



Less Involuntary Part-Time Work Suggests Texas Economic Strength

By Anil Kumar and Michael Weiss

ABSTRACT: Fed policymakers have closely watched part-time workers as an indicator of labor market health. While the ranks of involuntary part-timers have remained persistently high since the Great Recession—suggesting remaining labor market slack—the pattern has been less notable in Texas.

The labor market has steadily improved, albeit slowly, since the Great Recession ended in 2009. The national unemployment rate has declined from a postrecession high of 10 percent in October 2009 to 4.9 percent in July 2016—about where it stood before the downturn.

There was less economic contraction in Texas and a stronger recovery, with the unemployment rate falling from a postrecession high of 8.4 percent in July 2009 to 4.6 percent in July 2016.

Although such recent jobless rates suggest an economy close to full employment, widespread concern remains that the readings don't adequately capture the extent of labor market weakness, or "labor market slack." Another measure, the number of involuntary part-time workers, reflects labor market stress and remains an important concern for monetary policy.

During recent press conferences, Federal Reserve Chair Janet Yellen has often referenced elevated involuntary part-time employment—workers who report that they want full-time work but can only find part-time work for economic reasons, such as lack of full-time jobs.

Part-time workers, in general, earn less per hour and experience slower wage growth than full-time workers. This wage gap with full-time workers cannot entirely be explained by skills differences.¹ A combination of lower wages and fewer hours implies that part-time workers take home smaller paychecks than full-time workers and are less likely to be eligible for employer-provided benefits such as pension and health insurance.

Many workers prefer to work part time for a variety of reasons that make part-time work an optimal choice. While

those working part time by choice are happy to trade lower paychecks for more flexibility and time for leisure or child care, the existence of *involuntary* part-time workers reduces overall economic well-being.

Involuntary part-time workers do not figure into unemployment rate calculations, which are simply a tally of the percent of workers without jobs who are actively searching for employment. The involuntary part-time rate—the number of workers involuntarily working fewer than 35 hours as a percent of the labor force—has been slow to improve, indicating pervasive labor slack, researchers have found.²

Nationally, the involuntary part-time rate remains about 0.9 percentage points higher than at the outset of the Great Recession in December 2007. In Texas, involuntary part-time work declined sharply until the oil bust began in 2015, though it remains about 0.8 percentage points above December 2007 levels (*Chart 1*).

Measuring Labor Market Slack

There are well-known limitations to judging overall economic conditions using the headline unemployment rate. First, it does not account for discouraged workers who give up their job search and drop out of the labor force. Second, it excludes individuals marginally attached to the labor force but not engaged in a job search due to a weak economy. Thirdly, there are the involuntary part-time employees.

Adding these three kinds of workers to the number of "officially" unemployed, the six-month moving average of the broader national unemployment rate (also known by the Bureau of Labor Statistics (BLS) "U6 rate" designation) stood at 9.7 percent in July 2016. Reflect-

ing a labor market that is tighter than the nation, Texas has a lower U6 unemployment rate; its six-month moving average was 8.7 percent in July 2016. However, the rate in both Texas and the nation remains above prerecession levels (Chart 2).

Household survey data from the BLS reveal that, starting from similar prerecession averages, involuntary part-time employment rose less sharply in Texas during the recession and improved more rapidly through the recovery for all major demographic groups.

Voluntary part-time employment, by comparison, has generally been lower in Texas, a difference that has largely remained stable since 2004.

Several tendencies emerged following the Great Recession. Until 2015, the state's shale-oil boom helped support a cyclical expansion that extended well beyond the immediate energy sector. Legislative changes, most notably the Affordable Care Act (ACA), while expected to reduce employers' inclination to hire full-time workers, have had little impact so far. This may be the result of a relative-

ly low minimum wage and substantial labor market flexibility that allows Texas employers to more easily manage compensation costs. The state's relatively light regulatory burden also likely contributed.

