Addressing New and Old Labor Market Challenges

Aparna Mathur
American Enterprise Institute

APRIL 9, 2019

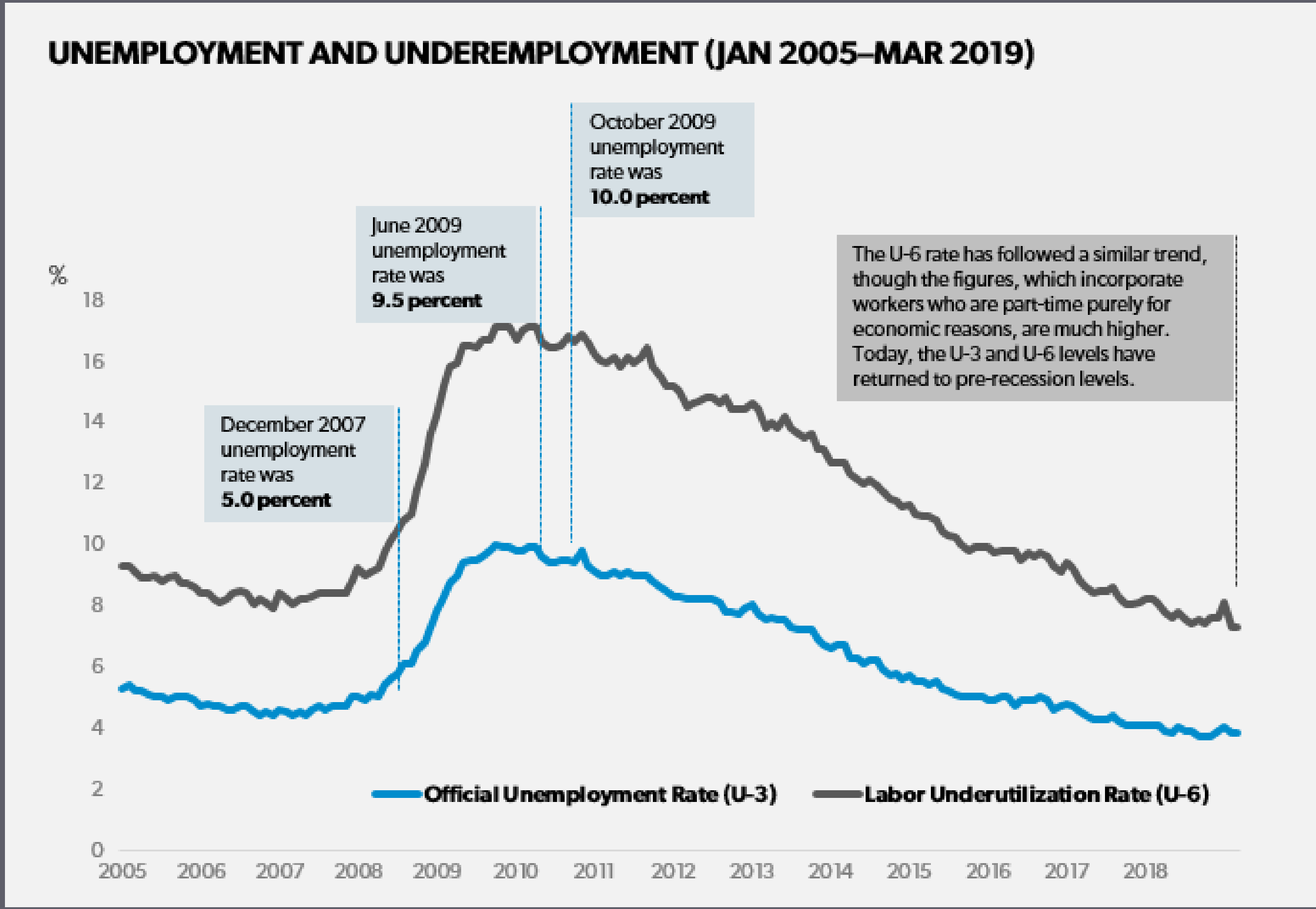
Outline

- The economy has come a long way since the Great Recession in 2007-2009.
- The aggregate picture hides significant heterogeneity in terms of who is benefitting and who is not.
- While cyclical trends may have improved, there are longer-term barriers to opportunity that need to be addressed through policy.
- Broad conclusion: To sustain employment and labor force participation in the long-run, we need to be doing more to make growth more inclusive

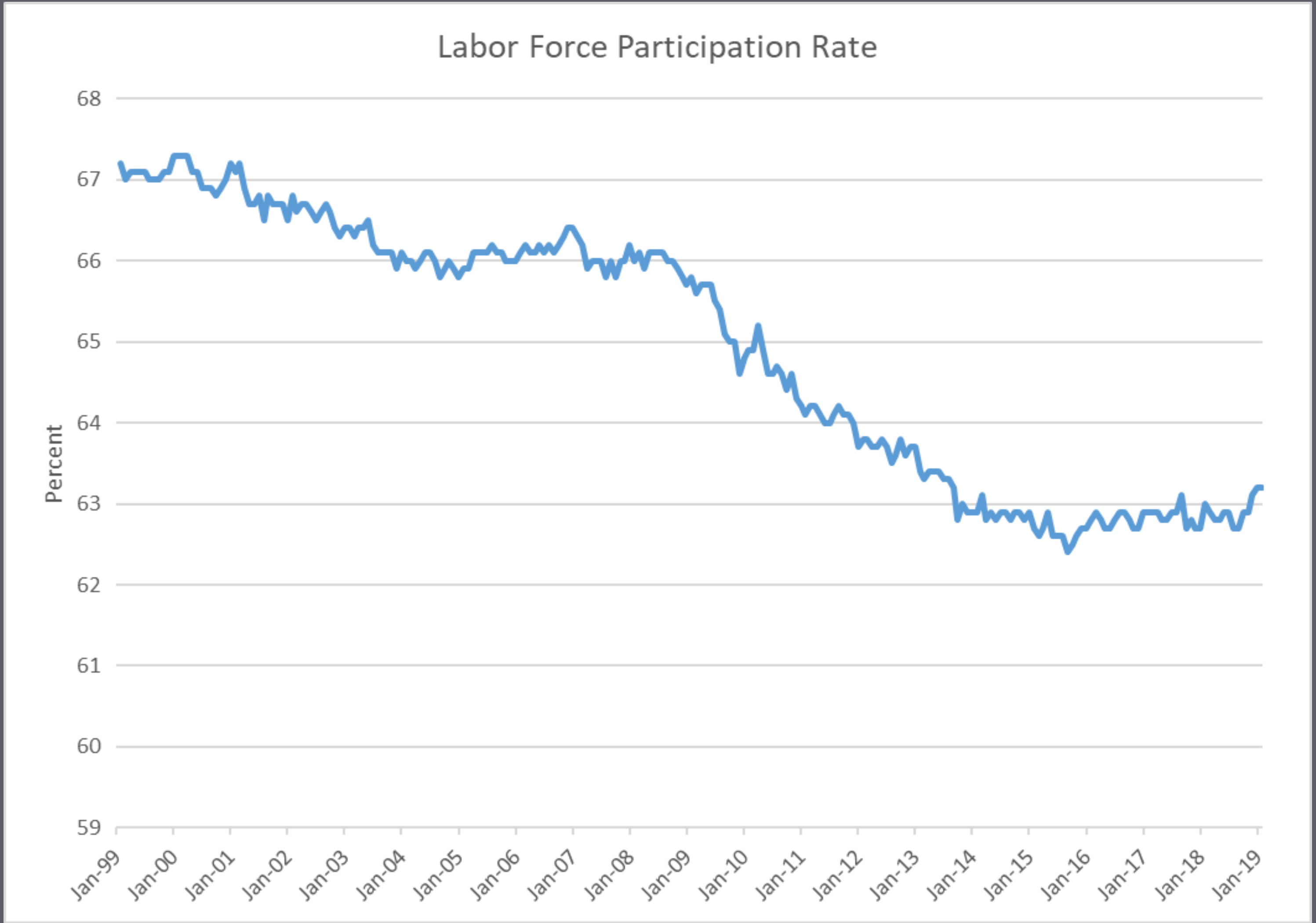
Are We At Full Employment?

- The U-3 rate has declined from a peak of 10 percent in the middle of the Great Recession to levels far below historic rates.
- Labor force participation rates have continued to grow but are still below levels seen prior to the Recession.
- The U-6 rate, which captures slack, has declined from peak and is trending in the right direction.
- Nominal wage growth has crossed 3% in the previous few months jobs report.

