

The Jerome Levy Economics Institute of Bard College

# Public Policy Brief

No. 45A, September 1998

## Did the Clinton Rising Tide Raise All Boats?

*Marc-André Pigeon and L. Randall Wray*

As the long, relatively robust Clinton-era expansion comes to its apparent end, it is time to take stock of the impact it has had on labor market opportunities. President Clinton is rightly proud of the number of jobs created during this expansion. The official unemployment rate fell to 4.5 percent by mid 1998, the lowest level in three decades. The employment-to-population ratio (hereafter referred to as the employment rate) for workers aged 16 and over has grown steadily throughout the 1990s and reached a record high of 64.1 percent in the first half of 1998. Employment gains are widespread across sex, race, and age categories. Real wages have increased 4.2 percent since 1994, the longest period of sustained increases since the late 1960s and early 1970s.

The overall picture then is one of falling unemployment rates and rising employment rates in the mid 1990s. This seems to be consistent with the view that labor markets are tight. The question we ask here, however, is whether employment gains have been shared by the low-skilled members of the labor force. Specifically, has the rising economic tide lifted the boats of those with lower skill levels or will specific policies be required to provide employment opportunities to the less skilled? We find that over the entire Clinton expansion only 700,000 of the almost 12 million new jobs created went to the half of the population that has not attended college. The putatively tight labor market has not succeeded in luring workers with no college education into the labor force. Thus, even at the peak of the expansion, there is still an intolerably high level of wasted human resources. We recommend well-targeted, active labor market policies for those left behind by the Clinton rising tide.

### Labor Market Conditions for Low-Skilled Workers

One might expect that as an expansion continues and as labor market conditions become tight, employers would reach further down the skills continuum. As labor markets tighten, unemployment rates would fall first for workers of higher skill levels and then for workers with less skill and education. Employers would then seek employees from among those who were out of the labor force, trying to entice them with appealing labor market opportunities. We would thus see rising employment rates first for the higher skilled and then for the lower skilled. Eventually, if labor markets became sufficiently tight, the labor force participation rates for all skill levels should converge toward some maximum feasible rate.

Analysts believe that educational attainment is a good proxy for skill level. Presently, 17 percent of the United States population aged 25 and over have not finished high school, 34 percent are high school graduates but did

not attend college, 25 percent have some college education or an associate's degree, and another 25 percent have a college degree.<sup>1</sup> Available data on unemployment and employment rates for the four rungs of the educational ladder seem to provide supporting evidence for the view that a rising tide has lifted all boats (Ritter 1998). Unemployment rates have fallen and employment rates have risen most for those on the lower half of the ladder: for high school dropouts the unemployment rate has fallen more than 4 percentage points and the employment rate has risen 3 percentage points; for high school graduates the unemployment rate has fallen more than 2 percentage points and the employment rate has risen almost 1 percentage point.

Will those on the lower rungs of the ladder achieve the same unemployment and employment rates enjoyed by those on the top rungs through economic expansion alone? We do not think so. First, the gaps between those who attended college and high school dropouts are huge, especially for employment rates (an average of 79 percent and 37 percent, respectively, for the period 1992 to mid 1998). Second, one would expect the trend of rising employment rate and falling unemployment rate for lower-skilled workers to be reversed as soon as the economy slows, with the "last hired" being the "first fired."

Finally, and more importantly, closer analysis of employment and population data casts doubt on the conclusion that employment opportunities increased significantly for the less skilled during the Clinton expansion. Although it is true that unemployment rates fell and employment rates rose, the apparent improvement is the result of a decline in the population of those who have not attended college. As we show, almost all the job gains went to the population with at least some college education.

The U.S. population grew by 11.4 million between 1992 and 1998, employment rose by 11.6 million, unemployment fell by 2.7 million, and the number of individuals out of the labor force rose by 2.5 million. Virtually all of the population growth consisted of individuals who had at least some college. The population of high school dropouts fell by 2.8 million,<sup>2</sup> with the largest decline in the number of high school dropouts who were out of the labor force. The somewhat surprising statistic that the employment of high school dropouts fell by 95,000 over the whole expansion means that *all* of the rise in the employment rate for that group was due to a shrinking population and none to rising employment. High school graduates gained just 784,000 jobs. Thus, over the entire Clinton expansion, less than 700,000 new jobs were created for the half of the population that has not attended college. The other half--those with at least some college education--obtained 10.9 million of the 11.6 million new jobs, a whopping 94 percent, contradicting the story that a tight labor market is forcing firms to reach down to hire the less skilled.

