

## **The Troubling Case of New Mexico's Disappearing Workforce**

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June 26, 2014

### **Introduction**

There is widespread consensus that New Mexico's economy is struggling. Unfortunately, when it comes to understanding the strength of both New Mexico's and the US economies, traditional measurements of unemployment rates are misleading. That's because the statistic only measures those who are actually looking for work.

Many economists and analysts including those at the Rio Grande Foundation believe that "workforce participation" is a better measure of the strength of a given state or national workforce. As the charts in this paper illustrate, New Mexico's workforce participation rate saw incredible reductions during the recent economic downturn. And, while New Mexico is not the only state in the Southwest to suffer from relatively low workforce participation rates, it is indeed the lowest and the situation, while stabilized, shows few signs of turning around.

### **Workforce Participation Rates<sup>1</sup>**

According to Investopedia, workforce participation rates are a measure of the active portion of an economy's labor force. The participation rate refers to the number of people who are either employed or are actively looking for work. The number of people who are no longer actively searching for work would not be included in the participation rate."<sup>2</sup>

Unlike unemployment rates, workforce participation rates are not reported breathlessly in the media, discussed regularly by politicians, or understood by the general public. That is unfortunate because, as the following charts show, workforce participation rates more clearly illustrate how the economic situation is evolving both in the Southwest generally and in New Mexico particularly.

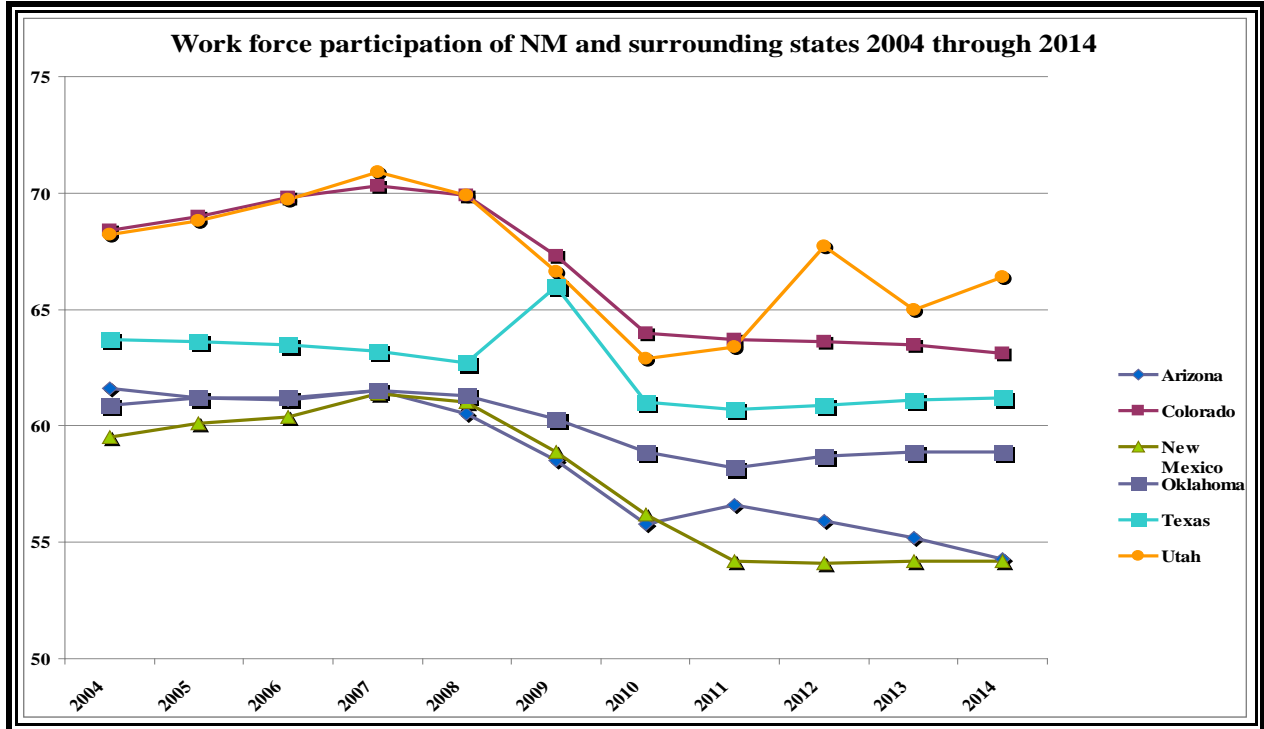
While the following chart only goes back to 2004, it is clear that Utah and Colorado have the strongest workforce participation rates in the Southwest. Texas and Oklahoma fall in the middle while Arizona and New Mexico bring up the rear. Workforce participation rates dropped in most states from 2008-2010 while Texas deviated from that path somewhat.