Unemployment and Under-Employment

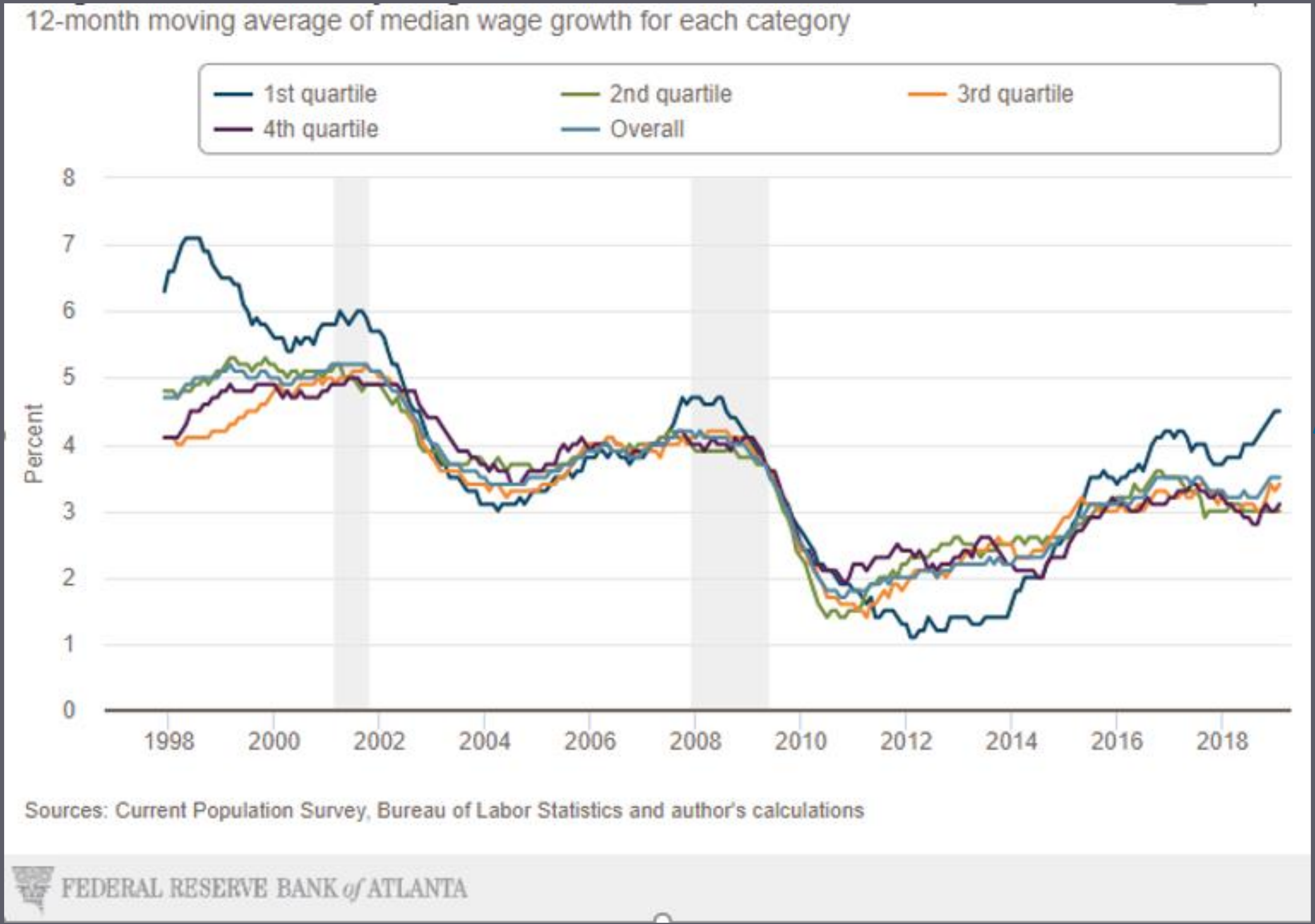


Labor Force Participation Rate



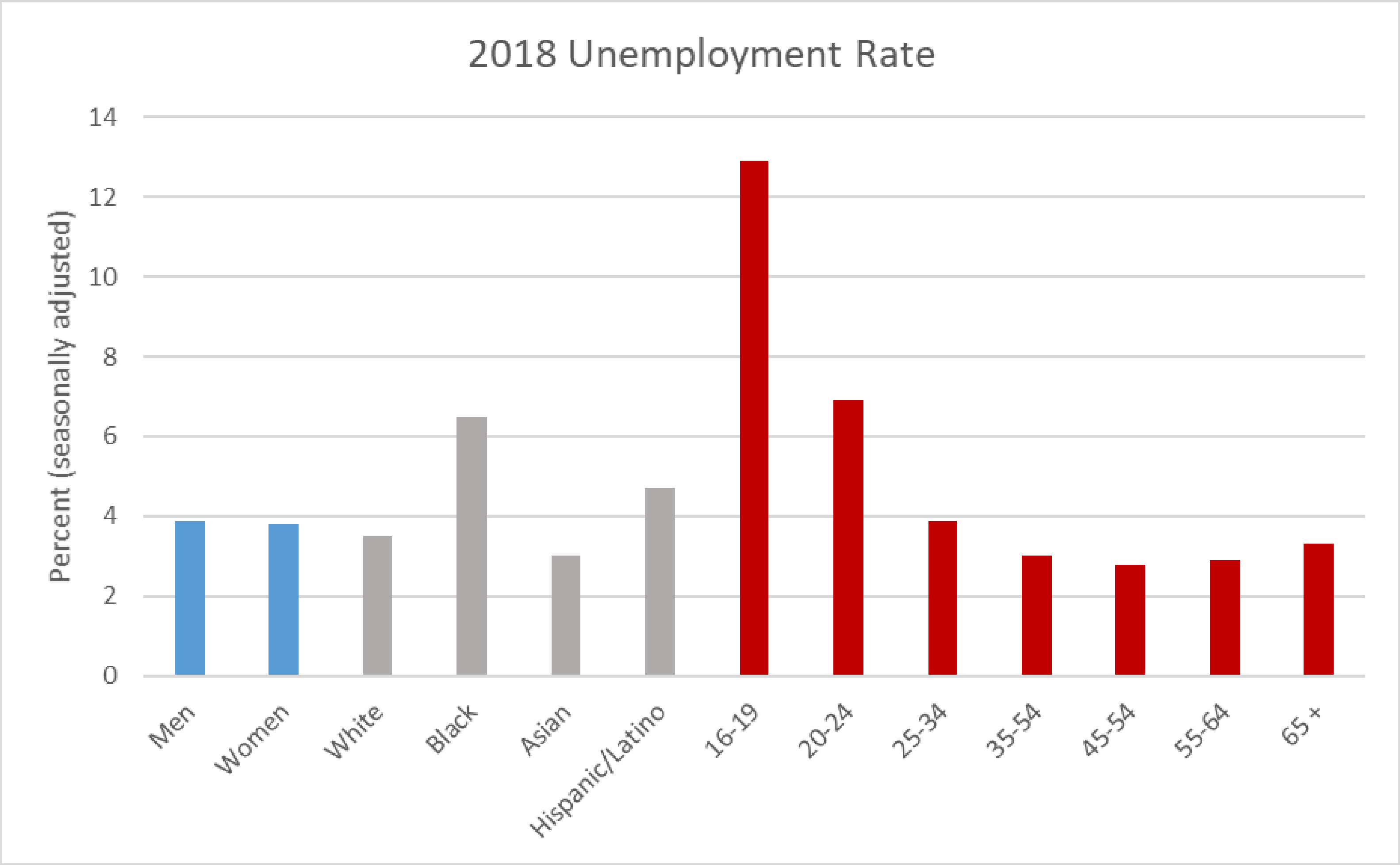
Job Openings Relative To Unemployed Persons

