

Issues in Labor Statistics



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Labor Supply in a Tight Labor Market

With the unemployment rate at a 30-year low and employment continuing to expand at a robust pace, many economists and policy makers are scrutinizing labor statistics for signs of tightness in the labor market. Some are concerned that the demand for labor will outstrip supply, leading to upward pressure on wages that could possibly ignite inflation. Many economists wonder how long wage gains can remain moderate in the face of strong employment growth, low unemployment, and, *presumably*, a dwindling supply of potential workers.

This summary highlights some of the concepts often used in the discussion of potential labor supply. There are no official definitions for, and hence no official estimates of, the potential supply of workers. However, existing data are discussed briefly to gain some insight as to how to begin to gauge the size of the potential supply of labor—broadly defined herein as persons not working who could conceivably become employed. The analysis also demonstrates how difficult it is to construct a meaningful measure of this group of persons.

The unemployed—currently available and looking for work

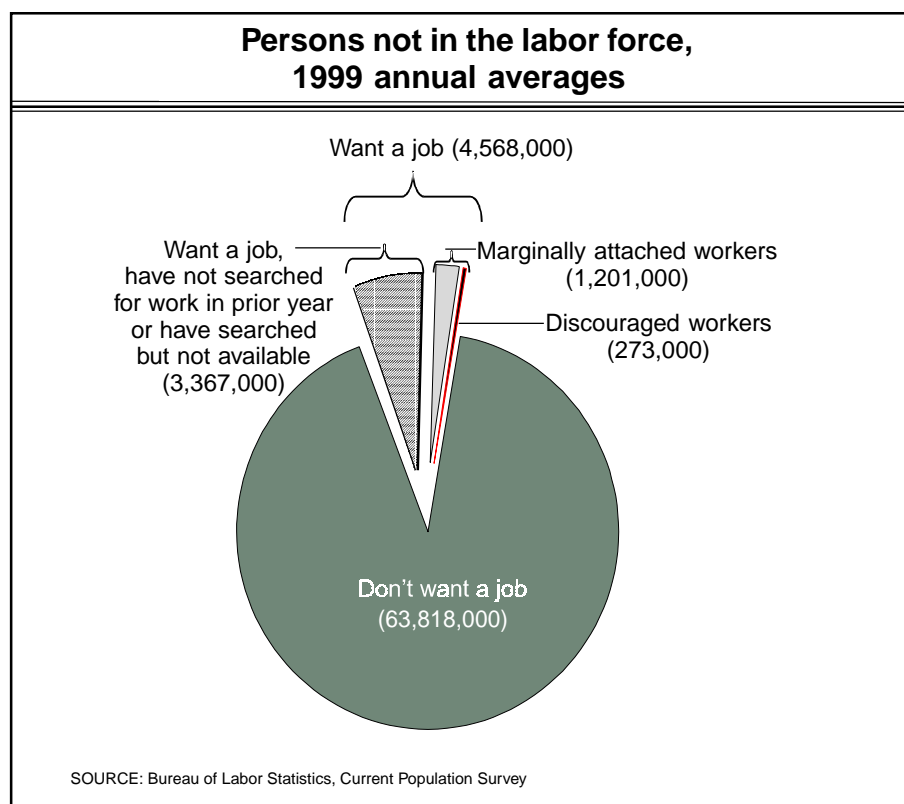
Data from the Current Population Survey (CPS) provide information on the employment status of the civilian noninstitutional population aged 16 and older. The population is divided into persons who are in the labor force—comprising persons who are employed and those who are unemployed—and persons not in the labor force. Most would agree that unemployed persons constitute unutilized labor resources. These persons represent *existing* labor supply, in that (by official definition) they are available for work and most are currently engaged in an active search for a job. In some sense, they also represent potential workers, given that they have not yet been successful in their job search. In 1999, the number of unemployed persons averaged 5.9 million.

Persons not in the labor force: do they want a job or not?

Moving beyond the unemployed to look for an additional labor reserve, one can evaluate those who are neither working nor actively looking for work—that is, *not in the labor force*. These individuals have varying degrees of interest in taking a job. In 1999, for example, 4.6 million persons outside the labor force were reported to *currently want a job*. (See chart.) Within this group, there were 1.2 million who were marginally attached to the labor force (including discouraged workers)—that is, they were available for work and had searched for a job sometime in the year preceding the survey, but were not currently looking for work. The 4.6 million people who indicated that they

wanted a job cited a variety of reasons for not currently looking for work. Some reported that they were in school, others had family responsibilities, and some were disheartened about their employment prospects. These and other reasons reflected conditions that may have been preventing their entry into the job market *at the time they were being surveyed*.

Assuming that all those who indicated they wanted a job could, under different circumstances, enter the job market, there would be 4.6 million persons, in addition to the unemployed, who represented potential labor supply. Together, the sum of unemployed persons and those not in the labor force who want a job has been called the *pool of available workers*. This *unofficial* measure is used to gauge



changes in the potential labor supply.¹

But what about persons (some 63.8 million in 1999) who are not in the labor force and do *not* want a job now? Are there conditions under which they might enter the job market, even though, when surveyed, these persons give no indication of interest in working? The answer to this question is almost certainly yes. Circumstances for individuals change over time, as does the job market. A person who does not want a job today because of family obligations, for example, might enter the job market tomorrow, if those obligations change. Similarly, the availability of a job with a particular mix of wages and other terms of employment might draw a person into the job market. But there is little information available from the CPS that can be used to identify these persons *a priori*. Therefore, it is quite difficult to determine the number of persons not in the labor force who do not currently want a job but who could be considered potential workers. Nevertheless, given the sheer magnitude of the group, it should be emphasized that, if even a small fraction of these persons were prone to enter the job market at some point, it would represent a substantial supply of labor resources.

Population growth—a steady source of labor

Finally, it must be recognized that labor supply changes also originate from net changes in population. From 1998 to 1999, the working-age population grew by about 2.2 million (on a net basis, after adjustment for changes in CPS population controls). Given that almost two-thirds of the population was employed in 1999 (64.3 percent), and assuming that roughly this same percentage of the net population inflow entered into employment, there was a net increase of about 1.4 million in employment in 1999, due just to population growth. Overall, employment (as measured by the CPS) increased by about 2 million from 1998 to 1999, so population growth alone was likely the source for much (about three-fourths) of the net growth in employment in 1999.²

Ultimately, when one considers the possible sources of labor supply at any given time, the number of potential workers is perhaps quite large. How large it is, and whether it is growing or shrinking, unfortunately are very difficult questions to answer precisely.

For a technical description of the Current Population Survey (from which the data used

in this report were derived), contact Steven E. Haugen, Office of Employment and Unemployment Statistics, Bureau of Labor Statistics, Washington, DC 20212. Telephone: (202) 691-6378; e-mail: Haugen_S@bls.gov

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¹ For example, the Board of Governors of the Federal Reserve System tracks changes in the *pool of available workers* to help evaluate labor supply conditions. See, for example, its “Monetary Policy Report to the Congress,” February 17, 2000 (www.bog.frb.fed.us/boarddocs/hh/2000/february/fullreport.htm).

² The actual dynamics of the labor market are much more complex than indicated by the study of *net* changes. In reality, the number of jobs that must be filled each year is far greater than net employment growth. Millions of people leave the labor force each year, and the jobs they held also must be filled.

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