

Employment II: Coming to Grips with Structural Change

Often we hear the refrain that some policymaker will “restore the jobs.” Reality is not that kind. The history of the American economy is that jobs and the skills that go with those jobs change over time. What makes the current situation so challenging is that the jobs are disappearing so quickly that workers find adjustment very hard.

Job Growth: The Descent of Possibilities

American mythology today romanticizes the role of the blue-collar worker as prior political leaders did the family farm. While the positive role of these workers is obvious what is less apparent is that the possibilities of employment in blue-collar manufacturing are disappearing as agricultural employment did in the twentieth century. As illustrated in the top graph, manufacturing employment growth peaked way back in the early 1970s.

Slower growth is not a political issue. The decline has been persistent in both Democratic and Republican administrations. Instead, the decline of possibilities reflects the increased use of technology and capital to substitute for skilled workers as well as the simple evolution of the share of consumer demand from “goods” to “services.”

As Jobs Change, so do Skill Requirements

Evolution in the economy has meant an evolution in the demand for workers to fill the needs of producers. One is struck by how many professions, including law and medicine, required no formal education or licensing earlier in our history. Yet, since WWII the education requirements for many jobs, and even more so the returns to that education, have increased dramatically.

In the middle graph we can see that unemployment for those with less education has been both higher and rising more rapidly during the current economic downturn. This disparity, along with the disparity in the return to education, is likely much of the source of the rising disparity of incomes in America. Disparity in education, probably more than any other factor, has been the driver of income disparity. Unfortunately, the secular trends in America’s labor markets are likely to only aggravate this trend.

Underemployed and the Challenge to Standards of Living

In one sense the employment data, dismal as they have been, may actually be overstating the strength of the labor market. Over the last two years we have seen a rapid rise in the number of workers who are employed part-time for economic reasons (bottom graph). There are many reasons for this but two interest us here. First, many companies have probably cut back the hours of their workers rather than engage in layoffs. Second, many second or third workers in the household may have gone back to work to make up for lost income/wealth during the past two years.

In either way, while many people may be employed they are far more underemployed than in the prior three recessions. Effectively, this is a loss in many people’s standard of living where incomes are not up to the level of spending that many households had expected.