Wage Growth

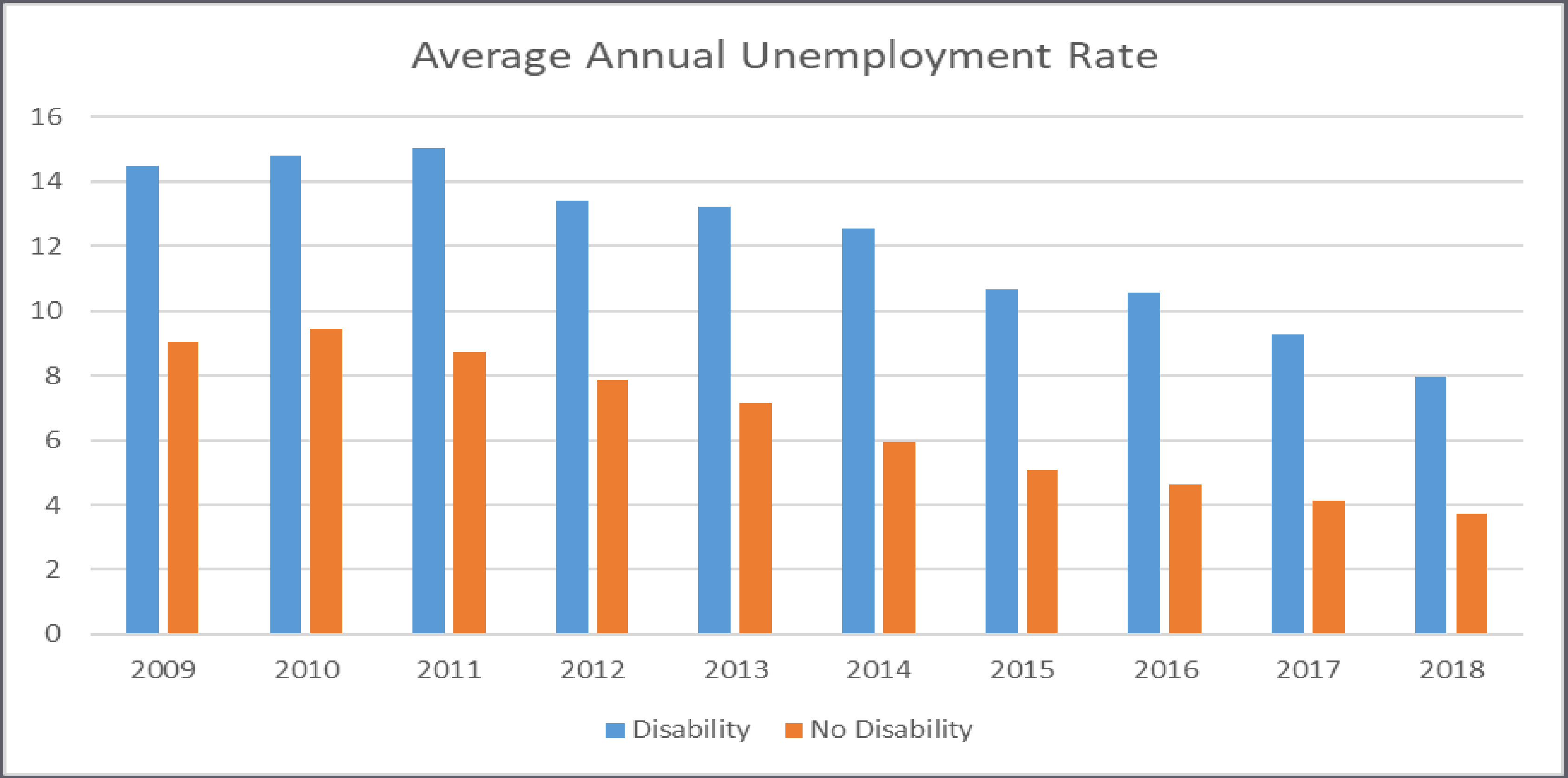


Wage growth fastest among low wage workers

Demographic Differences in Unemployment



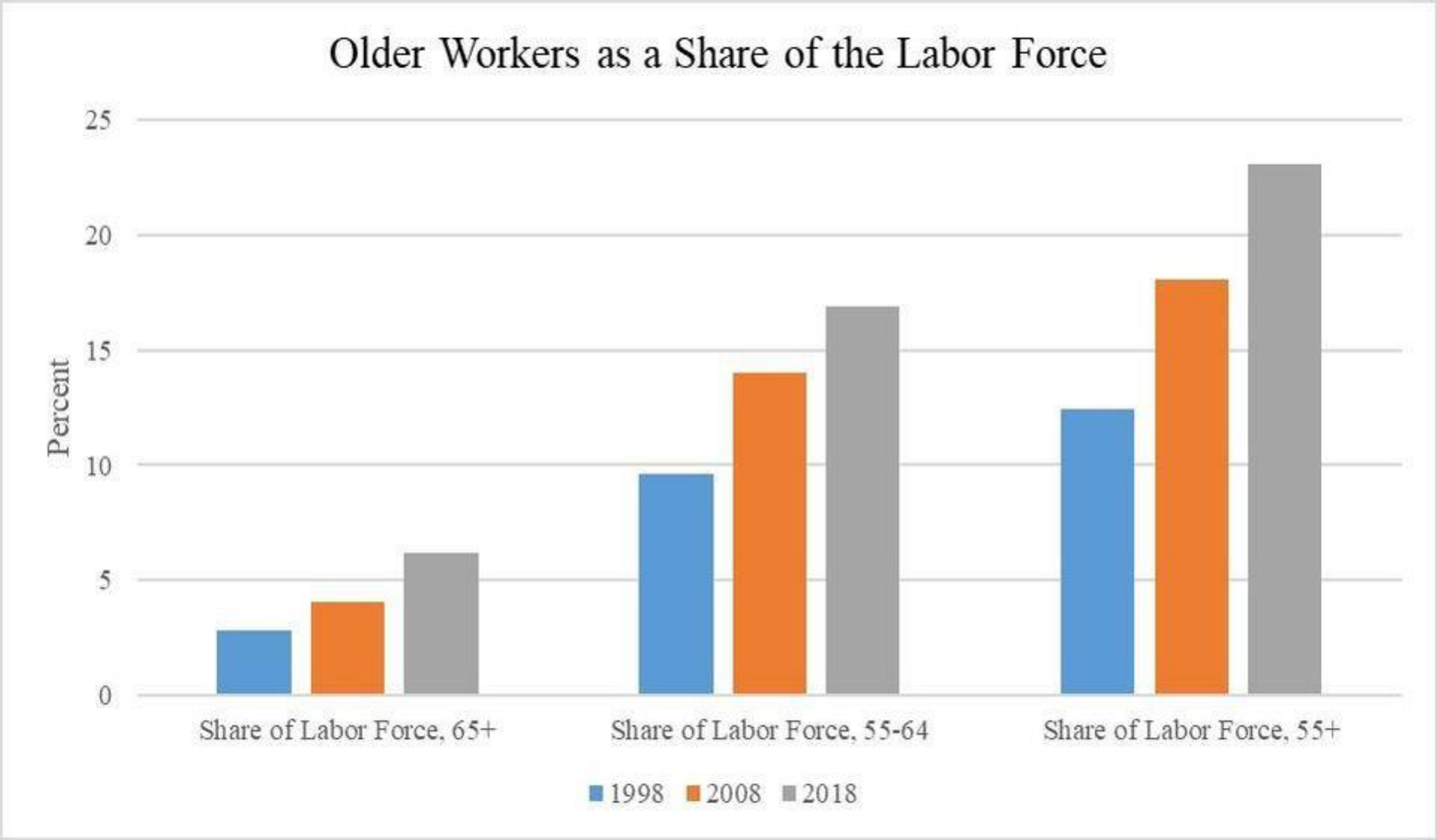
Unemployment among the Disabled Population



Source: Bureau of Labor Statistics

Booming Baby Boomers

- Over the past year, data from the Bureau of Labor Statistics show that nearly 40% of all employment gains were driven by Americans aged 55 and older.
- The Federal Reserve Bank of St. Louis notes that all of the net increase in employment between 2000 and 2017—nearly 17 million jobs-- has been among workers aged 55 and older.
- The job market is booming because older workers are continuing to participate in the labor market longer, and at higher rates than we imagined.


Older Workers as a Share of the Labor Force
Percent
25
20
15
10
5
0
Share of Labor Force, 65+
Share of Labor Force, 55-64
Share of Labor Force, 55+
1998
2008
2018

Trends

- Between 2014-2024, the Bureau of Labor Statistics projects that the labor force growth rate of these baby boomers, between the ages of 65-74, and 75 and older, is expected to be faster than for any other age group.
- Why?
  - A 2015 GAO study finds that 30% of workers aged 55 and over have no retirement savings and many others may not have saved enough to live comfortably in retirement.
  - Second, as per data from the Center for Disease Control and Prevention, people are living longer and are healthier than before, allowing them to work longer.
  - Other studies suggest that <u>the implicit decline in taxes</u> that comes with a shift from defined benefit to defined contribution pension plans after age 65 may play a role in shaping retirement behavior.
  - But the most important reason is that a large majority of older workers actually want to continue working because they find work meaningful and rewarding.