Counting Part-Time Workers

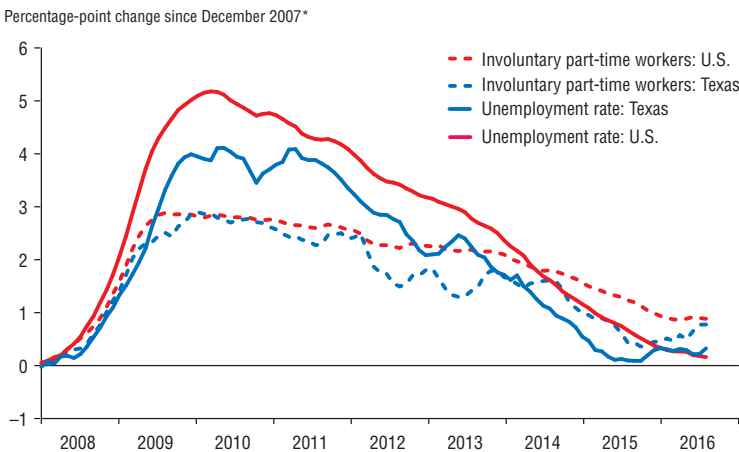
On average, about 15 percent of workers in Texas worked fewer than 35 hours and, thus, were considered part-timers during the week of the BLS' household survey, between 2004 and 2007. That compared with 17 percent of workers nationally, with about 7 percent of those part-time workers holding multiple jobs (Chart 3).³

To facilitate precise comparisons between Texas and the rest of the nation, Chart 3 and subsequent charts depict household survey data from the BLS grouped into four time periods: prerecession (2004–07), recession (2008–09), recovery (2010–14) and the more recent period that includes the energy sector contraction (2015–16).

A vast majority of part-time workers opt for that employment arrangement. Not surprisingly, the incidence of such voluntary arrangement is high among women, teenagers and the elderly. Women with young children often prefer to work part time or stay out of the labor force to provide child care. Many teenagers and young adults voluntarily work part time because they are enrolled in school. Partially retired elderly or those on Social Security choose to work part time to supplement retirement income. Voluntary part-time workers are not looking for full-time work and, therefore, their presence doesn't indicate labor market slack.

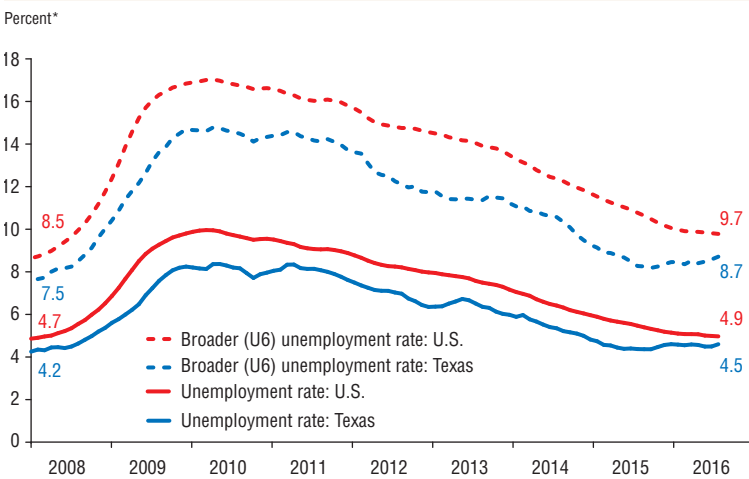
Texas' smaller share of part-time employment relative to the nation largely stems from a lower incidence of voluntary part-time employment—a gap that has remained mostly stable over time, as Chart 3 shows. This gap exists primarily because fewer Texans than the rest of the nation find it optimal to work part time due to family commitments, schooling or retirement. Part of this gap may exist simply due to easier availability of full-time opportunities in Texas that make it less attractive to forego a full-time job for voluntary part-time work.

Chart 1 Reduction of Involuntary Part-Time Workers Trails Unemployment Rate Decline



*Seasonally adjusted, six-month moving average.
SOURCE: Bureau of Labor Statistics Current Population Survey.

Chart 2 Broad Unemployment Rate Remains Above Prerecession Levels



*Seasonally adjusted, six-month moving average.
SOURCE: Bureau of Labor Statistics Current Population Survey.

A relatively higher incidence of voluntary full-time workers (versus part-time) in Texas may also be due to the state's less-generous public assistance programs.⁴ According to the Census Bureau, 1.8 percent of households in Texas received cash public assistance in 2012 compared with 2.9 percent nationally.

More stringent Medicaid requirements may also explain the lower incidence of voluntary part-time workers in Texas. Texans whose income exceeds 18 percent of the federal poverty line are ineligible for Medicaid, the federally subsidized low-income health care coverage. In most other states, recipients are allowed to earn more and retain eligibility. Thus, the availability of employer-sponsored health insurance supports full-time work in Texas.

