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 good times with low unemployment, total jobs increase with increases in 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 (less so in recent years) between economy-wide productivity and compensation (wage plus benefits) growth. This follows from labor demand theory and from macro division of pie. Labor income roughly 65% of total income but has been declining, particularly the wage & salary portion.
   c) Wage-productivity link is economy-wide; not 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 from IT, but IT 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. U.S. once had one of the highest female LFP rates, but has fallen in rank.
   b) Slow population growth and aging of population as fertility decreased. This is true for many western economies. Aging partly offset by immigration.
   c) Increasing number of foreign-born workers; growth stopped during Great Recession and with growing animus toward immigrants. But politics of immigration may be changing, making reforms possible. Increased immigration makes economic sense.
   d) Increasing levels 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. High rates of college course taking, but college completion rates far lower.
   e) Earlier retirement throughout 20th century with growth of Social Security and DB (defined benefit) pensions. Trend has slowed with transition to DC (defined contribution) pensions. Trend toward early retirement reversed in Great Recession due to loss of pension and housing wealth, but retirement rates have rebounded with stronger stock market and housing price recovery.
4. **Changes in Sector of Employment Since Second Half of 20th Century**

a) **Industry**: decrease in agriculture and increase in manufacturing early in 20th century. In latter part of 20th century employment decline in goods-producing manufacturing; increase in service industries (trade, health, FIRE, education, business services, law, government, communications/information-based services).

b) **Occupation**: decreases in “blue-collar” production workers and “pink-collar” clerical workers; increases in information-based workers and service workers. Technology has been labor saving in jobs with programmable tasks (see point d below).

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

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, ticket reservations) versus jobs with tasks not programmable. The internet allows some jobs to be mobile 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. **Importance of Nonwage Benefits and Structure of Compensation**
   a) Non-monetary compensation important. 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 since the 2000s at the very top, coupled with hollowing out of middle-class jobs.
   b) Potential explanations for earnings inequality growth are skill-biased technological change, slow education growth relative to high-skill demand growth, trade growth, immigration, decline in private sector unions, slow minimum wage growth.
   c) Over a long time period, *wages and earnings* around and below the median have shown little real growth. Average real *incomes* have increased, but would not have done so absent government transfers. Declining labor force participation (LFP).

7. **Unionism**
   a) Decrease in private sector unionism, from about a third in the 1950s to below 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 about 11%.
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. This share highly stable over time (but with a recent decline).
   
   b) Federal regulations in labor market: union labor law, SS old age and disability, FLSA min. wage & hours, discrimination (e.g., 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 (e.g., state minimum wage laws, paid family leave, etc.).
   
   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) Great Recession and its aftermath, part of an international financial crisis with origins in the US housing and financial markets and high levels of private and public debt, US unemployment doubled, recession having detrimental long-term effects (not fully understood) on employment levels, dynamism, and growth.
10. **Increased Competitiveness and Globalization of U.S. Economy and Labor Market**
   
   a) **Globalization**: Increased international “flows” of goods, capital, people, knowledge
   
   - **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.
   - **Knowledge**: increased “knowledge” production across world (rapid growth in China, India, etc. relative to U.S. and Europe). “Knowledge” embedded in people, goods, and capital.

   b) Over time, 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.

   c) Recent concern that U.S. and European dynamism (job churn) and growth are declining, due in part to aging populations, high rates of public and private debt, and for reasons we do not fully understand.