Less Inflationary Pressure?

- Still seems to be room to grow with increasing numbers of workers being drawn in from the sidelines as the labor market tightens.
- Can even more discouraged/potential workers be pulled off the sidelines?
- Probably not in the long-term: aging workers will eventually retire, and thus participation will decline.
- Challenge: How can we sustain participation rates going forward? How do we make growth more inclusive?

Diversity in Challenges Faced

- Mismatch between workers and jobs
  - Skills, Geography and Racial Mismatch
- Boosting Women's Labor Force Participation
  - Paid Leave and Child Care
- Assimilating previously incarcerated workers into full-time work
- Barriers to Opportunity and Upward Mobility
  - Residential segregation, social networks, moving to opportunity, education
  - Opioid Abuse

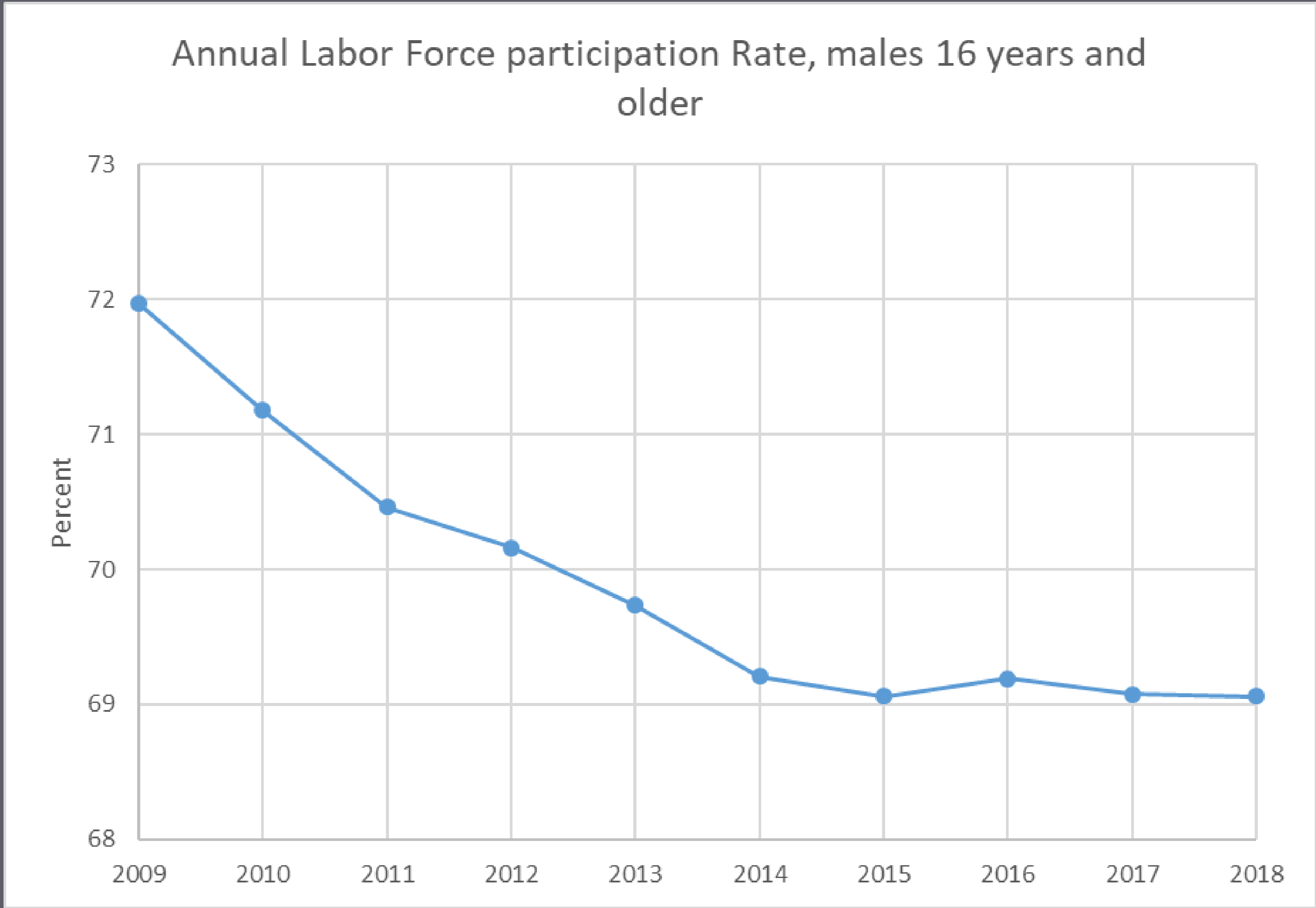
Globalization and Skills

- While globalization and technological change have largely benefited those with education and skills, they have threatened middle skill and lower skill jobs.
- Middle-skill jobs are described as routine in nature and often involve manual work, high-skill jobs are non-routine and cognitive, requiring problem-solving skills. These are typically in manufacturing and construction.
- From 1981 to 2011 the share of middle-skill employment declined from 58% to 44%.
- The Great Recession also hit middle-skill workers harder than high skill or low skill workers. They experienced sharper and more long-lasting employment declines. In general, more sensitive to the business cycle.

Declining Male Labor Force Participation

- Recent research finds that middle-skill workers who lack college degrees rarely end their unemployment spells by taking either high- or low-skill jobs. Leaving unemployment for nonparticipation is thus a common outcome for those middle-skill workers who do not return to middle-skill jobs.
- Link between polarization and persistent non-participation for prime age males is evident. The ongoing decline in middle skill job opportunities goes a long way in explaining the decades-long drop in participation rates among prime-age males.
- Another consequence is the decline in wages for non-college educated, urban workers, who perform less skilled work than decades ago.
- So how do we ensure that middle skill workers transition to higher skill jobs, and not nonparticipation?

Male Labor Force Participation



Source: Bureau of Labor Statistics

Manufacturing Case Study

- President Trump campaigned on the promise of “bringing manufacturing jobs back” to America
- In reality, while employment in manufacturing has declined, job openings have continued to increase. Between 2005 and 2018, employment in manufacturing has decreased 10.8%. However, the average monthly job openings level has increased from 293,000 to 466,000, a 59% increase.
- As of January 2019, there are 452,000 job openings in manufacturing, with a monthly openings rate of 3.4%. So why are these jobs not getting filled?
- A study in Journal of Economic Perspectives shows, there has been a global shift towards the value added by high skill workers in manufacturing and a shift away from low and medium skill workers.
- Manufacturing has become more technologically advanced, the demand for skilled workers to occupy positions has grown, but many companies appear unable to find people with the requisite skills.

Automation

- The development of automation, enabled by technologies including robotics and artificial intelligence, has allowed for higher productivity and possibly earnings for certain workers. However, it has also posed a larger challenge about the broader impact on jobs, skills, wages, and the nature of work itself.
  - Some recent studies suggest that about 45 to 47% of jobs in the U.S. are susceptible to automation. The impact of this on jobs and wages is likely negative. In a new paper, authors suggest that industrial robots that replace manual labor like welding, painting, assembling or packaging have increased four-fold between 1993 and 2007 and are likely to continue to increase significantly over the next decade.
  - The effect on jobs would be to reduce about 3-6 workers for every new robot and wages would go down by about 0.5%.

Millennials during the Great Recession

- Using the Consumer Finance Survey, the St. Louis Fed reported that the age cohort born in the 1980s were most severely impacted by the Great Recession. The wealth of households headed by an individual born in the 1980s was nearly 25% behind where it was expected to be in 2010, after the Recession ended.

- Younger families have experienced deeper declines in wealth and rebounded from the economic setback the most slowly. By 2016, 34% of the 1980s group surveyed were below their predicted wealth amount.

Paid Apprenticeship Programs

- Apprenticeship programs ease the transition from school to work and allow for an earn-while-you-learn work model. Apprentices only make up about 0.3% of the total US workforce.
  - However, in recent years, apprenticeships are again gaining momentum- and CBO projects apprenticeship employment growth from 2016-2026 at rates from 9% to 16%, depending upon industry.

- Evidence from experiences in South Carolina and many European nations suggest these programs boost worker earnings, improve productivity, and shorten periods of unemployment before their first job.

- Neumark and Rothstein (2005) find internship/apprenticeship programs help improve labor and market outcomes particularly for disadvantaged youth and the “forgotten half” less likely to attend college.

Image Gap

- Many younger workers are unwilling to take-up manufacturing jobs and jobs in the skilled trades because their perception of these factory jobs is what they used to be decades ago and the stigma associated with it. They view skilled trades as “dirty” jobs and demand among younger workers is declining.