Chart 3 also reveals that, in contrast with the stability of voluntary part-time work, involuntary part-time employment is strongly counter-cyclical, rising during recessions and declining when the economy regains its footing.

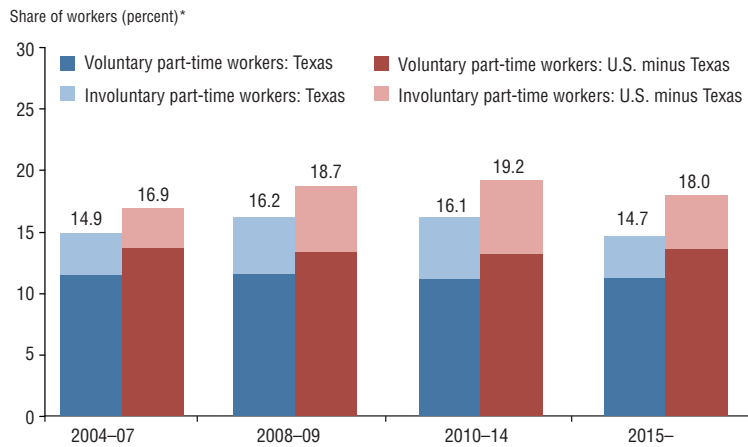
Involuntary Part-Time Work

During the 2004–07 prerecession period, about 3.4 percent of workers in Texas worked part time involuntarily, constituting about 23 percent of all part-time workers—larger than the 19 percent proportion in the rest of the U.S. The gap disappeared during the recession, thanks to a shorter and less severe downturn in Texas; involuntary part-time employment rose to 29 percent of all part-time workers in the state and in the rest of U.S.

Involuntary part-time employment continued rising between 2010 and 2014, with the national proportion of part-time employment climbing to 31 percent, slightly exceeding the share in Texas. Since 2015, the incidence of involuntary part-time work has declined more sharply in Texas than in other states. About 24 percent of all part-time workers are involuntarily part time in Texas—roughly 1 percentage point lower than the rest of the U.S.

The rate of involuntary part-time employment as a share of total Texas employment has averaged 3.5 percent since 2015, similar to the prerecession

Chart 3 Texas Has Smaller Share of Part-Time Workers than U.S.



*Excludes usually full-time workers who voluntarily worked fewer than 35 hours during the reference week.
SOURCE: Bureau of Labor Statistics Current Population Survey.

average of 2004–07. For the rest of the U.S., the average rate well exceeds prerecession levels.

Differences Across Sectors

Involuntary part-time employment evolved differently in Texas than nationally. Construction and services, the two sectors with traditionally the highest incidence of involuntary part-time work, account for much of the differential movement (*Chart 4*).

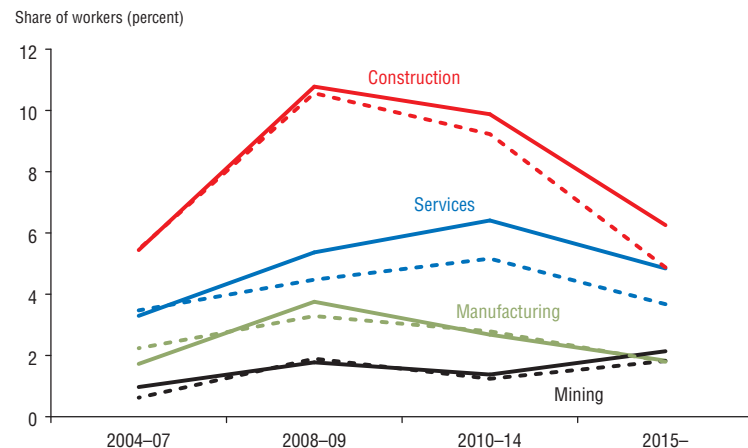
Heading into the recession, the construction sector was hit hard across the country, but the impact lingered significantly longer outside Texas given the

depth of the housing crisis in some other states. Texas' services sector also experienced a significantly stronger recovery after the Great Recession than the U.S.

Outside of Texas, involuntary part-time employment remains above prerecession averages in all key services subsectors. In Texas, it is below 2004–07 averages in financial activities, professional and business services, and education and health services.

