RHODE ISLAND CENTER FOR FREEDOM & PROSPERITY

JOI — the Jobs & Opportunity Index

Tracing Rhode Island's Economic Progress

April 2016

WHY THE UNEMPLOYMENT RATE IS A POOR INDICATOR OF ECONOMIC WELL-BEING

Rhode Islanders want to prosper in an economic climate that rewards hard work, encourages small-business growth, creates quality jobs, and can lead to a better life for their families.

In this regard, the traditionally cited monthly unemployment rate is often used by state lawmakers as a benchmark to evaluate the effectiveness of state economic policy initiatives. However, this rate represents a very narrow glimpse of the employment health of a state and can often paint an incomplete, or even inaccurate, snapshot of the broader economic picture.

The unemployment rate often fails to meet this broader standard. It is based on data from the U.S. Department of Labor's Bureau of Labor Statistics (BLS) U3 rate, which is defined as the number of unemployed people as a percentage of the civilian labor force. (The *civilian labor force* is defined as the total number people employed or actively looking for work.) BLS reports five other unemployment rates (U1, U2, U4, U5, and U6), to which it refers as "alternative measures of labor underutilization for states," that are not normally taken into monthly consideration.

Since the recession of 2008, as seen with national data and in many states, this traditional unemployment rate calculation on its own is not an adequate indicator of true economic recovery. A declining labor force participation rate (LFPR), generally seen a negative economic indicator, can be a significant factor in producing a lower unemployment rate, which conversely is seen as a positive economic indicator.

This inverse negative/positive relationship between the LFPR and the unemployment rate was exemplified in Rhode Island in October and November 2015. In each of those months, both the number of employed Rhode Islanders and the number of people in the labor force declined — both negative indicators. Yet, these two negatives yielded a positive unemployment rate result, which declined because of the lower LFPR.

Indeed, despite recent decreases in the monthly unemployment rate, many Rhode Islanders do not feel that their family finances have improved in recent years and do not anticipate their getting better, for themselves or their children, anytime soon.

WHY JOI IS A MORE COMPLETE MEASURE

If our political leaders are to craft and advance legislation that removes barriers to the creation of meaningful work and that provides broader economic opportunities for all Rhode Island families, it is important that lawmakers are provided with a broader and deeper measure of economic well-being.

For employment data to be an accurate representation of the economy in any state, it must take into account the lived experience of the people who reside and work there. Moreover, for comparisons across time and across states, additional benchmarks are necessary.

Free-market economists believe that overly zealous public assistance programs and other preferential tax treatment schemes can crowd out organic *private sector* growth, thus hampering economic opportunities for the average family. It has long been the contention of the Center that government policies that seek to redistribute private sector income via too large an array of *public and corporate welfare programs,* can be detrimental to a state's overall jobs and economic health.

In addition to *a proper measure of employment as it relates to labor force,* a more indicative index of overall economic opportunity should also include *a measure of employment levels as compared with public assistance rolls* and *a measure of private sector income as compared with public sector tax receipts collected.* These latter two factors help us measure the size of the private sector as compared with the size of government. In a thriving market, the private sector should be dominant.

A more-complete economic index would measure a larger (or smaller) opportunity for Rhode Islanders to engage in meaningful work, to earn a livelihood for their families, and to increase their mobility for advancement up the income ladder. The Jobs & Opportunity Index (JOI) is that more-complete index. JOI incorporates all of these measures into a single result that consists of three primary factors.

Job Outlook Factor

The Job Outlook Factor is a measure of optimism as to work opportunities in the current market. This "people factor" gives a broader sense of the existing employment and labor force picture by including other BLS survey figures and correcting for the inverse LFPR effect.

- *Calculated as* labor force size *divided by* the sum of three unemployment variables derived from other BLS "U" datasets, this factor includes three variables the traditional unemployment rate does not: long-term unemployed, marginally attached, and underemployed.
- A growing labor force or a lower number of unemployed, marginally attached, or under-employed people will each properly raise the value of this factor.

Freedom Factor

The Freedom Factor is a measure of self-sufficiency as related to the vibrancy of the state's free-market economy. This people factor measures the number of state-based jobs and employment versus the number of those dependent on public assistance.

- *Calculated as* the sum of state-based jobs *plus* state residents employed *divided by* the sum of state residents on Medicaid, SNAP, and TANF
- The greater the number of jobs and employed or the lower the number of public assistance recipients, the higher the value of this factor.

Prosperity Factor

The Prosperity Factor is a measure of financial motivation as to how much income people can expected to keep after paying taxes. This "money factor" compares gross personal income versus total taxes collected by the government.

- *Calculated as* the sum of personal earnings, dividends/interest income, and rent collected divided by the sum of state and local taxes *plus* federal taxes collected by the government.
- The greater the personal income or the lower the government-collected taxes, the greater the value of this factor.

Jobs & Opportunity Index

To provide relativity and a consistent scale, the calculation of each state factor is “normalized” on a scale of 1–10 across all 50 states, with the highest-ranking state receiving a 10 and the other states’ receiving a proportionate score below that maximum.

The Center’s new Jobs & Opportunity Index (JOI) uses federal data to calculate each of the three factors and then combines the normalized scores into a single output value as follows shown in the following table.

Jobs & Opportunity Index (JOI) Equation	
Simply, JOI =	The sum of the two people factors times the money factor
Or, JOI =	(35% Job Outlook Factor + 65% Freedom Factor) x Prosperity Factor
More specifically, JOI =	[0.35 x Labor force / (Long-term unemployed + Marginally attached + Underemployed) + 0.65 x (In-staters employed + state-based jobs) / (Medicaid enrollment + SNAP recipients + TANF recipients)] x [1.00 x (Earnings + Dividends/interest + Rent) / (Local and state taxes + Federal taxes)]

By adding the two people factors together (weighted at 35% and 65%, respectively, of their normalized value) resulting in a maximum value of 10, then multiplying this sum by the money factor, also with a maximum value of 10, the final JOI calculation will result in a final score from 0 to 100 — the higher the better.

A re-calculation for each of the three factors for each state will be made on a monthly basis, with more-final scores issued on quarterly and annual basis as new government data becomes available. Because the various agencies release their data results at different intervals and with different lag times, the Center will consider each year’s numbers final when all data for December of that year is available.

For a more-detailed explanation of the sources and equation see the technical documentation available at **www.rifreedom.org/JOI**.

CREDITS

The RI Center for Freedom & Prosperity Jobs & Opportunity Index (JOI) is the result of collaboration among local and national policy, budget, and economic experts:

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