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Beyond Unemployment: The Full Labor Market Picture of Ohio

by Keith Hall and Robert Greene

MERCATUS CENTER
George Mason University

Much like the rest of the United States, Ohio's economy was severely affected by the Great Recession and is recovering very slowly. Long periods of unemployment experienced by many jobless Ohioans have caused unprecedented disengagement from the labor force. These disengaged workers—those without jobs and not actively searching for work—no longer participate in the labor force and are not counted as unemployed. If participation in the labor force by Ohioans today were at the same level as before the recession, Ohio's unemployment rate would be significantly higher. Ohio's decline in labor force participation has particularly harmed the labor market for Ohioans 34 and younger and has outpaced the national average. To improve Ohio's labor market, policymakers should consider reducing the state's regulatory and tax burdens, which may be hindering economic recovery and job creation.

HOW LABOR FORCE PARTICIPATION AFFECTS UNEMPLOYMENT IN OHIO

From the end of 2007 until the end of 2009, Ohio lost over 400,000 nonfarm payroll jobs.[1] **Nonfarm payroll jobs** data function as an indicator of nonfarm private sector employment.[2] This rapid two-year decline represented an over 7.7 percent loss of total jobs—a noticeably more severe drop than the national two-year decline of roughly 6.3 percent.[3] Although Ohio has seen steady job gains over the last four years, the state's job losses since the recession began greatly exceed the national average (see **Graph 1**).

Ohio's **labor force participation rate**—the percentage of the population aged 16 and older with employment or without it but actively looking for employment—has fallen consistently since the beginning of the recession (see **Graph 2**) and remains near its 30-year low.[4] In recent years, Ohio's decline in labor force participation has occurred at a faster pace than the decline of the national average (see **Graph 2**). As a result, Ohio's labor force participation rate—which previously ran 0.5 to 0.8 percent in excess of the national average for years—has finally come into convergence with the national average of 63.7 percent.

The comparatively rapid labor force disengagement in Ohio has meant a falling unemployment rate without a significant increase in employment. The **unemployment rate** is the number of persons as a percentage of the labor force actively looking for employment. When unemployed persons give up looking for work, they no longer are counted as part of the labor force. The unemployment rate therefore decreases not only when unemployed persons are hired, but also when then they simply give up searching for work.

The effect of declining labor force participation on unemployment in Ohio appears to be substantial. The state's official unemployment rate peaked at 10.2 percent in 2009 and has since fallen steadily to its current official level of 7.2 percent (see **Graph 3**). However, if Ohio's labor force participation rate had remained at its 2007 level of 66.8 percent (see **Graph 2**), then the state's unemployment rate would be 11.5 percent (see **Graph 3**).[5]

WHERE THE JOBS HAVE BEEN LOST

The number of private sector jobs in the United States remains 2.8 percent below the number of jobs in 2007 (see **Graph 4**). In Ohio, there are 4.7 percent fewer private sector jobs compared to the number in 2007. Different industries have experienced varying degrees of severity of job loss. Since 2007, Ohio has experienced a 14.9 percent decline in the number of manufacturing jobs and a 20 percent decline in the number of construction jobs. Job losses in Ohio since 2007 have outpaced the national average in the following sectors: trade, transportation, and utilities; manufacturing; leisure and hospitality; information; financial activities; government; and other services. Only two sectors in Ohio—mining and logging, and education and health services—have experienced significant job gains since 2007.

Young Ohioans have been particularly hard hit by the poor labor market since 2007 (see **Graph 5**). Between 2007 and 2012, labor force participation for 16- to 19-year-olds in Ohio declined almost 9 percent. For 20- to 24-year-olds, it declined almost 2 percent. For 25- to 34-year-olds, it declined roughly 3 percent. Yet for those 65 and older, labor force participation has increased 3.6 percent. Unemployment rates by age group display a similar trend (see **Graph 6**). The unemployment rate of those 34 and younger exceeds the statewide average, while the unemployment rate for those 35 and older rests below the statewide average.