- A survey on the Public Perception of Manufacturing shows that most Americans agree that manufacturing is the backbone of a strong domestic economy, yet fewer and fewer parents want their children to work in the industry.

- Manufacturing is the last choice career among individuals between the ages of 19 and 33.

Two Pronged Approach

- We must encourage workers to upgrade their skills with training in math, science and computing. For younger workers, paid apprenticeships with companies could produce big results.

- But aside from the skills gap, we also need to tackle the “image-gap”— the unwillingness of some workers to take up these jobs because of their inherent bias against working in jobs that they perceive as similar to the factory jobs of the past.

- This is generally true for many skilled trades. Many younger workers view jobs in the skilled trades as dirty jobs when many of them pay well and offer a good life. Manufacturing employs about 60% of all skilled trade workers, another 17% are in construction. Traditionally, baby boomers have occupied the majority of these skilled trade positions, but the majority of younger workers are in non-vocational careers. Hence the demand for these jobs among younger workers is declining.

Retaining and Retraining Older Workers

- Older workers have the potential to be a solution to the skills gap facing companies. They often have the right institutional knowledge and skills required by companies because of their extensive on-the-job experience. This knowledge can be tapped into by companies as a resource for training younger workers.
- As companies are recognizing the potential of older workers, and the fact that their retirement will lead to a gaping hole in their workforce, they are offering opportunities for "returnship" programs, which are essentially internships for experienced workers looking to re-enter the workforce (think Robert De Niro in the *The Intern*).
- In addition, companies are offering more flexible options, part-time work and work that is more suitable for older workers within the organization.
- Many companies are offering retraining opportunities for older workers within the firm. Others are removing age limits from their apprenticeship programs.

Respond to Gig Economy Work

- Technology can help as well as hurt

- Job-matching sites, such as LinkedIn and Monster, help to fill this talent gap and match employers with employees that have the right skills.

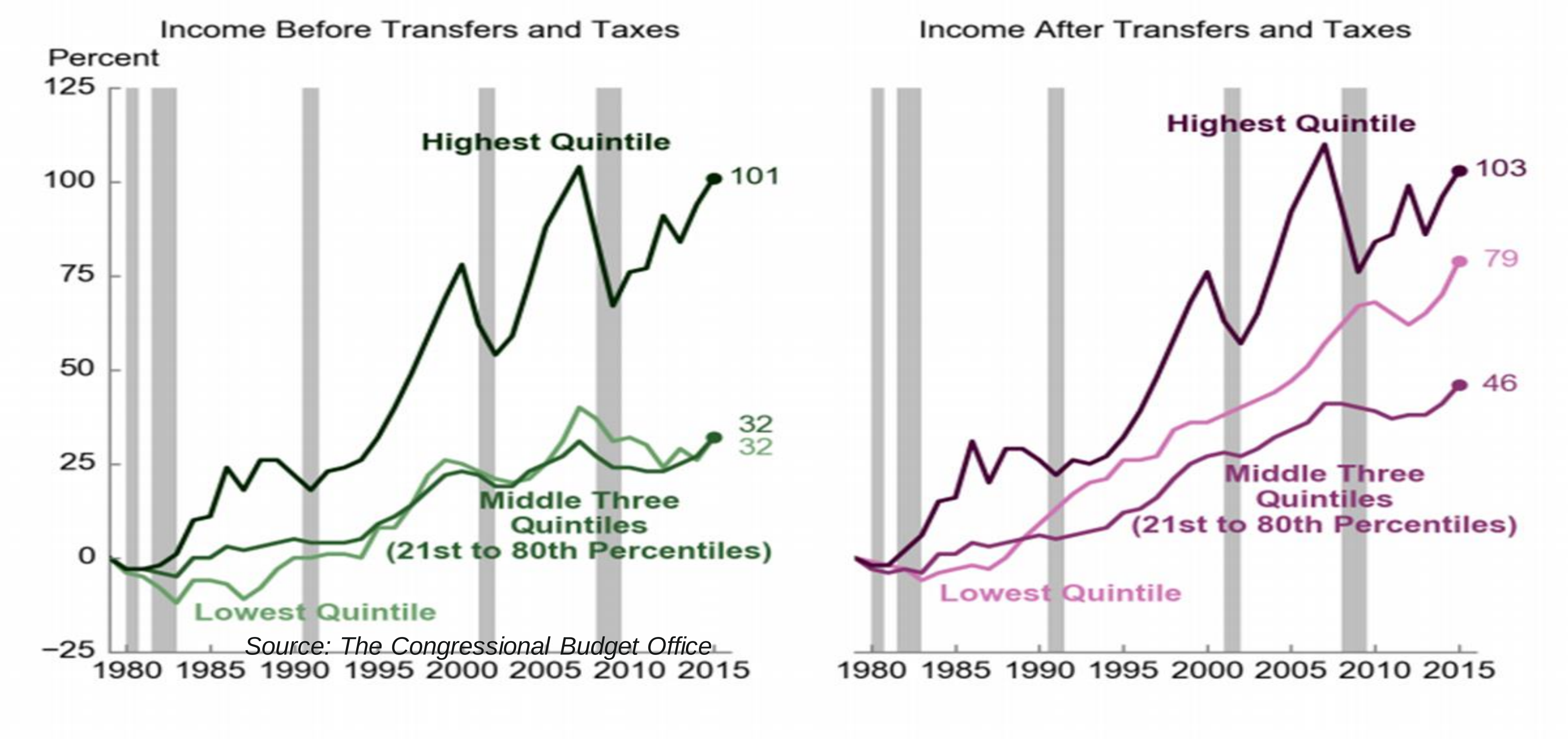
- Independent work, such as Upwork, Uber, and Etsy, allow workers to work flexibly, remotely and with digital platforms. McKinsey study suggests this is helping workers to supplement income, gain flexibility, gain flexibility, and feel like their own boss.

- It seems likely that this type of contractual or alternative work arrangement will grow over time. But it does come at the cost of foregoing traditional full-time jobs with benefits.

Barriers to Opportunity

- Upward mobility in terms of income and education
- Spatial and Racial Mismatch
- Policies to address women's LFP
- Opioids
- Safety Net

