
America's Labor Market by the Numbers

By Mohamed A. El-Erian Mon, Sep 23, 2013

We have a "highly-segmented, multi-speed" workforce in the U.S., writes PIMCO's CEO. While the unemployment rate of college graduates is only 3.5%, the unemployment rate for those without a high school degree is 11.3% and the teenage unemployment rate is over 22%.

Politicians and economists now join investors in a ritual that typically takes place on the first Friday of each month and has important consequences for global markets: anticipating, internalizing, and reacting to the monthly employment report released by the United States Bureau of Labor Statistics (BLS). Over the last few years, the report has evolved in a significant way – not only providing an assessment of the economy's past and current state, but, increasingly, containing insights into its future as well.

Think of the BLS's employment report as a comprehensive monthly check-up for the American labor market. Among its many interesting statistics, it tells you how many jobs are created and where; how earnings and hours worked are evolving; and the number, age, and education of those seeking employment.

Despite the data's richness, only two indicators consistently attract widespread attention: net monthly job creation (which amounted to 169,000 in August) and the unemployment rate (7.3% in August, the lowest since December 2008). Together they point to a gradual and steady improvement in overall labor-market conditions.

This is certainly good news. It is not long ago that job creation was negative and the unemployment rate stood at 10%. The problem is that the headline numbers shed only partial light on what may lie ahead.

The figure for monthly job creation, for example, is distorted by the growing importance of part-time employment, and it fails to convey the reality of stagnant earnings. Meanwhile, the headline unemployment rate does not reflect the growing number of Americans who have left the work force – a phenomenon vividly reflected by the decline in the labor participation rate to just 63.2%, a 35-year low.

To get a real sense of the labor market's health, we need to look elsewhere in the BLS's report. What these other numbers have to tell us – about both the present and the future – is far from reassuring.

Consider the statistics on the duration of unemployment. After all, the longer one is unemployed, the harder it is to find a full-time job at a decent wage.

In August, the BLS classified 4.3 million Americans as long-term unemployed, or 37.9% of the total unemployed – a worrisome figure, given that the global financial crisis was five years ago. And, remember, this number excludes all the discouraged Americans who are no longer looking for a job. In fact, the more comprehensive employment/population ratio stands at only 58.6%.

The teenage-unemployment rate is another under-appreciated indicator that is at an alarming level. At

22.7%, too many American teenagers, lacking steady work experience early in their professional careers, risk going from unemployed to unemployable.

Then there are the indicators that link educational attainment and employment status. Most notable here is the growing gap between those with a college degree (where the unemployment rate is only 3.5%) and those lacking a high school diploma (11.3%).

Rather than confirming the paradigm of gradual and steady improvement, these disaggregated numbers attest to a highly segmented, multi-speed labor market – one with features that could become more deeply embedded in the structure of the economy. If current trends persist, the BLS's report will continue to evolve from a snapshot of the past and present to a preview of the future.

Undoubtedly, the US labor market's uneven recovery has much to do with the structural and policy gaps exposed by the 2008 global financial crisis and the recession that followed. The economy is still struggling to provide a sufficient number of jobs for those who were previously employed in leverage-driven activities that are no longer sustainable (let alone desirable).

Moreover, US schools, particularly at the primary and secondary levels, continue to slip down the global scale, constraining Americans' ability to benefit from globalization. Meanwhile, existing and newly created jobs provide less of an earnings upside. And political polarization narrows the scope for effective tactical and structural policy responses.

This combination of factors is particularly burdensome for the most vulnerable segments of the US population – particularly those with limited educational attainment, first-time labor-market entrants, and those who have been out of work for an extended period.

So while net job creation will continue and the unemployment rate will maintain its downward trajectory – both highly welcome – the labor market's evolution risks fueling rather than countering already-significant income and wealth inequalities, as well as poverty. Overburdened social support mechanisms would thus come under even greater pressure. And all of this would amplify rather than attenuate political polarization, placing other urgent policy priorities at even greater risk.

If this interpretation is correct, the heightened attention given to the monthly BLS headline indicators needs to be accompanied by a broader analysis and a different mindset. After all, the report is much more than a scorecard on America's performance in confronting a persistent economic, political, and social challenge; it is also an urgent call for a more focused corrective effort involving both government and business.

A better mix of fiscal and monetary policies and sustained measures to enhance productivity and competitiveness remain necessary conditions for addressing America's labor-market challenges. But they are not sufficient.

Both the public and private sectors – individually and through scalable and durable partnerships – need to think much more seriously about labor retraining and retooling programs, enhanced labor mobility,

vocational training, and internships. President Barack Obama's appointment of a "jobs czar" would also help to enhance the credibility, accountability, and coordination required to overcome today's significant and rising employment challenges.

Yes, the headline numbers will continue to signal overall improvement in the labor market. The urgent task now is to ensure that lasting progress is not undermined by the worrisome compositional trends that the BLS's report highlights month after month.

© 2013 Project Syndicate.