EXPLAINING AND REVERSING THE TRENDS

In 2011, Ohio's real economic growth—1.1 percent—lagged behind the national average of 1.5 percent.[6] This sluggish growth has meant that Ohio's labor market recovery has also been slower than the national average. Ohio's comparatively strict labor regulations and high taxes may be hindering its economic growth and thus also its labor market recovery. The National Federation of Independent Business's most recent quarterly survey of small businesses found taxes and regulations to be the two most important problems facing businesses.[7] In the Mercatus Center's recent *Freedom in the 50 States Index*, William Ruger and Jason Sorens found Ohio's tax burden to be the thirteenth heaviest in the United States, and its regulatory burden is higher than nearby Michigan, Indiana, and Wisconsin.[8] They recommend that the state lower taxes, adopt regulatory policy reforms, and follow neighboring Indiana and Michigan in adopting a right-to-work law. Further research would increase understanding of the effects that regulatory and tax reforms would have on Ohio's labor market.

CONCLUSION

Although Ohio's unemployment rate does appear to be declining, the rapid and continuing fall in the labor force participation rate indicates that many Ohio workers are continuing to disengage from the workforce. This trend of widescale worker disengagement—not of labor market improvement—is driving down Ohio's unemployment rate. Ohio's unemployment rate would be 11.5 percent with a prerecession labor force participation rate. The labor market recovery in Ohio is far from complete and has been far from equal between age groups. The decline in labor force participation and the increase in unemployment for Ohioans under 35 years old is particularly troubling. Ohio's job gains have in large part occurred from jobs in education and health services—sectors highly influenced by government. In most other sectors, Ohio's recovery has underperformed the national average and significantly fewer jobs exist than before the recession. Ohio policymakers should examine ways to reverse these troubling trends. Modifying Ohio's regulatory environment and tax regime may be a good place to start, as doing so could help Ohio stimulate more private sector job creation.

ENDNOTES

1. US Bureau of Labor Statistics. There were approximately 5.418 million Ohio nonfarm payroll jobs in December 2007. In December 2009, the number of Ohio nonfarm payroll jobs had declined to 5.002 million.

2. US Bureau of Labor Statistics Glossary, http://www.bls.gov/bls/glossary.htm (accessed May 6, 2012). According to the US Bureau of Labor Statistics, nonfarm payroll excludes payrolls from farm, government, private household, and some nonprofit employment.

3. US Bureau of Labor Statistics. There were approximately 138.042 million US nonfarm payroll jobs in December 2007. In December 2009, the number of US nonfarm payroll jobs had declined to 129.373 million.

4. US Bureau of Labor Statistics. In 1984, Ohio's labor force participation rate was 63.6%, making the 2012 rate of 63.7% Ohio's second lowest labor force participation rate of the last 30 years.

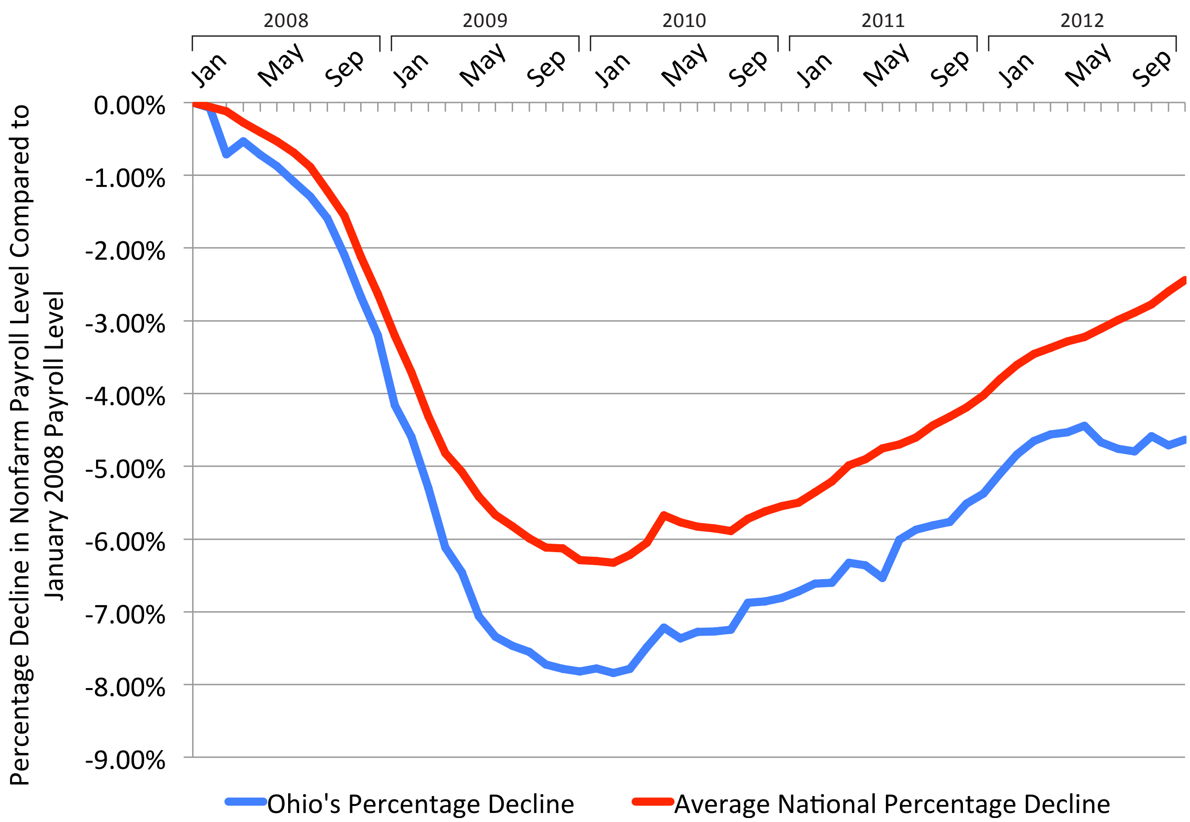
5. This is, in effect, assuming that many of the discouraged jobless that are not counted as unemployed are part of the labor force despite a lack of current, active job search.