Incidence of part-time jobs in the service sector complicates assessment of labor market slack. For example, workers may routinely hold more than one part-time job to make ends meet—es-

Chart 4 Involuntary Part-Time Worker Share Lags Prerecession Levels in Most Texas Sectors

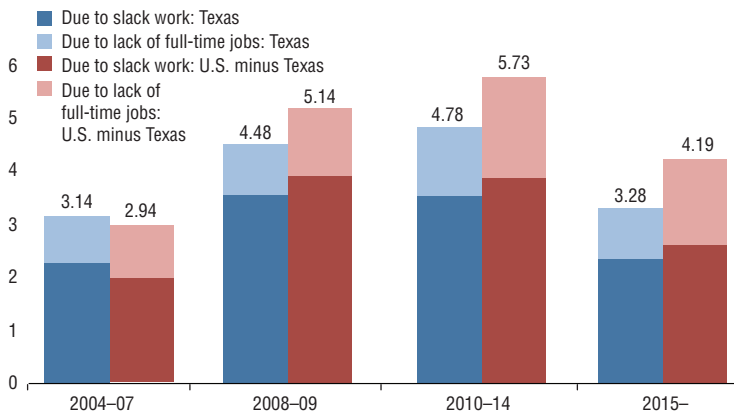


NOTES: Solid lines represent U.S. minus Texas; dashed lines represent Texas.
SOURCE: Bureau of Labor Statistics Current Population Survey.

Chart 5

Texas Has Lower Share of Involuntary Part-Time Workers than U.S.

Share of workers (percent)



SOURCE: Bureau of Labor Statistics Current Population Survey.

essentially becoming full-time, part-time workers. Still others find work essentially as contractors doing piecemeal labor, exemplified by the growth of Uber and other technology-enabled labor arrangements that blur the lines between employee and contractor relationships.

The manufacturing and mining sectors employ a relatively smaller share of part-time workers and, therefore, have on average a lower incidence of involuntary part-time employment than the services sector. Involuntary part-time employment in manufacturing followed a similar trend in Texas and the U.S. since the recession.

By comparison, the services sector in Texas experienced a significantly stronger recovery from the Great Recession than in the U.S.

Lack of Full-Time Jobs

The BLS asks survey respondents working fewer than 35 hours for the main reason why they're involuntarily part time. Two frequently mentioned reasons are a slack economy and availability of nothing but part-time work.⁵ A closer examination sheds light on differences between Texas and the U.S. A slack economy is the most important reason for involuntary part-time work. But some workers involuntarily work part-time simply due to lack of full-time jobs, even while part-time jobs remain plentiful.

Structural changes in the economy can contribute to increased availability of part-time jobs, relative to full-time ones. Stronger growth in the retail and leisure and hospitality sectors that employ proportionately more part-time workers, for example, could lead to limited availability of full-time jobs even as the economy steadily expands.

A lack of full-time jobs relative to part-time positions widened slightly in Texas as the recession took hold (Chart 5). The share of workers citing a lack of full-time work for their part-time status increased from a prerecession rate of less than 1 percent to 1.3 percent, on average, between 2010 and 2014 in Texas.

Elsewhere in the U.S., the increase was significantly greater—almost doubling from the 1 percent share of workers citing lack of full-time work to 1.9 percent. Since 2015, involuntary part-time work due to lack of full-time jobs has edged down to 1.6 percent in the rest of U.S., while still accounting for 38 percent of all involuntary part-time employment. The involuntary share of part-time employment represents an almost 5 percentage-point rise since 2004-07.

By comparison, just about 29 percent of involuntary part-time workers in Texas cite lack of full-time jobs as the reason for working less than 35 hours a week—a share that has remained largely stable since before the recession.

Demographic Differences

Data since 2015 confirm that among most key demographic groups, involuntary part-time work increased less in Texas than the rest of the nation from similar prerecession levels (Charts 6A, 6B). Moreover, the recovery in the state occurred more rapidly.

Chart 6B suggests that the Texas-U.S. difference in involuntary part-time employment attributable to a lack of full-time jobs is significantly larger than the difference due to a slack economy, and that gap has widened since 2004-07. Clearly, differences in demographic characteristics cannot explain the differing pattern in involuntary part-time work between Texas and the nation. Nor can they account for a lack of full-time jobs being a lesser cause of involuntary part-time work in Texas.

