 2015, men's prime-age employment ratio was at 84 percent, roughly halfway back to the pre-recession level.

Women's employment declined less (and more slowly), but recovered less (and more slowly too). In January 2007, 73 percent of prime-age women were employed. Women's employment did not bottom out until November 2011, two years after the recession officially ended. By that point, women's prime-age employment had slipped to 69 percent; by November 2015, it was less than halfway back. A 4 percentage-point decrease in women's employment may not seem like much, but it is the biggest decline in women's employment on record (record-keeping began in 1947). Some 20th-century recessions slowed the rate of increase in women's employment, but none reduced it by more than 1 percentage point.² The market for women's labor in the 21st century has been very different, in good times and bad, from the corresponding market in the 20th century. The highest prime-age employment ratio for women ever recorded was 75 percent in April 2000; it slipped to 74 percent by the end of 2000 and has been between 69 and 73 percent ever since.

In an earlier report with Erin Cumberworth,³ we regressed men's and women's prime-age employment ratios on the number of months from the end of the recession to the month the ratio was measured. The regression has no substantive content and should not be considered a forecast or prediction about the future. But it assists in gauging whether the

economy is on a path that might eventually lead back to pre-recession employment levels. For men, a simple straight line moving upward from the end of the recession through the end of 2014 describes the trend well. The slope of the trend line is 0.05 percentage points per month. At that pace, the employment to population ratio increased 1 percentage point every 20 months, implying it will take between 12.5 and 13 years for men's prime-age employment to recover the 8 percentage-point loss during and after the Great Recession. Because the U.S. economy has never gone 12.5 years without a recession, we concluded that another recession was likely to reduce men's prime-age employment again before this slow recovery restored the employment to pre-recession levels. Another year's employment data do not suggest that our projections were off; men's prime-age employment ratio increased only 0.32 in 12 months, a slower pace than in the five years before.

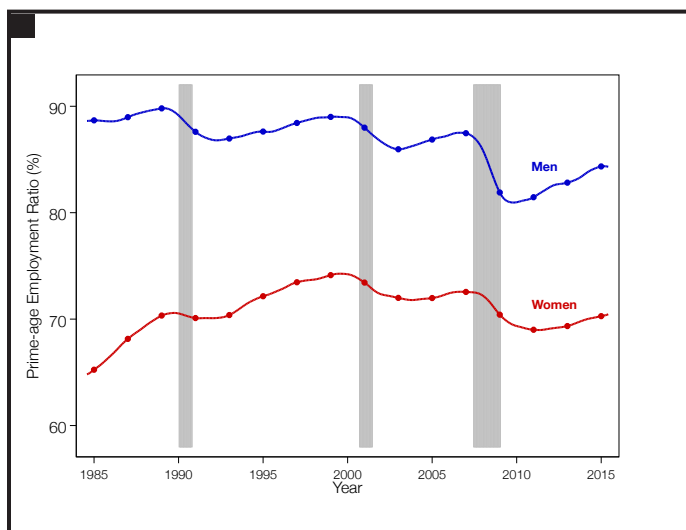
The outlook for women is slightly better, mainly because the dip in women's prime-age employment due to the Great Recession was only half that of men. Women's prime-age employment ratio continued downward slightly for about a year after the end of the recession before beginning to ever-so-slowly recover. If the curve is real and not just statistical noise, the shape of the curve implies that women's employment might be back to pre-recession levels one year from now, in February 2017.

Differences among Countries

In the U.S., employment trends during and after the Great Recession reflected, in part, economic policies formulated to offset the financial crisis and its effects. The 2009 stimulus package—officially, the American Recovery and Reinvestment Act—appropriated roughly \$800 billion for federal programs designed to offset decreased private spending due to the crisis. The Federal Reserve Bank used “quantitative easing” to stimulate borrowing. Other countries had different responses, depending on the threat or reality of bank failures, the banking laws in their country, labor laws, and how much public services depended on money borrowed abroad. These differences in the policy response interacted with (1) the potentially idiosyncratic economic conditions facing each country, and (2) the labor market and safety net institutions at play in each country.

Figure 2 compares the prime-age employment ratios (PERs) of men and women in 22 European or English-speaking countries before and during the Great Recession. As noted above, the data come from the LIS, which provides harmonized versions of nationally representative data sets with income, wealth, employment, and demographic data. The figure

FIGURE 1. Prime-age Employment Ratio by Month and Gender, January 1985–November 2015



Note: The prime-age employment ratio is the number of employed persons to the total population, restricted to persons 25 to 54 years old. Source data were seasonally adjusted by the Bureau of Labor Statistics (BLS); the author then used locally estimated regression (lowess) to smooth the BLS series (bandwidth = 0.075).

shows four PERs for each country: women’s PER circa 2004 (red circle with a white center), women’s PER in 2010 (solid red circle), men’s PER circa 2004 (blue circle with a white center), and men’s PER in 2010 (solid blue circle). Countries are ranked from highest (Germany) to lowest (Ireland) on men’s PER in 2010.