6. Bureau of Economic Analysis, US Department of Commerce, "Widespread Economic Growth Across States in 2011," June 2012, http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm.

7. William C. Dunkelberg, Holly Wade, "Small Business Economic Trends Monthly Report," National Federation of Independent Business, March 2013, http://www.nfib.com/Portals/0/PDF/sbet/sbet201304.pdf.

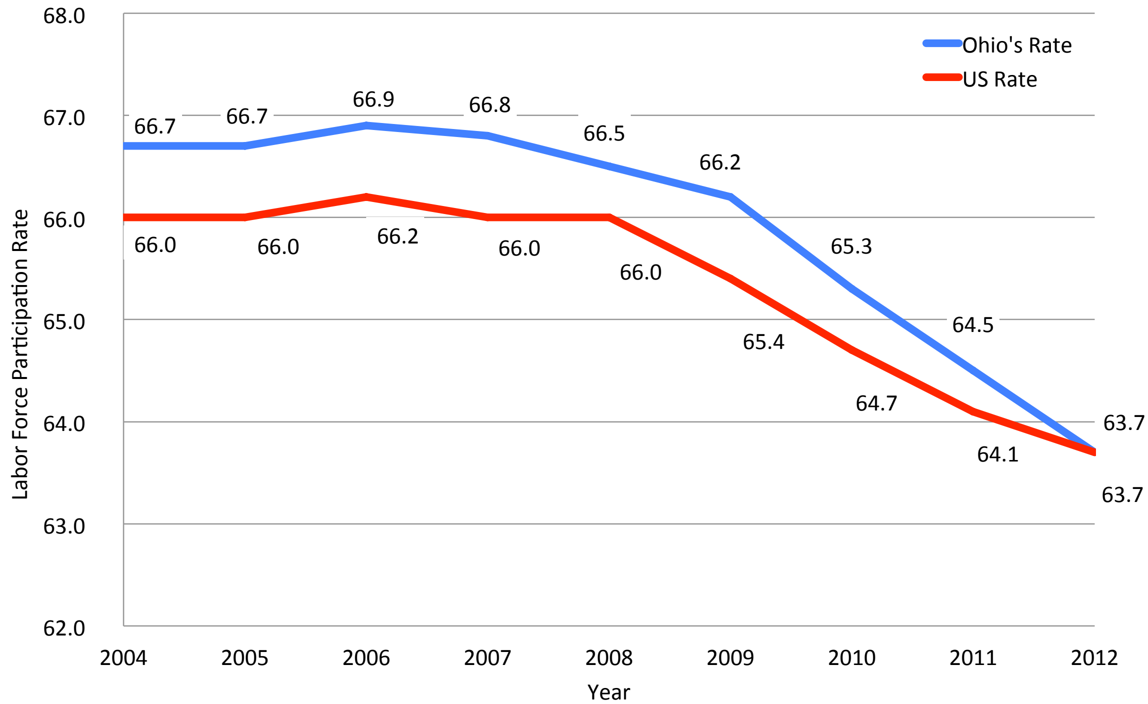
8. William Ruger and Jason Sorens, *Freedom in the 50 States* (Arlington, VA: Mercatus Center at George Mason University, March 2013).