Inequality Trends

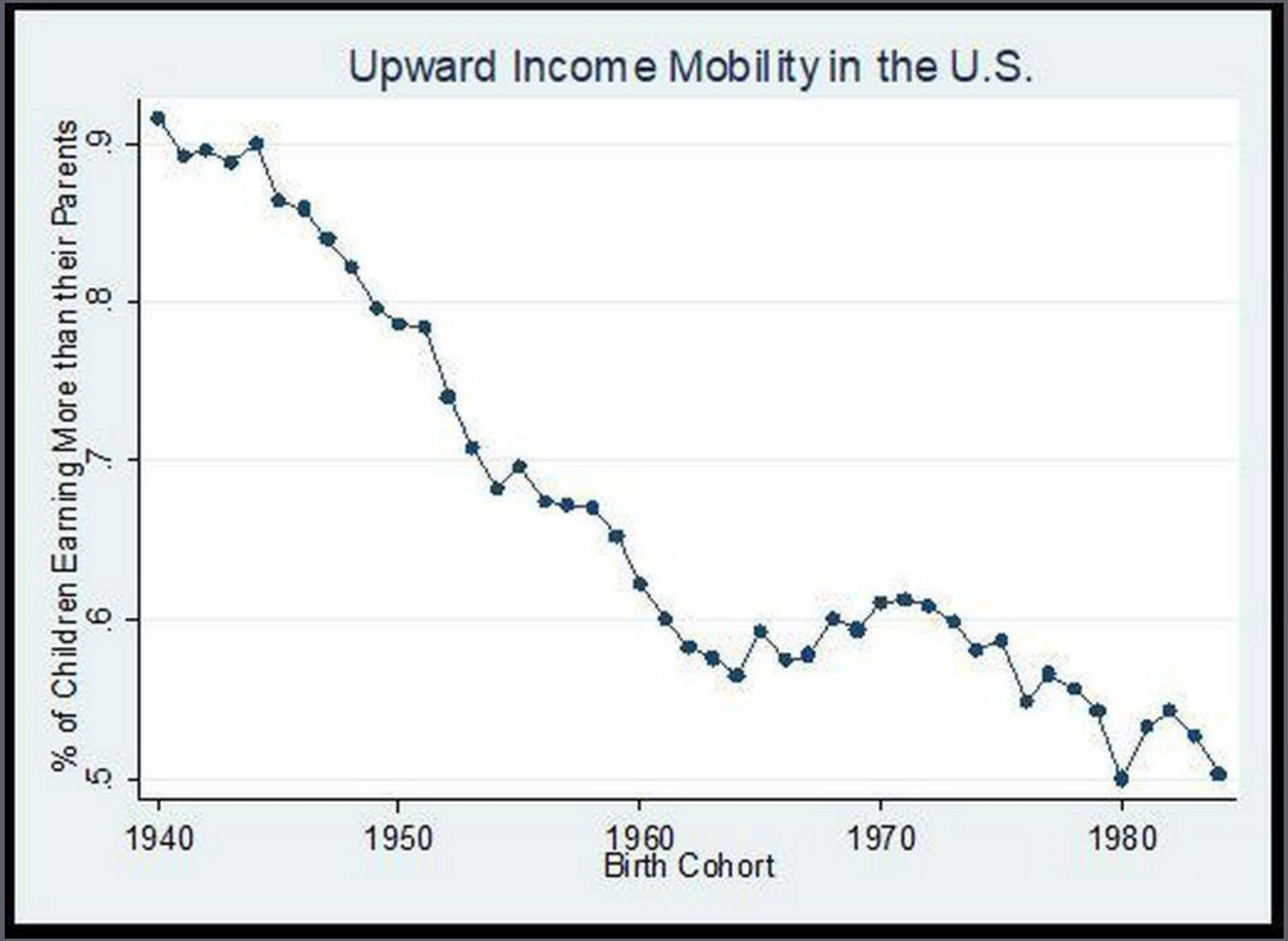


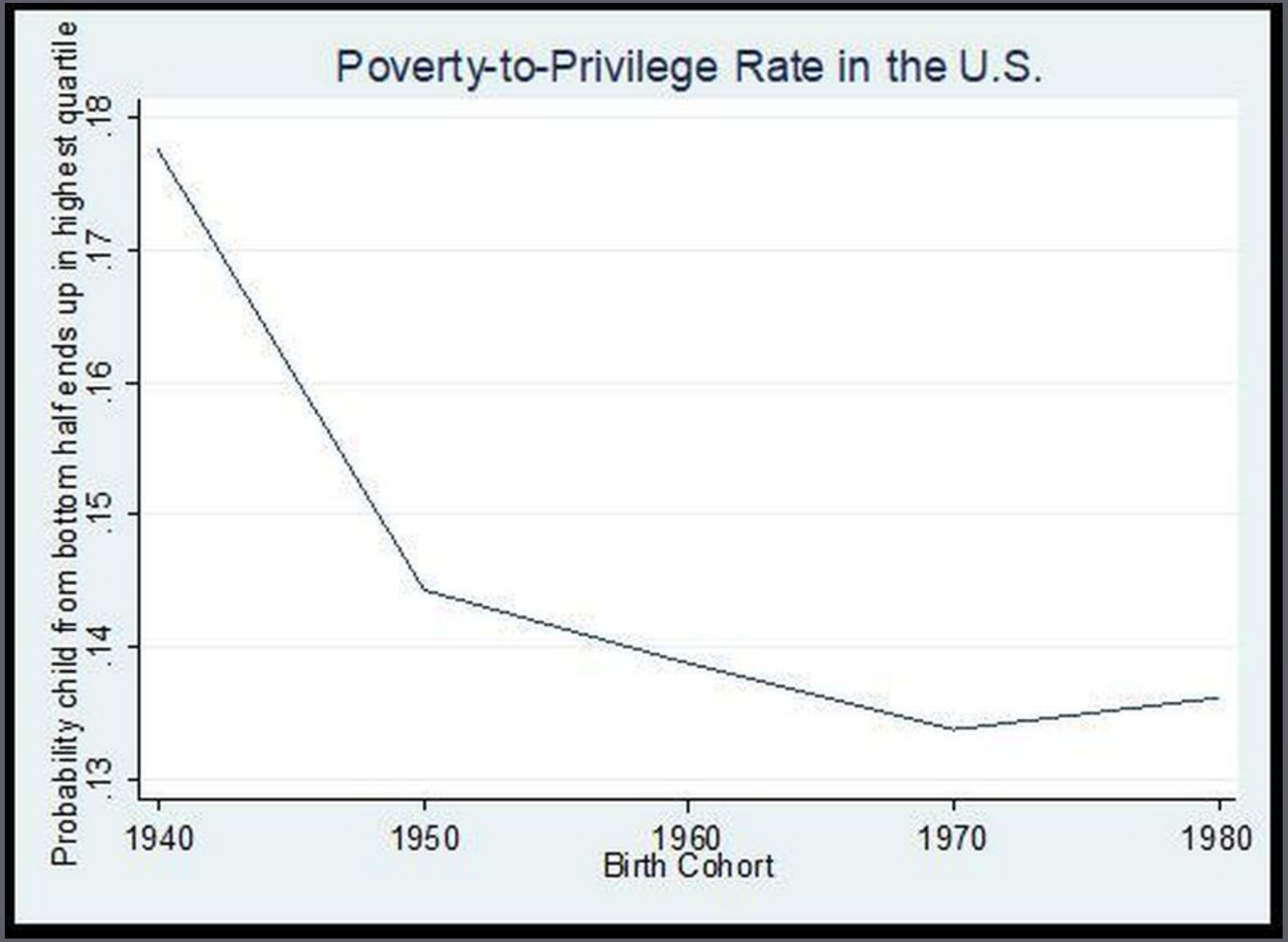
Source: The Congressional Budget Office

Economic and Educational Mobility

- We know from work done by Raj Chetty and others using income to measure mobility, that absolute upward economic mobility has been declining since the 1940s. For children born in the 1940s, more than 90% were earning more than their parents. Today, that number has dropped to 50%.
- Doing a similar analysis using the new World Bank data for educational mobility for the U.S., there is an unfortunate similarity. The following chart shows the average probability that a child in a particular birth cohort will attain higher education credentials than their parents. In the 1940s, the average probability was close to 70%. For the 1980s cohort, that number has dropped to below 45%.

Improving Upward Mobility




Poverty-to-Privilege Rate in the U.S.
Probability child from bottom half ends up in highest quartile
.13
.14
.15
.16
.17
.18
1940
1950
1960
1970
1980
Birth Cohort

Similar global and local challenges

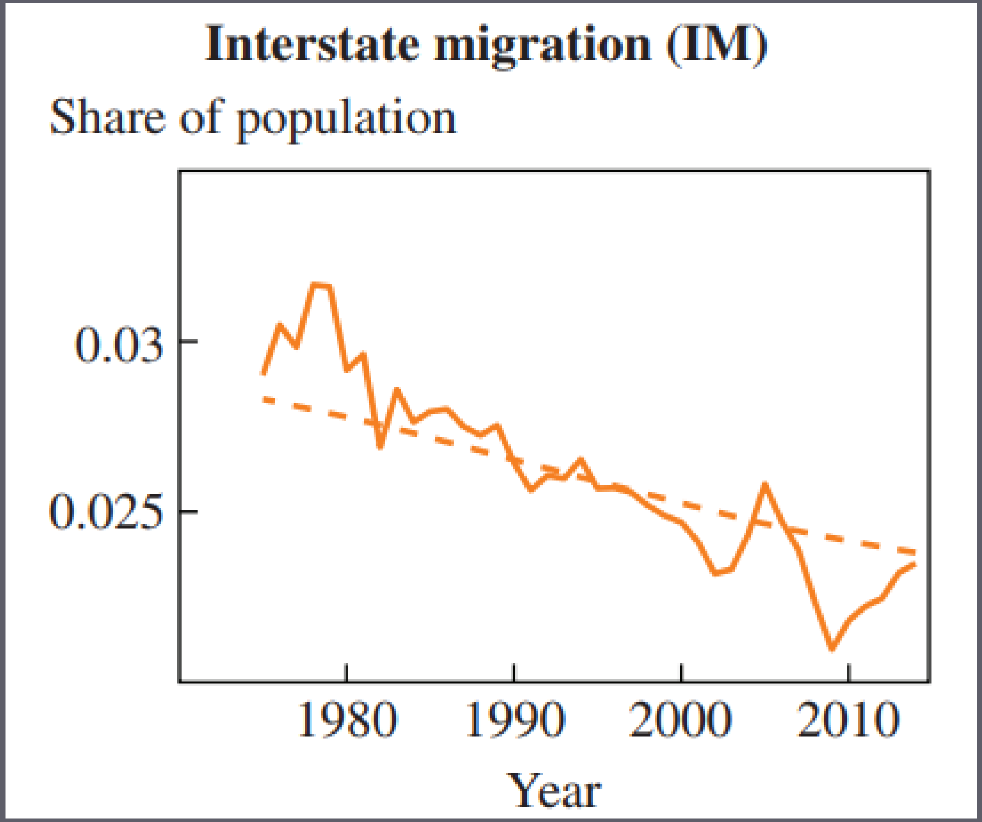
- The report highlights much needed investments in early childhood through subsidized childcare and paid leave, nutrition programs, good quality public education programs and schools, improved occupational networks and labor market interventions such as employer tax credits to employ younger workers.
- The neighborhood where a family lives can have profound implications for their economic opportunities and their children's prospects. Families living in neighborhoods with high concentrations of poverty and low economic or demographic diversity are more likely to experience a range of negative outcomes, including exposure to crime and violence, physical and mental health problems, and weak academic performance. Low-skilled workers who live far from potential employers or accessible transportation networks have more difficulty finding and keeping jobs.