To gain further insight into the employment picture, we calculated how much of the increase of employment came from a reduction in the number of unemployed, how much from a reduction in workers who are out of the labor force, and how much from population growth. Of the 11.6 million employment increase, 2.7 million can be attributed to a reduction of unemployment. The remaining increase of 8.9 million in employment can be attributed to net entrants into the labor force, due to rising population and to rising labor force participation rates--but for the most part this was true only for those who had at least some college. In fact, high school dropouts and high school graduates account for a net *loss* here; reduction of unemployment (1.8 million) for these groups is more than the total increase of employment for these two groups (689,000). In other words, all of the employment gain that can be attributed to net entrants came from jobs given to workers who attended college. Job creation during the Clinton expansion just kept pace with the increase in the number of college-educated workers who would have been expected to enter the labor force, based on their normal employment rate.

## **The Potentially Employable**

The critical problem for the less educated is their relatively low labor force participation rate rather than their higher unemployment rate. Even after the long and robust expansion of the 1990s, over 56 million noninstitutionalized adults, 25 years old and over, remain out of the labor force--many times greater than the 3.9 million who are officially unemployed. Admittedly, many of the 56 million do not wish to participate in the labor force and some are willing to participate only on certain conditions. Low employment rates for those without any college education cannot be attributed to lack of job availability alone. However, we believe it is still worthwhile to obtain what might be thought of as an upper-bound estimate of the number of potentially

employable, which would include not only those who are actively seeking work (now counted as unemployed), but also those who are currently out of the labor force but who might be employed under certain conditions.

To calculate the number of potentially employable workers, we assumed that the labor force participation rate for college graduates in mid 1998 (80.4 percent for the 25 and over age group and 88.0 percent for the 25 to 64 age group) represents a feasible maximum on the grounds that, given the tight labor market for college graduates, it is reasonable to assume that there is mostly frictional unemployment for that group and virtually no one is involuntarily out of the labor force. We then calculated the number of potentially employable individuals for each educational category by subtracting the number of employed from the target number of employed, calculated using the participation rate of college graduates.

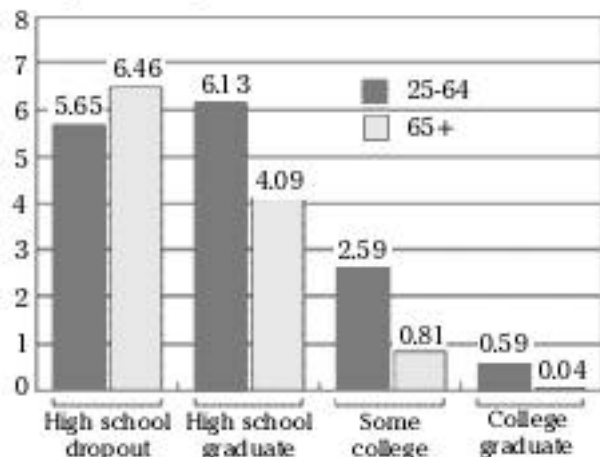
Our calculations show that as of mid 1998, there were 26.3 million potentially employable in the age group 25 and over (see graph). This number far exceeds the number of officially unemployed for that group (less than 4 million). Since 1992 the number of potentially employable has fallen by about 2.5 million, which is more than accounted for by the 2.7 million decline in the number of unemployed. The current expansion has not led to any appreciable improvement with regard to job opportunities for those who are out of the labor force.

As the graph shows, removing the 65 and over population has the effect of reducing the number of potentially employable workers by about 11.4 million, with almost all of the decline accounted for by the reductions in the bottom half of the educational ladder.<sup>3</sup> This is not surprising given our estimate that about two-thirds of the 65 and over population have a high school diploma or less versus about one-half for the entire population.

College-educated individuals 65 and over are either working or have chosen to stay out of the labor force because they can afford to do so. On the other hand, given that lifetime earnings are significantly affected by educational attainment, we expect that many of the nearly 10.6 million elderly with no college that we counted as potentially employable would, if given a chance, supplement their relatively low retirement income with wages if jobs were made available.

We thus arrive at an estimate of 15 million potentially employable workers aged 25 to 64 who could work, and that figure might be supplemented by some number of workers over age 65 who would choose to participate in labor markets if given a chance. It is impossible to predict accurately how many of these individuals would choose to work under reasonable conditions. Our point here is not to assert that it is vital to ensure that every one of these individuals participates in the labor force, but to show that a rising tide does not raise all boats. The relatively high number of potentially employable even after the removal of the 65 and over population indicates there is a serious social problem that cannot be resolved by a robust and long expansion alone.

Potentially Employable Workers, by Age and Education, 1998 (in millions)



Note: Total potentially employable by age group: 14.95 for 25-64; 11.4 for 65+. Data for 1998 are for the first six months of the year. Source: Bureau of Labor Statistics Internet site: www.stats.bls.gov: 80.