GRAPH 1: MONTHLY DECLINE IN NONFARM PAYROLLS COMPARED TO JANUARY 2008 LEVEL



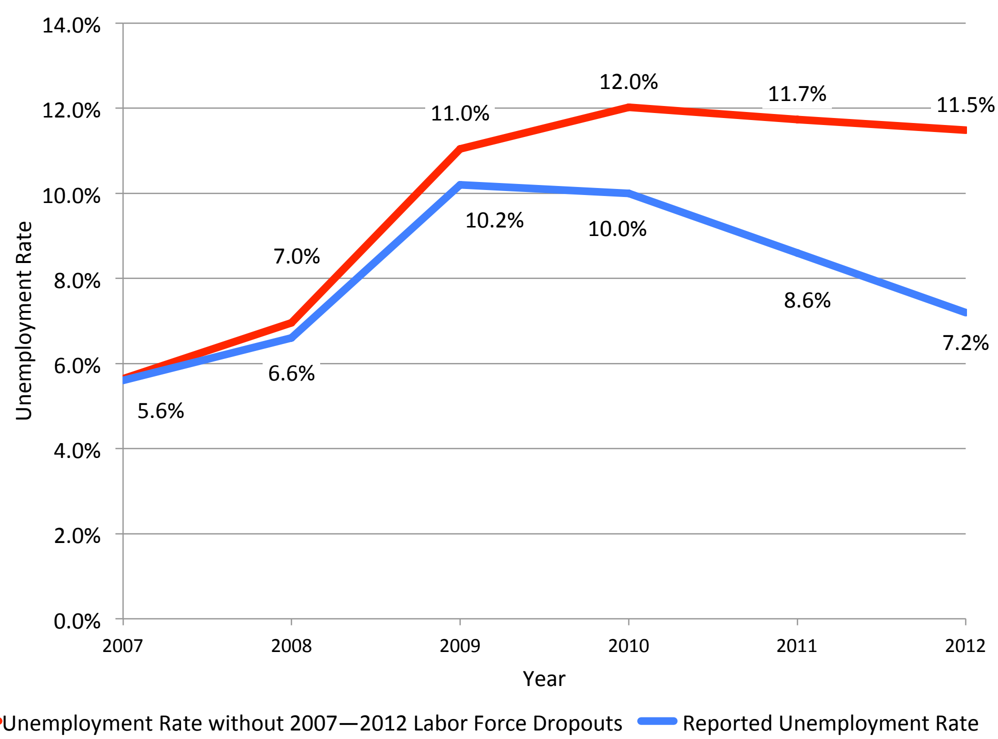
Source: Bureau of Labor Statistics

GRAPH 2: LABOR FORCE PARTICIPATION RATE (2004–2012)
(PERCENTAGE OF POPULATION WITH EMPLOYMENT OR ACTIVELY LOOKING FOR EMPLOYMENT)