Labor Market Mismatches

- Spatial Mismatch Hypothesis (SMH): low-skilled minorities residing in US inner cities experience poor labor market outcomes because they are disconnected from suburban job opportunities. This is essentially driven by the trend of central city areas, combined with constraints on geographic mobility imposed by residential segregation and limit employment prospects of inner-city minorities.
- Cutler and Glaeser (1997) find that residential segregation hurts black economic outcomes with little effect on whites.

Declining geographic mobility

- Decreased fluidity across a multitude of dimensions Marinescu and Rathelot (2016): Using data from CareerBuilder.com, it is evident that workers dislike job reallocation- jobseekers are 35% less likely to apply to jobs 10 miles away from their current ZIP code of residence.



Racial Mismatch

- Based on the racial mismatch theory presented, it is local availability of jobs for and/or held by members of own race that matters for employment.
- Simply moving near jobs, even jobs for your skill level, does not necessarily increase employment, unless the jobs are available/held by one's racial group. Moving jobs near blacks simply exposes blacks to white job density.
- Need to investigate and disentangle the potential driving mechanisms behind (labor market networks, neighborhood effects, discrimination) racial mismatch and aim policy at addressing those factors.

Policies to address mismatches

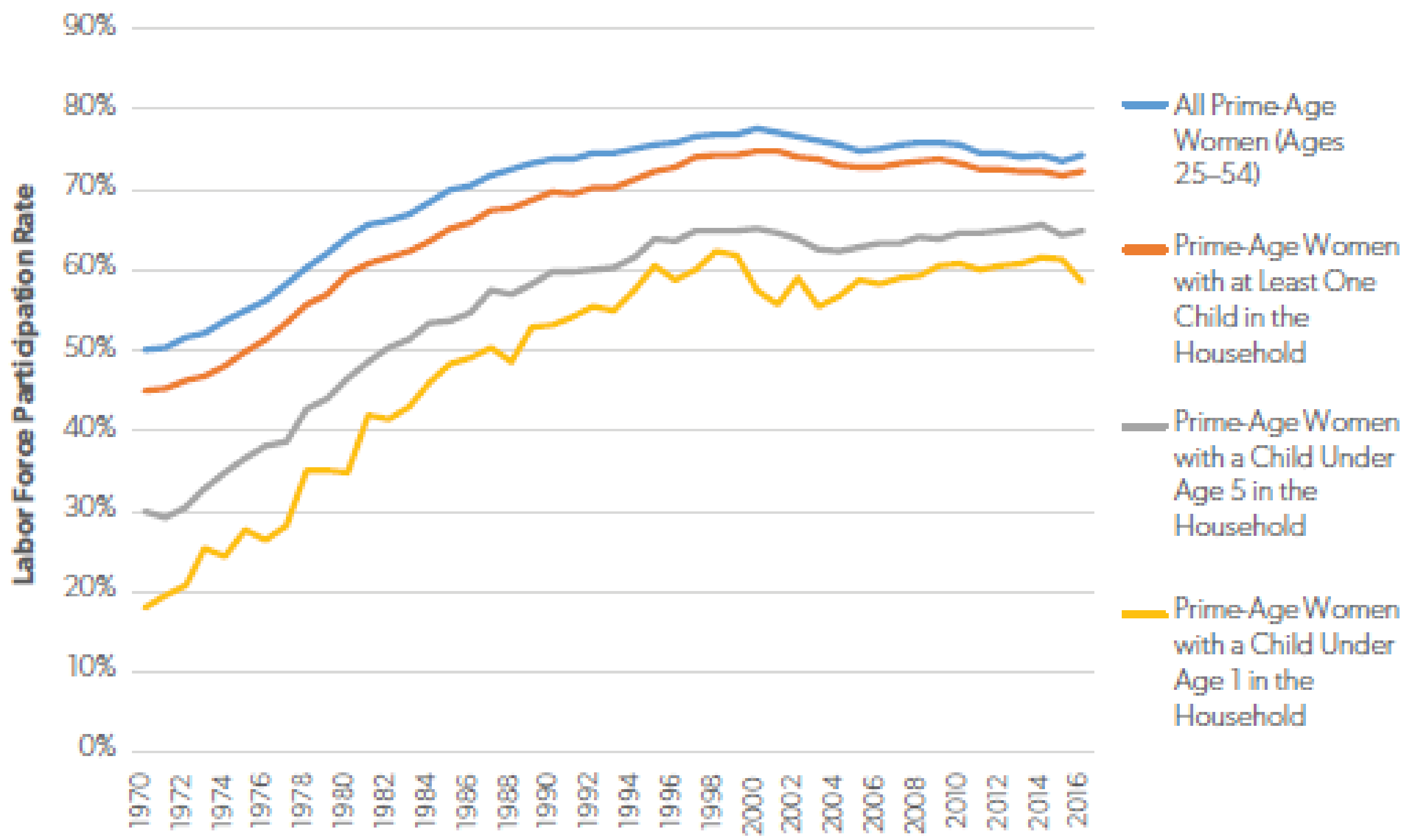
- Spatial mismatch has motivated policy interventions such as:
  - Moving to Opportunity
  - Wheels to Work
  - Enterprise Zones

- Addressing Residential Segregation:
  - Extending public transit routes into poor areas
  - Subsidizing car ownership in order to connect neighborhoods to opportunity

Women’s Labor Force Participation

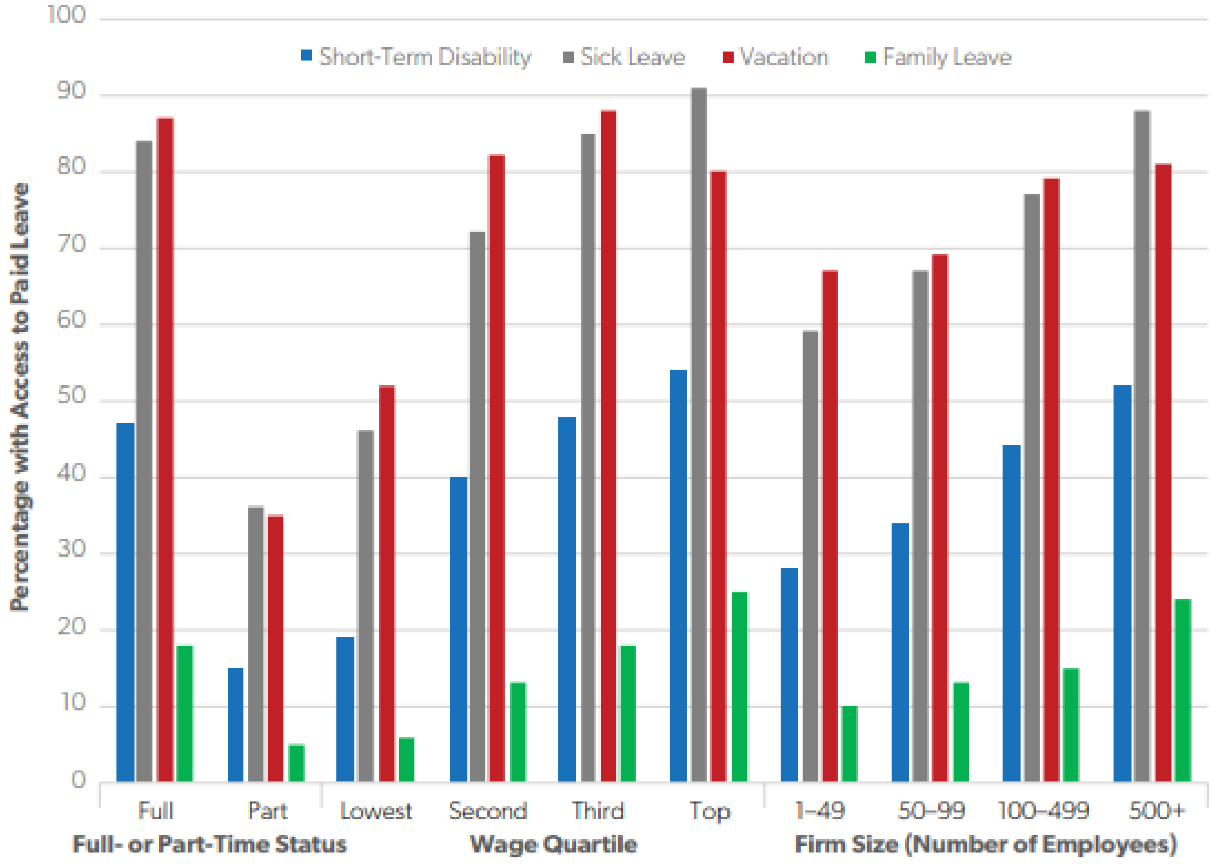
- Paid family leave policy to allow workers, especially mothers, to take time off after the birth of a child or for one’s own illness
- Lack of these programs explains one third of the gap between the US and other OECD countries’ female labor force participation.
- Only 14% of US workers have access to paid leave
- Least advantaged are the most vulnerable

