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NONEMPLOYMENT: A NECESSARY ECONOMIC INDICATOR

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FOR MOST POLICYMAKERS, THE PRINCIPAL indicator of the labor force's relationship to the economy for the last 60 years has been the unemployment rate—a measure that, while still useful, is not broad enough to reflect some of the important changes taking place in the labor force today. In particular, the unemployment rate does not capture the effects of retirement, which has displaced involuntary unemployment as the primary source of men's nonemployment. Clearly, it is time to rethink how labor force statistics are reported and used.

The first such data were collected soon after the Industrial Revolution. They were based upon the crude concept of the "gainful worker" and included only those who reported having an occupation. Partly in response to the Great Depression, a concerted effort was made in the 1930s to measure unemployment. Workers who reported having an occupation were asked if they had worked the previous day; those who had not were classified as unemployed. In 1940, the federal government adopted its current definition of the unemployed—those who are actively seeking employment.

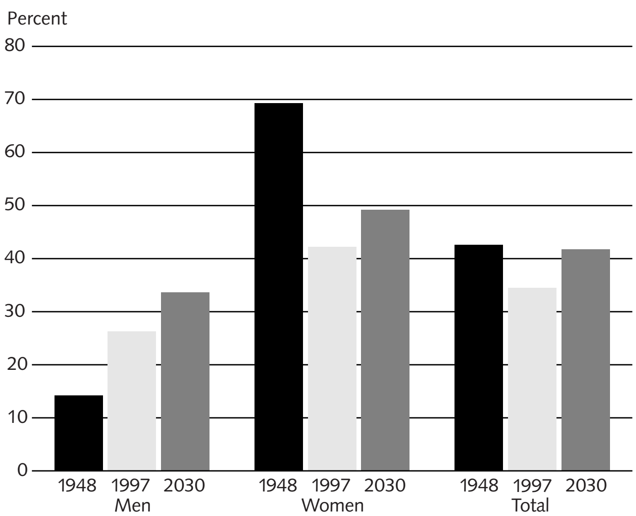
With recent demographic changes, including the well-known aging of the population and the relatively new phenomenon of earlier retirement ages, close to one-third of all adults are scheduled to be retired 30 years from now. For this reason, we suggest a new measure: nonemployment. By including both the unemployed and those who have dropped out of the labor force, the nonemployment rate has the advantage of capturing all factors affecting adult employment, including retirement. For our purposes, we define the adult nonemployment rate as the percentage of people age 20 and older who are not currently working.

By tracking and reporting on nonemployment, the Labor Department can catch economic effects masked by the narrower measure of unemployment. Between 1948 and 1997, men's nonemployment almost doubled, from 14 percent to 26 percent (figure 1). At the same time, women's nonemployment declined, from 69 percent in 1948 to 42 percent in 1997. The result—an overall drop of 8 percent in the adult nonemployment rate—reflects how the rapid absorption of women into the labor force has more than offset the negative impact of men's retirement during the postwar period.

However, workers entering and leaving the labor force may not always balance each other out so conveniently. As women's participation in the labor force approaches that of men, it can no longer be expected to offset the rapid growth in the percentage of adult men who are not employed. Moreover, men and women of the Baby Boom generation who once swelled the ranks of the workforce will begin to retire in 2008. Younger people will be unable to compensate for this surge in the retirement-age population. This phenomenon has been examined for programs like Social Security, in which the worker-to-beneficiary ratio is expected to decline from more than 3 to 1 today to slightly more than 2 to 1 after 2030.

The impact on the economy stretches far beyond Social Security. If we make the simple assumption that labor force participation rates for all age groups will

FIGURE 1.
The Nonemployment Rate of People Age 20 and Over



Source: The Urban Institute, 1999. Based on data from the Bureau of Labor Statistics and the U.S. Social Security Administration.

remain constant and that all other sources of nonemployment (such as unemployment) will also stay at their current low rates, the aging of the overall population will result in a 7 percentage point increase in the nonemployment rate by the year 2030—roughly equivalent to a 10 percentage point increase in the unemployment rate. This is an order of magnitude not witnessed since the Great Depression, and it has the potential to last much longer.

Short-term drags on the economy could also prove significant. Cycles of growth and decline in the nonemployment rate are closely associated with postwar economic cycles. In fact, the nonemployment rate has declined throughout all postwar periods of growth and is an important factor in explaining the two long recovery or growth periods in the 1980s and 1990s. The nonemployment rate has risen only in years closely associated with recessions.

The scheduled increase in nonemployment is equivalent to an annual increase of almost one-half percent in the unemployment rate. In the past, an increase in unemployment this size has generally been associated with recession. There's one big difference today, however. If the early retirement encouraged by current public and private systems continues, each annual increase in nonemployment will be compounded for 20 years, whereas recessionary increases in nonemployment caused by unemployment usually reverse themselves after a year or so.

Despite the projections used here, the actual increase in nonemployment is uncertain. Women's participation in the labor force could rise a while longer. Policies could be designed to encourage workers to retire at later ages. Whatever happens, important trends in the economy must not go unmonitored. Because the nonemployment rate is often better suited to capture them than the unemployment rate is, it should be included just as regularly in important Labor Department reports and in the Economic Report of the President.

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