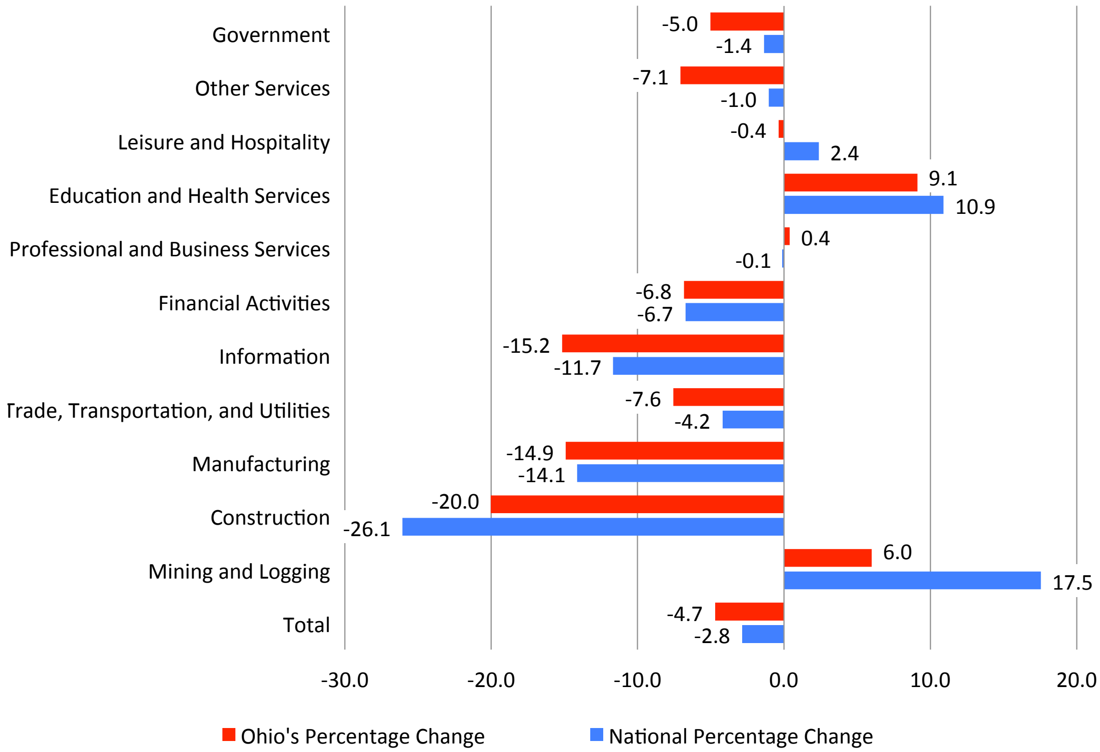
Source: Bureau of Labor Statistics

GRAPH 3: OHIO'S REPORTED UNEMPLOYMENT RATE VS. UNEMPLOYMENT RATE WITHOUT CIVILIAN LABOR FORCE DROPOUTS (2007-2012)



