Did the Clinton 'Rising Tide' Raise All Boats?

by L. Randall Wray

My prepared statement, co-authored with my colleague Mark-André Pigeon, is an examination of the impact that the current expansion has had on job opportunities. In particular we question whether the "rising tide" has lifted all boats. The overall picture is one of falling unemployment rates and rising employment rates in the 1990s. This seems to be consistent with the view that labor markets are tight. However, employment gains have not been evenly shared. Only 700,000 of the almost 12 million new jobs created during the Clinton expansion went to the half of the population aged 25 and over that has not attended college. The putatively tight labor market has not succeeded in creating significant numbers of jobs for those with no college education.

It is true that among those aged 25 and over, unemployment rates have fallen and employment rates have risen most for those on the lower half of the education ladder. However, these numbers do not tell the whole story. First, the gaps between those with a college degree 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, the gains may be temporary as the trend toward rising employment rates and falling unemployment rates for lower-skilled workers can be expected to be reversed as soon as the economy slows, with the "last hired" being the "first fired."

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Finally, and more importantly, closer analysis of the data reveals that all of the "improvement" in the official numbers can be explained by a decline in the population of those who have not attended college — not by an increase in their employment levels. Indeed, we found that high school dropouts actually lost 95,000 jobs over the expansion. Job creation during the Clinton expansion was only barely enough to keep pace with the increase in the number of new college-educated workers entering the labor force.

The crucial problem for the less-educated is that most simply fall out of the labor force. Two-thirds of the more than 56 million noninstitutionalized adults aged 25 and over who are out of the labor force have no college education. Admittedly, many do not wish to work. However, it is useful to calculate how many of those currently outside the labor force might constitute a potential source of labor supply. By assuming that people with less education could have participation rates comparable to those with a college degree, we estimated that there were 26.3 million potentially employable persons aged 25 and over in 1998. If we take out those 65 and over, we estimate there are still about 15 million potentially employable persons aged 25 to 64.

Clearly, economic expansion alone is not enough to help the less-educated, which is why we propose a job opportunity program to provide a job to anyone ready, willing, and able to work. These jobs would pay the minimum wage plus health care and child care benefits. Administration and supervision would be decentralized, with participating employers setting reasonable performance standards that would have to be met by program employees. The federal government would require a significant training component for all these jobs in order to prepare participants for eventual private-sector employment. Because of the increased productivity of the "buffer stock" of labor, and because private sector employers could recruit from among those employed in the program, we expect a well-designed job opportunity program to lead to greater price stability than under the current system, which relies on unemployment to reduce inflation pressures.

The Clinton expansion was not sufficiently robust to increase job opportunities for the less-educated. 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, while simultaneously lifting the boats of those left behind by robust economic expansions.