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Down and Out in the United States

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The Clinton administration has made much of its record on employment and economic growth. The 1999 *Economic Report of the President*, for example, claims, citing a host of recent statistics, that "gains from the ongoing economic expansion [have been] distributed throughout the population, reaching groups that had previously been left out" (Council of Economic Advisers 1999, 116). However, although the gains of the past seven years are certainly not insignificant, the story told by the White House, government agencies, and the media is far from complete. Behind the healthy numbers lurks a disturbing fact. Despite a strong economic expansion, more than 28 million persons aged 25 to 64 (20 percent of that age group) were classified by the Bureau of Labor Statistics (BLS) as out of the labor force (OLF) in 1998.

These are people who are neither employed nor classified by the BLS as unemployed. If we look at the entire 25 and over population, we see almost 56 million persons out of the labor force in 1998, and this is in addition to those classified as unemployed.

A large proportion of the OLF adults have a low income and low educational attainment. In an earlier brief (Pigeon and Wray 1998), we found that over the course of the Clinton expansion, fewer than 500,000 jobs were created for the half of the population that have a high school degree or less. The balance of the jobs created (11.3 million) went to people with at least some college education.¹ We calculated the number of what we called "potentially employable" workers on the assumption that labor force participation rates could be raised for all educational groups to the rate achieved by college graduates. We estimated that there may be 14.8 million potentially employable workers aged 25 to 64 and 26 million if we include workers 65 and over. Most of these potentially employable workers are out of the labor force.

This brief takes a closer look at those who have been left behind by the "American jobs machine" and evaluates how likely they are to move into the labor force on their own accord in the absence of any kind of active labor market policies. We then look at how a job opportunity program might help them.²

Defining the Out of the Labor Force Population

There is, of course, always a dynamic element in the job market: workers leave jobs voluntarily or involuntarily but find new ones. However, too many analysts ignore the millions who are stuck outside of the labor force. At least in its readily available publications, the BLS does little more than count the total OLF population (by gender, race, and age). Probably the main reason the OLF population is ignored is that it is believed that they must be out of the labor force by choice, in which case there is little need to publish data on them.

Most labor statistics, including the OLF and unemployment figures, are drawn from the monthly Current Population Survey (CPS), which contains questions about work experience and earnings in the survey week and the previous month. For our analysis, we drew heavily on the March survey, which in addition contains questions about income and work experience in the previous year. We were particularly concerned with respondents in the March survey who said they did not work

(DNW) at all (not even for a day) during the past year.³ Note that this is not the same as being out of the labor force. Individuals can be counted as out of the labor force (if they did not work or seek work for at least one month in a calendar year) even though they may have worked at some time during the year. Thus, the DNW population is only a subset of the official OLF category, albeit a large one (in any given year, the DNW population accounts for at least 90 percent of the OLF population). The advantage of studying the demographics of these people is that we can be secure in the knowledge that there is no flow in and out of our sample during a given year, a problem that would plague demographic analysis of annual OLF data.

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Demographics of Those Who Did Not Work

More than 51.7 million people (about 31 percent of the entire 25 and over population) did not work at all in 1997. Data from the March survey show that those who did not work were more likely to be woman and tended to have less education, to be older, to be in poorer health, and to have lower income than the broader population.