The first result of interest is that the U.S. ranked 14th in women’s PER and 15th in men’s PER even before the recession (out of 22 countries). It follows that the U.S. had substantial employment problems, at least relative to the standard for well-off countries, well before the recession hit. Moreover, when compared to its true “peer countries” (i.e., the United Kingdom, Germany, France), the U.S. ranks dead last for men’s and women’s PER alike.

If the U.S. started off with already-low PERs, might it perhaps have experienced a less-substantial recession-induced drop

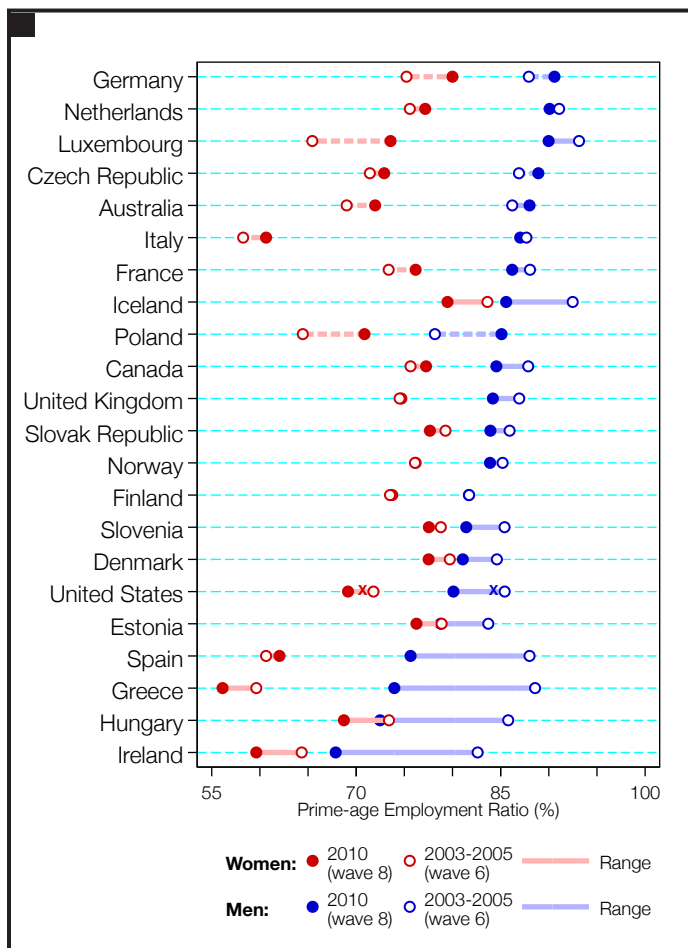
in PERs? It might be hypothesized, for example, that U.S. firms were already running “lean and mean,” meaning that there was less room for further cutting with the recession’s onset. This was, however, clearly not the case. As Figure 2 shows, men’s employment fell between 2004 and 2010 in 18 of the 22 countries, but the fall in the U.S.—9 percentage points for men’s PER and 4 for women’s PER—was much larger than the average.

Some nations fared much worse: The Euro-crisis countries of Ireland, Hungary, Greece, and Spain saw the biggest declines in this key indicator. These declines reflect, to some extent, the particular vulnerabilities of these economies to the targeted effects of the recession. Ireland, for example, had one of Europe’s biggest housing bubbles. After Allied Irish Bank failed and others retrenched, many families owed more than their house was worth. Private spending plummeted, and the government could not borrow to keep up demand because it took on the failed banks’ debts. As a consequence, the job market collapsed. Men’s PER fell 15 percentage points; women’s PER fell 5 percentage points.

Although Hungary, by contrast, had neither a housing bubble nor a bank failure, it depended on exports and loans from Germany. When both declined, men’s PER dropped 13 percentage points and women’s PER dropped 5 percentage points. Greece had a high percentage in public employment and a low rate of tax collection. When foreign creditors insisted on austerity, the government nearly defaulted on its loans. Men’s PER fell 15 percentage points, and women’s PER fell 4 percentage points. Finally, Spain was fiscally balanced before the crisis, but its labor market was weak. As domestic spending and exports fell, men’s PER fell by 13 percentage points. Women’s PER was virtually unchanged at one of Europe’s lowest rates, effectively halting Spain’s process of catching up with the rest of Europe in women’s labor force participation.