## A Rising Tide Is Not Enough

What policies can increase job opportunities for the groups that have been left behind? The Keynesian view, which was dominant during the 1960s and 1970s, held that an expanding economy with macro policies to fine-tune aggregate demand is sufficient. Institutionalists have argued for well-targeted micro policies in the belief that a rising tide, alone, is not enough. The dominant view in the 1980s and 1990s has been that free markets will generate high growth and low unemployment. Our finding of a relatively large number of potentially employable despite the current expansion suggests that the Institutionalists were right after all. Whether expansions are packaged as Keynesian-led, supply side-led, or free market-led, they must be supplemented with active labor market policies if job opportunities are to be increased for those at the bottom.

Hyman Minsky argued that a successful policy of full employment must be based on the government's willingness to hire anyone who wants to work at a fixed wage (Minsky 1986). Along similar lines, we propose a job opportunity program that would "hire off the bottom," hiring all those who are ready, willing, and able to work but cannot find employers willing to hire them. The federal government would announce that it would provide the financing to pay the legislated minimum wage, plus health care and child care benefits, to anyone ready, willing, and able to work. Government agencies at all levels (federal, state, local) and designated not-for-profit organizations could hire as many new employees as desired, with direct labor costs, including health and child care benefits, paid by the federal government. Administration and supervision would thus be decentralized, with participating employers setting reasonable performance standards that would have to be met by program employees. Of course, employers could not hire program workers to replace existing workers. The federal government would require that all these jobs have a significant training component in order to prepare participants for eventual private sector (or public sector) employment. In addition, detailed work records would be kept so that prospective nonprogram employers could recruit from among program participants. The goal would be to create a pool of employable, "buffer stock" labor from which employers could draw as an alternative to recruiting from colleges.

This program would provide job opportunities to all who want to work at the minimum wage. It can achieve a degree of employment that cannot be attained by expansion alone. The problem with traditional stimulus programs is that they might set off inflation long before job opportunities for those with low educational attainment increase. By hiring off the bottom and by fixing the wage in the job opportunity program at the minimum wage, inflation pressures are minimized. Indeed, we believe the buffer stock of labor will lead to greater price stability than can be achieved under the current system, which relies on unemployment to reduce inflation pressures. For several reasons, workers employed in the program would constitute a better pool of potential employees than the current unemployed population (see Wray 1997). Most obviously, someone working in the program is demonstrating that she or he is "ready, willing, and able" to work to a degree that most of the unemployed cannot.

The United States has a long tradition of active labor market policies, ranging from informal policies such as unrestricted immigration in the late nineteenth and early twentieth centuries to specifically targeted policies such as the Comprehensive Employment and Training Act (CETA) enacted in 1973. Past experience with policies conceptually similar to the job opportunity program, for example, the Public Service Employment program (PSE), tells us that such a program could prove effective. Gottschalk concludes, in an evaluation of employment policies, that "the U.S. experiments . . . indicate that minimum-wage jobs would be demanded if offered" (1998, 93).

We have shown that the Clinton expansion was not sufficiently robust to increase job opportunities for the less skilled. Active labor market policies are required to increase their experience and training so that when private sector demand is high enough, there is an alternative to bidding up the wages of college-educated workers. The job opportunity program can offer full employment and greater price stability simultaneously, while lifting the boats of those left behind by even robust economic expansions.

## Notes

1. Note that we focus on the 25 and over population. This allows us to remove most individuals who would still be in high school or might have completed high school and have not yet attended college, but who might plan to attend college. Thus, if the 25 and over population of high school dropouts declines, for example, this is primarily due to deaths rather than to an increase in the number graduating high school or attending college.
2. The category high school dropout includes people of all age groups who never completed high school. Being that a substantial portion of these are in the over 65 group, we can assume that most of the population decline can be attributed to deaths.
3. We removed the 65 and over population by assuming that the fraction of seniors in the 25 and over population was unchanged from 1997, the latest year for which data were readily available for the 25 to 64 population set. This can be justified because it is unlikely that population figures and the composition of

population figures changed dramatically over the course of the past seven months.

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## About the Authors

Marc-André Pigeon is a research assistant at the Levy Institute. His research interests include labor economics and finance-related issues. He has a special interest in the study of money, central bank interest rate policy, the genesis of financial crises, and the role of convention in all facets of economics. Pigeon received a B.A. from Carleton University, Ottawa, and is completing his M.A. at Ottawa University.

L. Randall Wray is a senior scholar at the Levy Institute. His current research is in the areas of full employment policy, monetary and fiscal policy, and monetary theory. Wray is a past president of the Association for Institutional Thought (AFIT) and is on the board of directors of the Association for Evolutionary Economics. He has been a Fulbright scholar to Italy and an Academic Specialist to Mexico for the U.S. Information Agency. Wray has published widely in journals and his latest book, *Understanding Modern Money: The Key to Full Employment and Price Stability*, is to be published in 1999. He received a B.A. from the University of the Pacific and an M.A. and Ph.D. from Washington University in St. Louis.

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***The full text of this paper is published as Levy Institute Public Policy Brief No. 45.***

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ISSN 1094-5237

ISBN 0-941276-56-2

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