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<sup>1</sup> Data in the charts are from the Bureau of Labor Statistics and are available here:  
<http://www.bls.gov/lau/rdsnpl6.htm>

<sup>2</sup> Investopedia, Workforce Participation Rate Defined, [www.investopedia.com/terms/p/participationrate.asp](http://www.investopedia.com/terms/p/participationrate.asp).

Chart 1.



As the chart above shows, New Mexico consistently underperforms its neighbors in terms of workforce participation. It is, perhaps, not unrelated that the Cato Institute found that New Mexico’s welfare payments were the most generous in the region as well, totaling \$13.41 an hour for a single mother of two children.<sup>3</sup> Oklahoma, the next-most-generous state offers a welfare equivalent of \$10.81 an hour, 24 percent less.<sup>4</sup>

The real challenge becomes apparent when viewed over the long-term. As Chart 2 below illustrates, New Mexico consistently saw workforce participation rise in recent decades (with a relatively steep decline during the recession of the late 1970s and early 1980s).

That all changed and changed quickly during the recession of 2008-2009 when New Mexico’s workforce participation rate plummeted from historically high levels (for the state) down to historical lows. The “new normal” workforce participation rate in New Mexico of approximately 54 percent is lower than rates going back to the late-1970s.

Michael Strain of the American Enterprise Institute called the collapse in workforce participation rates “the biggest problem faced by conservatives” and blamed long-term unemployment, a decline in workforce participation on the part of men, and the health care law known as “ObamaCare” for the decline.<sup>5</sup>

<sup>3</sup> Michael Tanner and Charles Hughes, “The Work vs. Welfare Tradeoff 2013,” Cato Institute, [http://object.cato.org/sites/cato.org/files/pubs/pdf/the\\_work\\_vs\\_welfare\\_trade-off\\_2013\\_wp.pdf](http://object.cato.org/sites/cato.org/files/pubs/pdf/the_work_vs_welfare_trade-off_2013_wp.pdf).