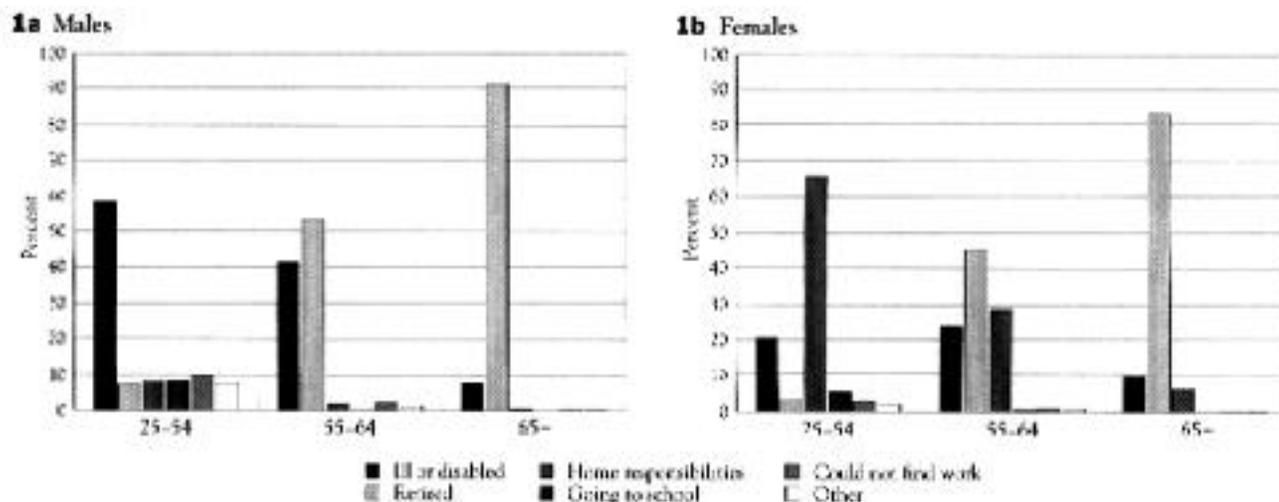
Almost two times more women than men said they did not work in 1997. More than two-thirds of men and women who did not work in 1997 had only a high school degree or less. This distribution of educational attainment differs greatly from that of the broader population, in which there was an almost even split between people with no college education at all and those with at least some college. The relatively low educational level of the DNW population is a reflection of the fact that it is heavily weighted with older persons, who generally have less formal schooling than more recent generations. The bulk of the DNW population, both male and female, is concentrated in the 65 and over age category, which of course corresponds to the much lower labor force participation rates for this age group. This reflects the fact that older workers are far more likely to drop out of the labor force whether it be due to retirement, outdated skills, or the belief on the part of employers that older workers are less pliant than younger workers (Burman 1988). The age data by gender show that women in the 25 to 54 age group are more likely than men to report that they did not work. Again, this reflects the fact that despite important gains in the last 50 years, female participation rates are still lower than those of males regardless of age.

DNW women generally reported themselves as healthier than men did. They tended to be somewhat better off financially (as measured by household income). The mean household income of females who did not work in 1997 was \$38,237, almost 13.5 percent more than males. This is almost the exact reverse of the situation for the broader population, in which the average male household income was almost 11 percent higher than that of women.

Reasons for Not Working

The March survey also allows us to look at the reasons given for not working.⁴ If we break down the DNW population by gender, age, and reason for not working, we again note sharp differences between men and women. Figure 1 shows that 58 percent of DNW males aged 25 to 54 said they were ill or disabled, compared with only 20.6 percent of women in the same age group. Almost 66 percent of DNW women in this age group said they had home responsibilities, compared with only 8.5 percent of men. In this same age group, we also see that males are three times more likely than females to report they could not find work, a tendency that persists, albeit in a diminished fashion, in the next two age groups.

Figure 1 Reasons for Not Working



Note: The absence of a bar indicates no responses for a reason for not working within an age group
Source: March 1998 Supplement of the Current Population Survey.

In the 55 to 64 age group, there is a growing preponderance of retirement as the reason for not working. There is a sharp decline in the percentage of women who said they did not work because of home responsibilities and a somewhat less dramatic decline in the number of men who said they did not work because of illness or disability. By the time we get to the 65 and over age group, the preponderance of retirement is firmly established; more than 91 percent of males and almost 84 percent of females gave it as their reason for not working.

Changing Places: Flows into and out of the Labor Force

The March survey allows us to follow some respondents over a full year. In order to compare a robust labor market with a depressed labor market, we followed a portion of the DNW population from the March 1997 survey to the March 1998 survey and from the March 1992 survey to the March 1993 survey.

We found that the flows among DNW categories are rather large, even over a period as short as a year: 9.22 percent of those 25 and over who did not work in 1996 moved into the labor force (had found a job or were looking for work and were counted as unemployed) in 1997. Of those who said they were ill or disabled in 1996, only 6.7 percent moved into the labor force in 1997, about 65 percent still said they were ill or disabled, and about 22 percent moved into retirement.