The more telling contrasts are arguably with the “peer economies” of the United Kingdom, France, and Germany. Relative to this standard, U.S. employment fared the worst. In the United Kingdom and France, the men’s PER fell only 3 percentage points, whereas it fell 9 percentage points in the U.S. At the same time, women’s PER was unchanged in the United Kingdom and actually rose 2 points in France, whereas it fell 4 percentage points in the U.S. Germany fared best: Men’s PER rose 3 points; women’s PER rose 5 points. Finally, employment dropped very little in the Scandinavian countries, and it increased slightly in the Netherlands, Australia, and Italy.

FIGURE 2. Prime-age Employment Ratio by Country, Circa 2004 and in 2010



Note: X's show most recent data for the U.S. Hungary's wave 8 data were collected in 2009. Dashed lines indicate increases over time.

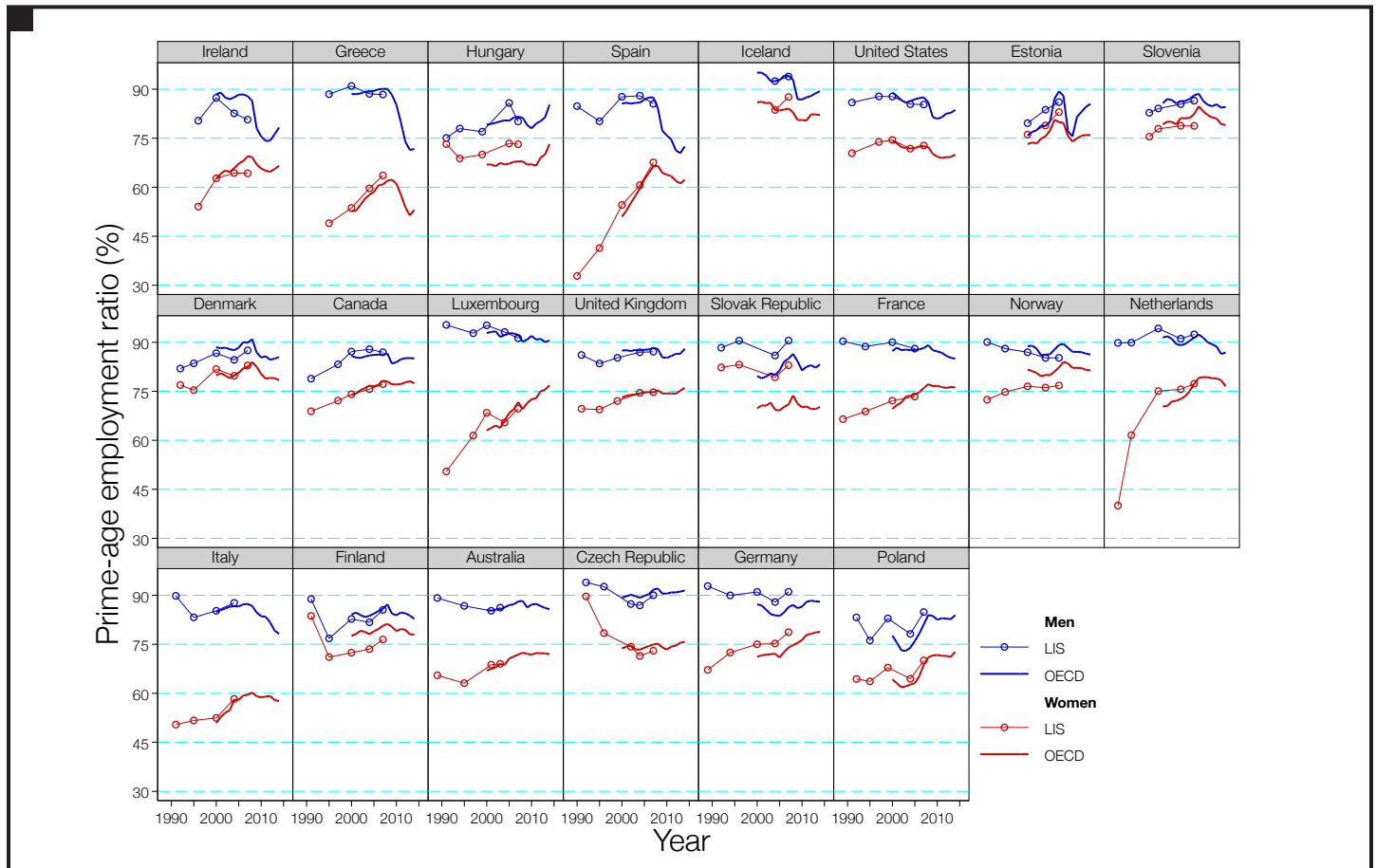
The upshot of the data in Figure 2 is that the U.S. labor market fell more than labor markets in other mature economies. To be sure, employment in the U.S. did not collapse as it did in the special cases of Ireland, Hungary, Greece, and Spain, but it certainly performed worse than its peer countries (the United Kingdom, France, Germany).