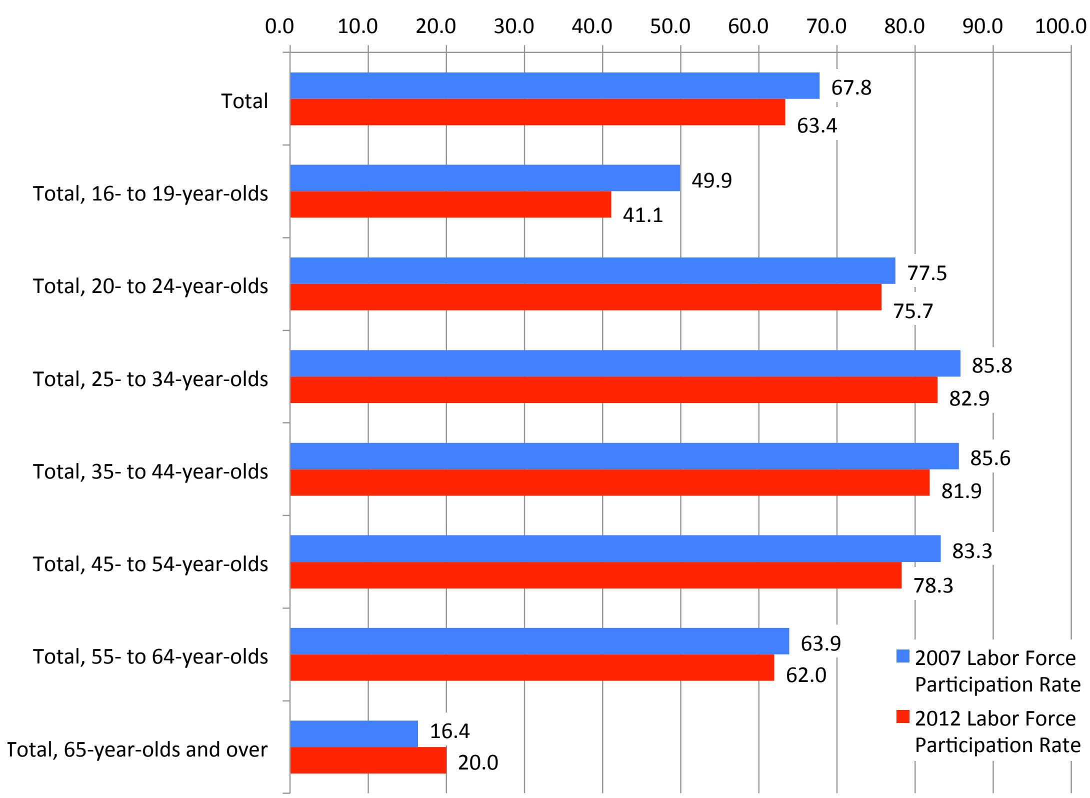
Source: Bureau of Labor Statistics

GRAPH 4:JOB IMPACT OF RECESSION ON OHIO VS. AVERAGE NATIONAL IMPACT
(PERCENTAGE CHANGE IN JOBS BY SECTOR BETWEEN 2007 AND 2012)



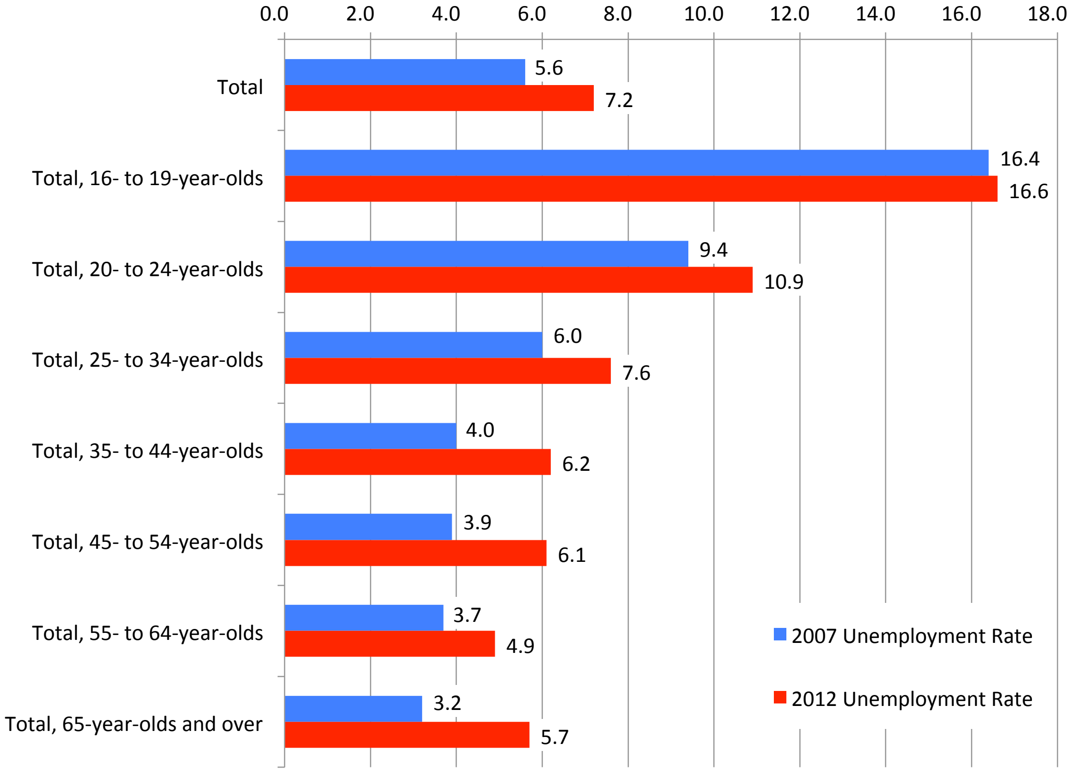
Source: Bureau of Labor Statistics

GRAPH 5: OHIO LABOR FORCE PARTICIPATION RATES: 2007 VS. 2012 (PERCENT)



Source: Bureau of Labor Statistics

GRAPH 6: OHIO UNEMPLOYMENT RATES: 2007 VS. 2012 (PERCENT)



Source: Bureau of Labor Statistics

Keith Hall is a senior research fellow at the Mercatus Center at George Mason University. From 2008 until 2012 he served as the thirteenth Commissioner of the Bureau of Labor Statistics. In this role, he headed the principal fact-finding agency in the federal government in the broad field of labor economics and statistics.

Robert Greene is a research associate at the Mercatus Center at George Mason University. His research focuses on financial regulations, the regulatory process, and labor markets.