These data suggest that self-reported reasons for not working may be influenced by social norms. For example, it may be more socially acceptable for a younger worker to give disability as a reason for not working and for an older worker to give retirement. Thus, as a "disabled" individual ages, it becomes more likely that he or she will become "retired." Similarly, younger women report home responsibilities and then switch to retirement after reaching age 65, sometimes even if they were never counted as employed. Burman (1988) seems to have something similar in mind when he talks about how people judge whether their lives are "on time" or "off time" relative to socially accepted timetables. Being out of synch with a peer group "usually creates problems of adjustment for the individual, either because it affects his [or her] sense of self-worth, or because it causes disruptions of social relationships" (Neugarten and Hagestad 1976, quoted in Burman 1988, 51).

Retirees were particularly apt to stay put. More than 87 percent continued to give retirement as their reason for not working a year after they were first interviewed and only 3.1 percent moved into the labor force. The biggest proportional shifts into the labor force came from those who said they could not find work, were going to school, or had some other reason for not working in 1996. For each of these categories, about half had moved into the labor force by 1997, although in absolute terms their numbers were quite small.

Finally, almost 20 percent of persons who said home responsibilities prevented them from working in 1996 moved into the labor force in 1997. This represented the biggest move in absolute terms, suggesting that women are an important part of the flow into and out of the labor force.

Broadly speaking, there was little difference in terms of the flow into the labor force between the 1991 to 1992 period and the 1996 to 1997 period. About 8.84 percent of the DNW population moved into the labor force at some point during 1992, only 0.38 percentage points less than the 9.22 percent who did so during 1997, despite the fact that real economic growth was about 2.7 percent in 1992 compared with a more robust 3.9 percent in 1997. The similarity in flows in the two periods indicates that the current expansion has done almost nothing to help the bulk of the DNW population and is consistent with our earlier findings that virtually all of the new jobs created during the expansion have been filled by new entrants into the labor force and not by people moving back into the labor force.

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The main lesson to be drawn from our analysis of the flows into and out of the labor force is that there is a hard-core majority of the DNW population (and therefore the OLF population) who do not change their labor force status even in a robust economy (at least over the course of a year) and in that sense are very different from the unemployed. This is especially true of retired and ill or disabled persons, who make up a large portion of the OLF population.

The Costs of Not Working

The data presented in this paper have painted a picture of a segment of the population that, with a few notable exceptions, suffers from poor health, low household income, and little labor market mobility. It also tends to be older, a factor that surely has a feedback effect into each of these observed tendencies.

A large body of psychological and economic research shows that, even with age controlled for, prolonged bouts of unemployment (as officially defined) have deleterious effects on mental and physical health. For

example, Linn, Sandifer, and Stein (1985), comparing a group of workers who lost their jobs with a demographically similar group of employed workers, found that loss of work was followed by increased incidences of psychosomatic illnesses, depression, and anxiety. Similarly, Claussen, Bjorndal, and Hjort (1993) found these conditions 4 to 10 times more prevalent among those who were not working than among the employed. An article in *The New York Times* (Goode 1999) cited research showing that people who had been without work for one month or more under highly stressful conditions were 3.8 times more susceptible to viruses than people who had not experienced a significant stressful event.

Prolonged periods of not working clearly have a heavy personal cost. A person who loses a job suffers not only a monetary loss but a loss of social status. This is especially true in a capitalist society, where "money provides the only legitimate entree to reciprocated exchanges that are the substance of social life. Symbols of worth—the car, furniture, particular foods, the pint of beer—are intrinsic to rituals of display, courtship, manliness, housewifery [sic]. But they are also symbols of employment. They reflect the proper order of things and are clung to, even in the absence of work" (Fineman 1987, quoted in Burman 1988, 137).

Policy Implications

Many economists suggest that the job market is dynamic enough to accommodate persons of varying skills and demographic traits provided they truly want to work. Such statements imply that the burden of unemployment is widely shared, that few individuals suffer greatly, and that those who do have only themselves to blame.