Federal Health Law Impacts

Some ACA provisions may increase the incidence of involuntary part-time employment. Under the law, most workers not receiving qualified employer-provided health care coverage may purchase insurance through the ACA marketplace. Additionally, some workers may receive marketplace subsidies for their insurance purchases.⁶

Companies with 50 or more full-time equivalent workers not offering affordable health care coverage to full-time employees—those working 30 or more hours per week—are assessed a penalty for each full-time employee purchasing insurance through the ACA marketplace and receiving a subsidy. The penalty may induce the firms to reduce their full-time workforce and, instead, rely more intensively on part-time jobs or outsource operations to staffing firms.⁷

Thus, the ACA could potentially contribute to higher involuntary part-time employment. But any such impact will be limited because a vast majority of firms with 50 or more full-time equivalent employees already provides affordable health insurance to full-time workers. Others can avoid the fine by extending affordable health care coverage to their full-time workforce in exchange for increased employee plan

contributions or lower wages, although minimum wage requirements and downwardly rigid wages can present significant challenges.⁸

Only about 5 percent of full-time wage and salary workers nationally encounter the employer mandate, according to recent research.⁹ The corresponding share in Texas is likely greater given the lower incidence of health care coverage in the state. Moreover, because the state opted out of Medicaid expansion under the ACA, a higher share of Texans than workers in Medicaid-expanding states would potentially qualify for marketplace subsidies.¹⁰

Despite a larger expected ACA impact in Texas, involuntary part-time employment has declined more in Texas than in the nation since 2015, when the ACA provisions took effect, pointing to the law's still muted impact on involuntary part-time work. A relatively low minimum wage, more flexible labor markets and lighter regulatory burden than the nation likely help mitigate the ACA's potential impact on involuntary part-time employment in Texas.

New Overtime Rules

Changes to the federal Fair Labor Standards Act on Dec. 1 will double the salary threshold under which workers can earn overtime for work beyond 40 hours a week. The limit increase, from \$23,660 to \$47,476 annually, is expected to be most keenly felt in the retail and food service industries, where labor demand may be more variable on a seasonal or day-to-day basis.

The use of exempt “managers,” particularly in sectors such as retail and food services, has traditionally been one way the industries have recruited and developed talent while at the same time meeting customer service demands that can vary by time of day or season.

The Labor Department estimates that 4.2 million workers nationally will be affected by the upcoming changes. As a result, they will receive overtime pay or a salary increase that puts them above the new threshold; alternatively, employers will cut worker hours.

As overtime hours by existing full-time salaried employees become more

costly, the revised salary threshold could increase the amount of available part-time work. Firms may hire more, lesser-paid part-timers for fixed schedules that may include periods of slack demand. The trade-off for employers involves calculating the comparative compensation costs of having full-time versus part-time workers perform those overtime hours.

On the other hand, the current mix of full-time versus part-time work may remain unchanged in response to the new overtime rules if management and workers can agree on a lower base salary so the workers could be on the job as many hours as before—including hours

at the overtime rate—at the same overall compensation.

Persistent Part-Timers

Despite recent improvement in the headline unemployment rate, involuntary part-time unemployment remains above its prerecession levels and has emerged as an important concern for monetary policy because it suggests the continued presence of labor market slack despite a low headline jobless rate.

Involuntary part-time employment increased less sharply in Texas during the recession and improved more rapidly through the recovery among all