Why was the U.S. so hard hit? There are two reasons: First, because the Great Recession was driven by a financial crisis and a housing bubble, it was bound to hit the U.S. harder than countries that relied less on these two sectors. Second, the U.S. protects workers against income loss through unemployment insurance, but it has permissive laws on lay-offs. Employers are freer to lay off workers than they are elsewhere. As Figures 1 and 2 show, the U.S. not only took a bigger employment hit than other nations, it has not fully recovered by the end of 2015 (the X's in Figure 2 mark the 2015 PER for the U.S.).

The LIS cannot yet be used to carry out a full comparison of contemporary PERs. Only a handful of “wave 9” data sets, which are needed to bring the time series up to the present day, are available in the LIS. To fill in the recent experiences, I have supplemented the LIS data with official reports countries make to the Organization for Economic Cooperation and Development (OECD).⁴ The LIS and OECD define PERs the same way, but the results do not align perfectly in all countries, so I report some of each in Figure 3. It shows the PERs by gender based on LIS data up until 2005 and based on OECD data from 2000 to 2014.

The news from the OECD data is not good. These data make even clearer how the U.S. stands out among other mature economies. Here again, we see that job loss was worse in the U.S. than in the United Kingdom, France, and Germany, as noted above. The U.S. ranked 14th in women’s PER and 15th in men’s PER before the recession (out of 22 countries), but after the dust settled and the recovery occurred, the U.S.

FIGURE 3. Prime-Age Employment Ratio by Year, Gender, and Country, 1990–2014



Note: Circles show LIS data; series that are just lines are annual OECD data.

ranked 18th in women's PER and 16th in men's PER. The only countries with a lower PER are Greece, Italy, Spain, and Ireland (for both women's and men's PER), plus Finland and the Slovak Republic (for men's PER).

We led off by asking whether the U.S. is facing special employment problems or just the standard-issue employment problems of mature economies. The answer to this question is, unfortunately, resoundingly clear: There is indeed "employment exceptionalism" in the U.S.

Conclusions

In 2009 and 2010, the U.S. economy suffered the most job loss in the postwar era. Job seekers of all ages had trouble finding work, millions got discouraged and quit looking for work, and unemployment spells lasted longer than at any time on record. The prime-age employment ratio, the best measure of the health of the labor force, dropped to the lowest level on record among men and had the largest drop ever among women. Six years later, employment has improved, but neither men nor women have regained their pre-recession employment levels.

This dismal jobs picture is not entirely unique. Vulnerable countries like Greece, Ireland, Hungary, and Spain also experienced huge job losses in the recession. But no other large economy suffered the same level of employment drop-off. The United Kingdom, France, and Canada saw much less change in employment, and Germany actually experienced an increase in employment.

Will there be a reversal in the employment fortunes of the U.S.? The key—and open—questions in this regard are whether a new job-creating invention in the U.S. will reverse recent trends, whether automation will have the job-reducing effects that even some mainstream economists now openly discuss, and whether the growing interest in public-sector jobs of "last resort" proves to have any long-run traction. ■

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NOTES

1. Luxembourg Income Study (LIS) Database, <http://www.lisdatacenter.org> (multiple countries; 1990-2010). Luxembourg: LIS.

2. Hout, Michael, and Erin Cumberworth. 2014. "Labor Markets." *The Poverty and Inequality Report: A Special Issue of Pathways Magazine*. Stanford Center on Poverty and Inequality.

3. Hout, Michael, and Erin Cumberworth. 2015. "Labor Markets." *The Poverty and Inequality Report: A Special Issue of Pathways Magazine*. Stanford Center on Poverty and Inequality.

4. Organization for Economic Cooperation and Development (OECD) Database, <https://data.oecd.org/emp/employment-rate-by-age-group.htm> (multiple countries; 2000-2014). Employment rate by age group (indicator). doi: 10.1787/084f32c7-en.