(What's Left of) Our Economy: More and More US Job Growth Keeps Depending on Government

Friday's jobs report from the U.S. government (with the preliminary March data) evoked what's by now become the standard response from the commentariat: more solid gains (except for manufacturing!) that will prevent this historically slow recovery from slipping into recession for at least for foreseeable future. Some even call March's results the latest evidence challenging the Federal Reserve's reluctance to raise interest rates again for the time being. (Here's a representative sampling.) Let's leave the monetary policy debate aside for now, since it hinges on so many aspects of economic performance – and risk – over both the short and the long run. Taken on its own terms, the new employment report contains the decidedly discouraging news that the American jobs scene is increasingly dominated by employment whose existence and growth depend heavily on decisions by government officials. I've called the portions of the economy that create these jobs the government-subsidized private sector. And these industries in turn are dominated by healthcare services.

Of course, the subsidized private sector provides crucial services to Americans, and its size and growth arguably reflect entirely valid choices by the nation and its political system. But its growing prominence contrasts strikingly with the performance of what you might call the real private sector – where levels of demand and output, and therefore employment, are determined largely by the market forces most of us still believe are America's best bet for long-run and sustainable prosperity. And if that is indeed the case, then it can't be good news that the market-dominated part of the economy still hasn't regained the scale it held when the last recession broke out – more than nine years ago.

Separating the subsidized private sector from the real private sector puts the March jobs report in a fundamentally new light. The new government figures say that the private sector created just under 91 percent of the 215,000 net new jobs added by the total non-farm economy over February's levels. But more than a quarter of that job-creation took place in the subsidized private sector. As a result, the private sector properly classified only generated just under 67 percent of those job gains. And nearly 24 percent of the total monthly jobs improvement in March came from the subsidized industries.

These numbers bounce around a fair amount month to month, which means – as usual when analyzing the economy – that the trends over longer periods of time are the most accurate. For all of 2015, according to the standard definitions, the private sector generated nearly 97 percent of all the year's net new jobs increase. But nearly 26 percent of those jobs benefited from those generous government subsidies. So the real private sector's share of annual jobs gains was only 71.81 percent. The subsidized private sector share of total employment gains for 2015 was 25.87 percent.
The relative surge of subsidized private sector jobs becomes even more obvious when 2015 data is compared with that of the year before. In 2014, the conventional categories show, the private sector was responsible for nearly 98 percent of all job growth – a slightly higher share than in 2015. Many of those jobs were actually

subsidized private sector jobs, too, but the share (just over 16 percent) was considerably lower than in 2015. As a result, the real private sector accounted for just under 82 percent of annual jobs gains – a figure more than ten percentage points higher than in 2015. This left the subsidized private sector responsible for only 15.66 percent of total jobs gains in 2014 – more than ten percentage points lower than in 2015.

In 2013, the subsidized private sector played an even smaller role in spurring employment increases – just 13.21 percent of the total. In other words, its job-creation import nearly doubled in the two years following.
And if anything, the subsidized private sector's momentum has strengthened so far this year. Since last December, the standard figures tell us, the conventionally defined private sector has created a little over 93 percent of the economy's new jobs. But more than 27 percent of them have come from the subsidized private sector, leaving the real private sector share at 67.67 percent – a good deal lower than 2015's 71.81 percent. In the first three months of last year, the real private sector created 74.23 percent of all the economy's new jobs, meaning that its role weakened as the year wore on.

A similar picture is apparent from the employment statistics examined on a stand-still (as opposed to a growth) basis. When the recession began, at the end of 2007, here's the composition of the American labor market:

Conventionally defined private sector as share of total jobs: 83.83 percent
Subsidized private sector as share of total jobs: 13.63 percent
Real private sector as share of total jobs: 70.19 percent
Subsidized private sector as share of conventionally defined private sector: 16.26 percent

When the current recovery officially began, here's how employment shares had changed:

Conventionally defined private sector as share of total jobs: 82.77 percent
Subsidized private sector as share of total jobs: 14.97 percent
Real private sector as share of total jobs: 67.88 percent
Subsidized private sector as share of conventionally defined private sector: 18.09 percent

Remember – this was a time when real private sector jobs kept cratering each month (the employment bottom was not to arrive until the following February), but health care job-creation literally didn't skip a beat. Here's the stand-still picture for last month:

Conventionally defined private sector as share of total jobs: 84.64 percent
Subsidized private sector as share of total jobs: 15.68 percent
Real private sector as share of total jobs: 68.96 percent
Subsidized private sector as share of conventionally defined private sector: 18.52 percent

These numbers reveal that the job market today looks more private sector-heavy than at the recession's onset when that part of the economy is defined conventionally. But when the subsidized private sector is stripped out, its share of employment hasn't yet rebounded to that recession-onset level – even though the slump began more than nine years ago. Meanwhile, the subsidized private sector's job role keeps hitting new highs. Nine years after a devastating financial crisis triggered largely by debt-fueled economic expansion, Americans and their leaders have still been slow to understand that not all growth is created equal. Will they be any faster to learn that not all jobs are created equal, either?