We have seen that the DNW (or the OLF) population is varied in terms of reason for not working, gender,

education, age, health, and income. We do know that some fraction of this population will move into the labor force. While it is exceedingly difficult to make accurate generalizations, those who find jobs are more likely to be female than male and will tend to be younger, healthier, and better educated than their DNW peers. This small percentage of the DNW population—apparently about 10 percent and relatively immune to the economic cycle—probably can and do find work when they want it. However, the majority of the DNW population are static and bereft of this opportunity. These are primarily ill or disabled, older, and retired persons. They may move between categories of reported reasons for not working, but not into the labor force.

It is precisely the static condition of those who are out of the labor force that makes most current labor market policies, and especially the welfare reform measures of 1996, ineffective. For the most part, these policies are predicated on the notion that the labor market is dynamic and flexible enough to accommodate anyone who wants to work. But this simply is not true.

Instead of the usual narrow labor market policies, we suggest a more comprehensive policy based on a job opportunity approach. For our purposes here, we need not describe the job opportunity program fully (for a more complete discussion, see Forstater 1999; Mitchell 1998; Papadimitriou 1998; Wray 1998; and Gordon 1997). The essential point for our discussion is that most such proposals start with the premise that the government announces that it will offer a job at a living wage plus health care and child care benefits to anyone willing and able to work (with ableness broadly defined). Thus, the program is, by definition, universal—open to anyone regardless of age, gender, race, education, and experience.

Of course, saying that the program is universal does not mean it will necessarily employ a representative sample of the broader population. Under normal conditions, a majority of those employed in the job opportunity program would be "hard-core" jobless—people who have always had difficulty finding work in the private sector—such as the ill or disabled, the unskilled and semiskilled, and the elderly. They would be supplemented by people who find work more easily and move into and out of the program according to the business cycle. Our flow analysis suggests that women might make up the bulk of this cyclical flow.

A broad-based employment program is much more likely to survive politically in the long-run than the current patchwork of social policies because, among other things, it "is consonant with mainstream American values" (Collins and Goldberg 1999). These values emphasize work and self-reliance. By contrast, the American social safety net has seen both its political support and its effectiveness eroded over the last 20 years as it shifted from a broad-based employment strategy to income support. Collins and Goldberg argue that one of the reasons so many components of the social safety net have been repealed or diminished in scope is that they became increasingly targeted toward a narrow segment of the population—the neediest—but that segment is also the politically least powerful. This is not to say that a job opportunity program will replace all existing social programs. A well-designed program would, however, reduce the need for assistance programs by providing paid work and incorporating some of their key features, such as health care, into its framework.

The job opportunity approach does not shy away from the reality of our system. Faith in the market is not enough because the market does not adapt to meet the needs of workers—nor should it. The presumption underlying most free market employment "policies" is that workers must adapt to meet the needs of the market. This is fine for some, especially those able to attend college or young enough to acquire new skills easily, but it is impossible or exceedingly difficult for others, especially the elderly, the poor, the ill or disabled, and the least educated, precisely those who make up the bulk of the out of the labor force population.

Everyone deserves an opportunity to work. If the market cannot provide that opportunity, government—as the political embodiment of our collective will—must. This is not an anti free market idea. Rather, it serves as the basis for a necessary complement to the private market's operation. A job opportunity program provides workers with income, a sense of worth, and useful skills and at the same time prepares them for participation in the labor market. This is something the private market cannot and will not do on its own.

For the most part, current labor market policies are predicated on the notion that the labor market is dynamic and flexible enough to accommodate anyone who wants to work. But this simply is not true.

Notes

1. These figures update those cited in the earlier brief. It was written in the summer of 1998 and used data for the first six months of the year.
2. The job opportunity program is also known as the employer of last resort (ELR) policy, buffer stock employment policy, job guarantee program, and public service employment program. See Forstater (1999), Mitchell (1998), Papadimitriou (1998), Wray (1998), and Gordon (1997) for more details.
3. We use the acronym DNW throughout the text to denote that segment of the population who in the March survey said they did not work for pay in the previous year. We do not mean to indicate that all respondents in the DNW population were idle, only that they did not work for pay. Many of the respondents who fall into the DNW category looked after family members, went to school, and engaged in volunteer activities.
4. The reasons are self-reported. The interviewer does not (and probably cannot, due to cost and time limitations) verify whether these responses are entirely consistent with the person's actual labor market history.

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