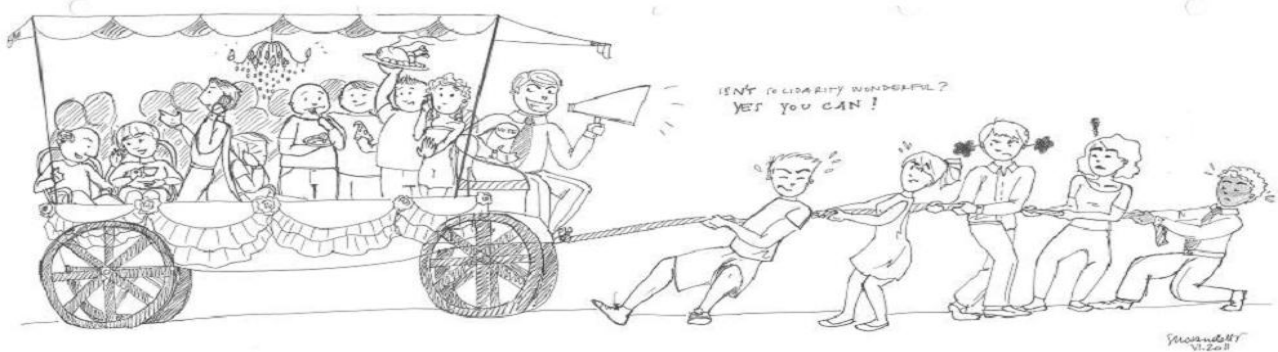
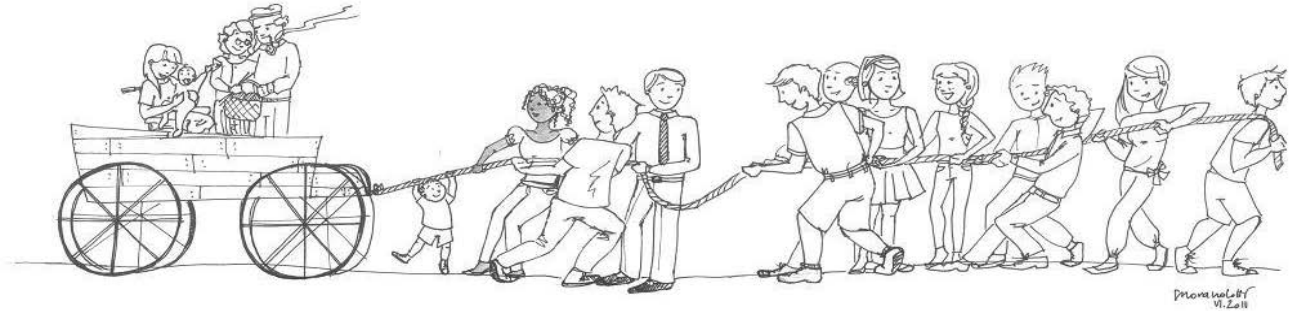
<sup>4</sup> *Ibid.*

<sup>5</sup> Michael Strain, “Conservatives, wake up: The tax code is not your biggest problem,” *The Washington Post*, <http://aei.org/article/economics/fiscal-policy/labor/conservatives-wake-up-the-tax-code-is-not-your-biggest-problem/>.

Chart 2.



From an economics perspective, the problem with such dismal workforce participation is easy to understand. As the following cartoons illustrate, reduced workforce participation rates means that there are fewer people “pulling” the proverbial economic cart as opposed to those that are “riding” in the cart.



Lower workforce participation means lower living standards and less wealth creation than would otherwise exist. The impact is exacerbated when one considers that welfare benefits paid for by taxpayers often replace pay from work. Thus, the economy and society not only lose an individual's productivity, but then the workers still in the economy often see more of their productivity diverted to provide benefits for those who have dropped out of the workforce.

### **Conclusions**

There are some innocuous reasons for people who previously worked to have dropped out of the workforce. Raising children and retirement are two such reasons and reduced prospects for pay in a weak economy may lead people on the margins to leave the workforce.

The rapid decline in workforce participation and New Mexico's ongoing poor performance relative to its neighbors has more to do with public policy than it does with any sudden shift in tastes and norms. There are myriad public policy issues that can reduce workforce participation, the health care law known as "ObamaCare" being only the most notable recent example. What can be done to improve those rates right here in New Mexico?

Our state needs healthy doses of education reform and job creation. The Rio Grande Foundation has previously discussed dozens of ideas, details of which are available on our website [www.riograndefoundation.org](http://www.riograndefoundation.org):

- School choice (to improve workforce quality);
- Regulatory reforms including labor market reforms (right to work, occupational licensing reform, and reduction of the impact of minimum wage laws) and;
- Pro-growth tax reforms that incentivize work and entrepreneurship;
- Policymakers should also consider ways to rein in the State's safety net so as to make work more attractive relative to a check from the government.

The most pressing economic issue facing New Mexico's economy is to get more of its people to pull the proverbial cart rather than to ride in it. It is time for policymakers to embrace needed free market reforms to accomplish this goal.