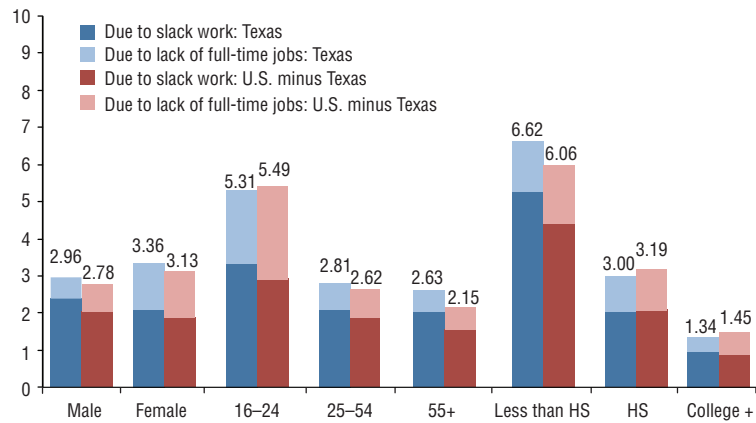
Chart 6

Texas Part-Timers Less Like Nation Since Great Recession

A. Texas Involuntary Part-Time Employment Rate

Resembles U.S. Before Recession

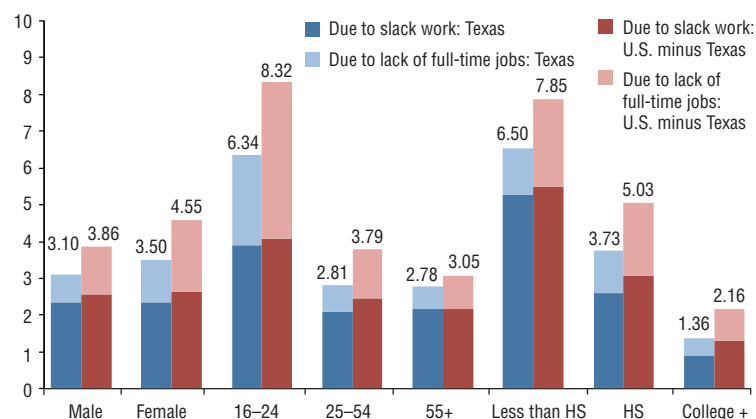
Share of workers (percent) (2004–07 average)



SOURCE: Bureau of Labor Statistics Current Population Survey.

B. Among Key Demographic Groups, Texas Now Has Smaller Share of Involuntary Part-Time Workers than U.S.

Share of workers, percent (Jan. 2015–May 2016 average)



SOURCE: Bureau of Labor Statistics Current Population Survey.

major demographic groups. A less severe recession and stronger recovery in Texas, particularly in the construction and service sectors, mostly contributed to Texas' relatively good performance.

Among the involuntarily part-time employed, a relatively smaller share in Texas than the U.S. is due to diminished availability of full-time jobs—a gap between the state and nation that has widened in recent years despite the energy bust.

Why is there more full-time work available in Texas than in the rest of the nation? Part of the difference is cyclical, but structural differences such as higher wage flexibility and lesser regulatory burden in Texas may also have played a role, particularly in the aftermath of the ACA's employer mandate.

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the Research Department of the Federal Reserve Bank of Dallas.

Notes

¹ "Compensation in Part-Time Jobs Versus Full-Time Jobs: What If the Job is the Same?" by Michael K. Lettau, *Economics Letters*, vol. 56, no. 1, 1997, pp. 101–06.

² "Why Is Involuntary Part-Time Work Elevated?" by Tomaz Cajner, Dennis Mawhirter, Christopher Nekarda and David Ratner, Board of Governors of the Federal Reserve System, FDS Notes, April 14, 2014, www.federalreserve.gov/econresdata/notes/feds-notes/2014/why-is-involuntary-part-time-work-elevated-20140414.html.

³ Percent of voluntary part-time workers employed plotted in Chart 3 excludes usually full-time workers who voluntarily worked fewer than 35 hours during the reference week.

⁴ Public assistance programs such as the Temporary Assistance for Needy Families create strong incentives for lower earnings and hours because they phase out if income exceeds a specified threshold.

⁵ Other reasons include seasonal work and job started or ended during the week.

⁶ There are two subsidy types: (1) tax credit on health insurance plan premiums (premium subsidy) and (2)

subsidy on out-of-pocket costs (cost-sharing subsidy).

⁷ A company can avoid the penalty by offering a full-time worker who is getting the premium subsidy health care coverage that costs the employee no more than 9.5 percent of household income. Alternatively, a company can avoid the penalty by limiting the number of full-time equivalent employees to fewer than 50.

⁸ Recouping the cost of extending health care coverage may be effective for high-wage, full-time employees. For low-wage, full-time workers, minimum wage requirements make it more difficult to lower pay to recoup health care coverage costs.

⁹ "The Potential Effects of Federal Health Insurance Reforms on Employment Arrangements and Compensation," by Marcus Dillender, Carolyn J. Heinrich and Susan N. Houseman, Upjohn Institute, Working Paper no. 15-228, 2015.

¹⁰ Texans without affordable employer-provided insurance and with incomes ranging from 100 percent to 400 percent of the federal poverty level (FPL) would qualify for marketplace subsidies compared with those with incomes between 138 and 400 percent of FPL in Medicaid-expanding states.

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