

National Economic Trends



Available Labor Supply

In a recent speech, Fed Chairman Alan Greenspan mentioned the potential inflationary consequences of a dwindling supply of available workers:

“[O]ver the past two years, the pool of people seeking jobs—the sum of the officially unemployed plus those not in the labor force but wanting to work—has declined from 11.2 million to 9.6 million. The number of workers drawn into employment in excess of the normal growth in the workforce has been running at the equivalent of roughly a half of a percentage point of annual GDP growth. This gap must also eventually be closed if inflationary imbalances are to continue to be contained.”¹

In 1999, the unemployment rate for workers 16-years old or over was 4.2 percent, the lowest since 1969 when it was 3.5 percent. The labor force is the sum of the employed and the unemployed. The unemployed category includes only people who are actively seeking work. The measure of available labor supply described above includes the people aged 16 to 64 who are unemployed as well as those aged 16 to 64 who are not counted in the labor force, but say they want to work. The accompanying figure shows the available labor supply and its two components: the unemployed and those who say they want to work.

Data on the people who say they want to work come from the monthly Current Population Survey (CPS). The survey questions concerning whether a respondent would be willing to work were revamped in 1994. Therefore, a consistent time series on these workers only goes back to January 1994. The total available labor supply declined from 14.9 million in January 1994 to 9.7 million in December 1999. During this period, the ratio of people not in the labor force saying they want to work remained roughly constant at about three-quarters of the number unem-

ployed. Since 1994, the number of unemployed declined by about 2.9 million and the number of those wanting to work, but not in the labor force—the second component of the available labor supply measure—declined by 2.3 million.

Most of the decline in the pool of people seeking jobs are workers in the prime earning years of their life, ages 25-54. This is the case for both the officially *unemployed* and for *others wanting to work*. It is interesting to note, however, that more than half of the decline in the number of *others wanting to work* were women getting jobs, whereas more than half of the decline in the number of *unemployed* were men finding work.

Interest in this measure of available labor supply has risen as the unemployment rate has fallen to historic lows, yet inflation pressures remain largely absent. Changes in the available labor supply have moved in parallel with the number of unemployed, suggesting that this alternative measure does not, by itself, explain the absence of inflation pressures in this tight labor market.

—William T. Gavin

—Kevin L. Kliesen

¹ This quote is from an October 28, 1999, speech by Federal Reserve Chairman Alan Greenspan, “Information, Productivity, and Capital Investment.”

