Facts and Features of the U.S. Labor Market

1. Labor Market are Dynamic, not Static
   a) Jobs are not fixed. Jobs constantly being destroyed and created. Employment growth is net difference between job creation and destruction.
   b) U.S. labor market 1990-2005, the private sector had
      • job destruction rate of 7.6% per quarter,
      • job creation rate of 7.9% per quarter,
      • leading to net employment growth of 0.3% (about 1.2% annually).
   c) The types of jobs (industry, occupation, location) change over time (see below).
   d) In normal times with low unemployment, the number of jobs changes with labor force size.

2. Economy-wide Earnings and Productivity Move (Roughly) Together
   a) Productivity measured by output per worker (or per hour or per total factor input). Productivity growth is the % change in productivity.
   b) Generally a close link between economy-wide productivity and compensation (wage plus benefits) growth. This follows from labor demand theory and from macro division of pie. Labor roughly 65-70% of total income.
   c) Wage-productivity link true economy-wide but not necessarily by sector. Rapid growth in agricultural and later manufacturing productivity in 20th century associated with decreasing shares of employment and slow wage growth.
   d) Much recent productivity growth is IT related, but measurement is difficult.
3. **Changes in Composition of Labor Force**
   a) Increasing % women (FLFP) since the 1970s, particularly married women with children. Peaked in mid-1990s.
   b) Slow population growth and aging of population as fertility decreased, partly offset by immigration.
   c) Increasing number of foreign-born workers; growth stopped since Great Recession.
   d) Increasing level of education, particularly during the 1960s and 70s, with slow growth since then. Steady increase for women and little growth among men. Increasing GED vs. high school diploma.
   e) Earlier retirement throughout 20th century; this is now reversing.
   f) Increasing role for temporary workers, flexible work schedules, telecommuting, and out-sourcing across firms within US and internationally.
4. **Changes in Sector of Employment During Second Half of 20th Century**

a) **Industry:** decrease in agriculture, and later goods-producing manufacturing; increase in service industries (trade, health, FIRE, education, business services, law, government services, and information-based services).

b) **Occupation:** decreases in blue-collar production workers; increases in information-based workers and service workers. Technology is labor saving in jobs that can be routinized – blue, white, or pink collar.

c) **Location:** increased job and population growth in south, southwest, west, slowest in northeast, north-central, and parts of mid-Atlantic. Decline in rural and small towns, rapid growth in medium-sized cities and in areas surrounding large cities. Growth has been where new housing most affordable (but D&S have opposite price effects).

d) **Technology & Trade** helps shape type of jobs and jobs growth. Trade and communications (internet) allows specialization across economies; technology is labor saving and creating. Computers (IT) labor saving in jobs with tasks that are programmable or routinized (bank tellers and ATMs, travel reservations and internet) versus jobs with tasks that cannot be programmed. The internet allows some jobs to be transportable vs. performed in-person (call centers abroad, software in India, back-office finance, etc. but not haircuts, massages, dining out, lawn care, child care, elder care). IT substitutes for and decreases employment and earnings in some occupations, while complementing and increasing employment and earnings in others.
5. **Increasing Importance of Nonwage Benefits and Structure of Compensation**
   a) Increasing non-monetary compensation. Benefits include: pension (DB vs. DC), health insurance, vacation, sick days, insurance. Mandated are OASDI, UI, workers’ comp, pension insurance. Trade-off between wages and benefits.
   b) Rise in incentive-based or productivity-based pay.

6. **Earnings Inequality**
   a) Rising earnings inequality and skill differentials, particularly during 1980s: mostly increased wage dispersion but also an increase in hours worked dispersion; much of the increase in the 1990s and 2000s at the very top, with some hollowing of middle-class jobs.
   b) Potential explanations are skill-biased technological change, slow education growth relative to high-skill demand growth, increased trade, immigration, decline in private sector unions, stagnant minimum wages (until recently).

7. **Unionism**
   a) Decrease in private sector unionism, from about a third in the 1950s to about 7% today. Change in the industrial workplace governance norm from collective bargaining to constrained managerial discretion.
   b) Increased role for public sector unions in 1960s-1970s, and stable since then at about 36%. Overall union membership density is 12%.
8. **Role of Government in Labor Market**
   a) Roughly 16 percent (1-in-6) of wage and salary workers (less if including self-employed) are public sector workers, mostly state and local. Federal employment has not increased with size of federal budgets.
   b) Federal regulations in labor market: union labor law, SS old age and disability, FLSA min. wage and hours, discrimination (including ADEA age and ADA disability), OSHA safety, ERISA pension, plant closing notification, worker hazard, FMLA family medical leave.
   c) State: UI (part federal), workers’ comp, plus any extensions of federal regulation.
   d) Local: less important, but some cities have “living wage” ordinances, etc.
   e) Note possible tradeoff between role for unions and role for government.

9. **Unemployment and Business Cycle**
   a) Stagflation (high unemployment and inflation) in 1970s and early 1980s; lower rates of both since that time. Europe shifted to a higher u-rate level than U.S., partly because of less flexible labor markets.
   b) From the mid-1980s through 2007, the business cycle became less severe (‘The Great Moderation’ or shift away from consumer durables and most cyclical industries), unemployment less severe, but there was considerable risk of permanent job loss among workers. Less long-term job attachment.
   c) Current Great Recession, part of an international financial crisis with origins in the US housing market, has doubled US unemployment and will have detrimental long-term effects (not fully understood) on employment levels and growth.
10. **Increased Competitiveness and Globalization of U.S. Economy and Labor Market**

a) Globalization: Increased international “flows” of goods, capital, and people.
   - Goods: increased international trade in intermediate and final products, due in part to decreasing transportation costs.
   - Capital: increased flows of investment and ownership across borders. Investors search for highest returns around the world.
   - People: increased immigration in US and much of the world; flows toward developed economies with slow or stagnant population growth.

b) An increasingly competitive and dynamic (fast-changing) economy helps explain such things as declining private sector unionism, increasing use of incentive-pay, increasing earnings inequality, higher returns to schooling (quantity and quality), and greater wage and employment insecurity for many households.