Labor Force Participation Among Prime-Age Women and Mothers with Children of All Ages



Source: US Department of Labor, Bureau of Labor Statistics, Current Population Survey, 1970–Present.

Access to Different Forms of Paid Leave



Source: US Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States, March 2017*, September 2017, Tables 16 and 32.

Family Structure and Economic Mobility

- The role of family structure in poverty and economic mobility
  - Bradford Wilcox and Robert Lerman show the decline in traditional two-parent families is associated with rising income inequality, lower median incomes and lower labor force participation rates.
    - From 1980 to 2012, the median family income among married parents rose 30%, while the median family income among unmarried parents rose only 14% in that period.

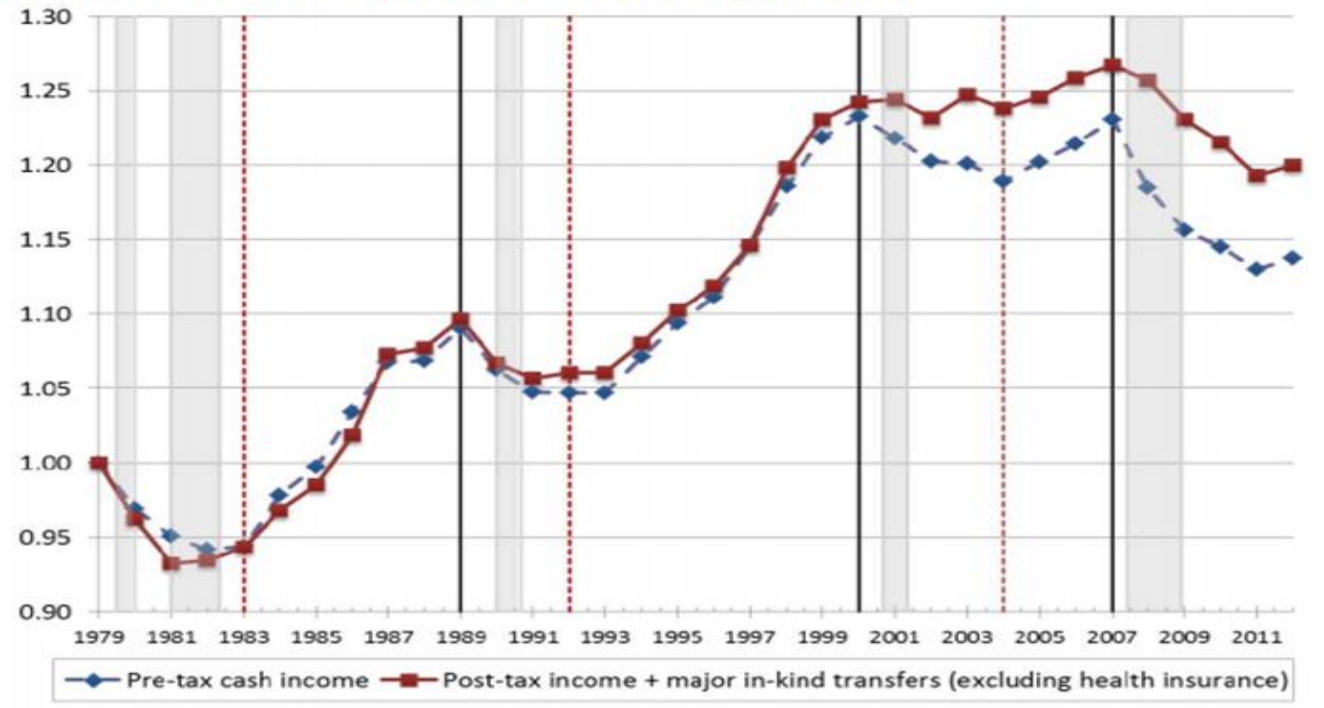
Poverty Rates of Single Mothers

- In 2017, the unemployment rate of married mothers was 2.8%, which is below the current national rate of 3.8%. Mothers with other marital statuses had a substantially higher unemployment rate of 7.8%.
- 34% of female-headed families with children were below the federal poverty threshold in 2017, compared to 16% of male headed households, and 6% of married-coupled families.
- Over half (58%) of all poor children lived in families headed by unmarried mothers.

The Great Recession and the Social Safety Net

- The percent increase in transfers during the recession was positive for all income groups, though slightly larger for those just below the poverty line, and just above, rather than those at the bottom (Moffitt 2013).
- Transfers rose in these years, and without these transfers, the poverty rate would have increased even further. Estimates claim that the increased transfers offset more than one-half of the market income declines. (Larrimore et al., 2013).

Figure 1: Trend in median size-adjusted household income of persons with and without taxes and in-kind transfers, 1979 normalized to 1 (1979-2012)



Helping Families In Need

- Reform social safety net to make it work better for families
  - Social Security Disability Insurance
  - TANF
  - SNAP
  - Medicaid
  - UI
- Earned Income Tax Credit program to supplement incomes at the bottom
- Expansions of the Child and Dependent Care Credit and Child Tax Credit can help families meet childcare expenses.

The Opioid Epidemic

- In 17 years, the share of women in opioid overdose deaths has risen from 26 percent to 33 percent
- While overall opioid deaths gone up by 425%, deaths of women have increased by more than 568% compared to 380% for men.
- According to the Centers for Disease Control and Prevention, prescription painkiller overdoses are an “under-recognized and growing problem for women”, and the gap between women and men is closing quickly.
- Opioid addiction and abuse may well be the next frontier in the fight for upward economic mobility.

Incarceration and Employment

- Formerly incarcerated individuals have an unemployment rate over 27%, which is far above the national average seen at *any point* in history.
- Evidence shows that criminal records reduces job callback rates by 50%.
- Unemployment of the incarcerated population is highest within 2 years of release, at 31.6%. Within 2-3 years of release the unemployment rate of this population decreases to 21.1%, and 4 or more years out it decreases to 13.6%- still well above the national average.
- Even if they find a job, their earnings potential and job placement is not high.

Policy Solution: Prison Re-entry Programs

- Re-entry programs for the 650,000 individuals who leave prison every year.
- Ex-convicts excluded from Pell Grants and other programs to help train and assimilate them.
- 50-70% return to prison within 5 years of release.
- Passed in December 2018 with overwhelming bipartisan support, The First Step Act aims to reattach those previously incarcerated to the labor force and decrease recidivism rates. The Act restricts enhanced sentencing for prior drug felonies, includes federal reentry improvements, has evidence-based treatment for heroin and opioid users and has other job training and pilot programs. Providing a package of incentives and new programs to improve prison life, eligible inmates can participate in these programs to earn time credits to reduce their sentence.

Key Takeaways

- While an improvement in aggregate economic indicators certainly helps, policy can play a tremendous role in sustaining and promoting inclusive growth across various demographic groups.
- Maximizing employment opportunities by addressing issues related to skills, training, segregation, mismatches, education, incarceration, and others, can help address economic insecurity.
- At the same time, boosting income for low wage workers through safety net programs is also critical to ensuring that they are able to overcome the barriers to opportunity they face in their day to day lives.