



**HARVARD Kennedy School**  
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

# **Is Government the Problem or the Solution to U.S. Labor Market Challenges?**

**Jason Furman**

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Institute for International Economics**

**Federal Reserve Bank of Minneapolis  
Minneapolis, MN  
May 11, 2018**

# Outline

1. The U.S. Grand Bargain?
2. The Problem For Men Has Been Long In the Making
3. Women Have Joined Men Since Around 2000
4. Policy Options

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## The U.S. grand bargain?

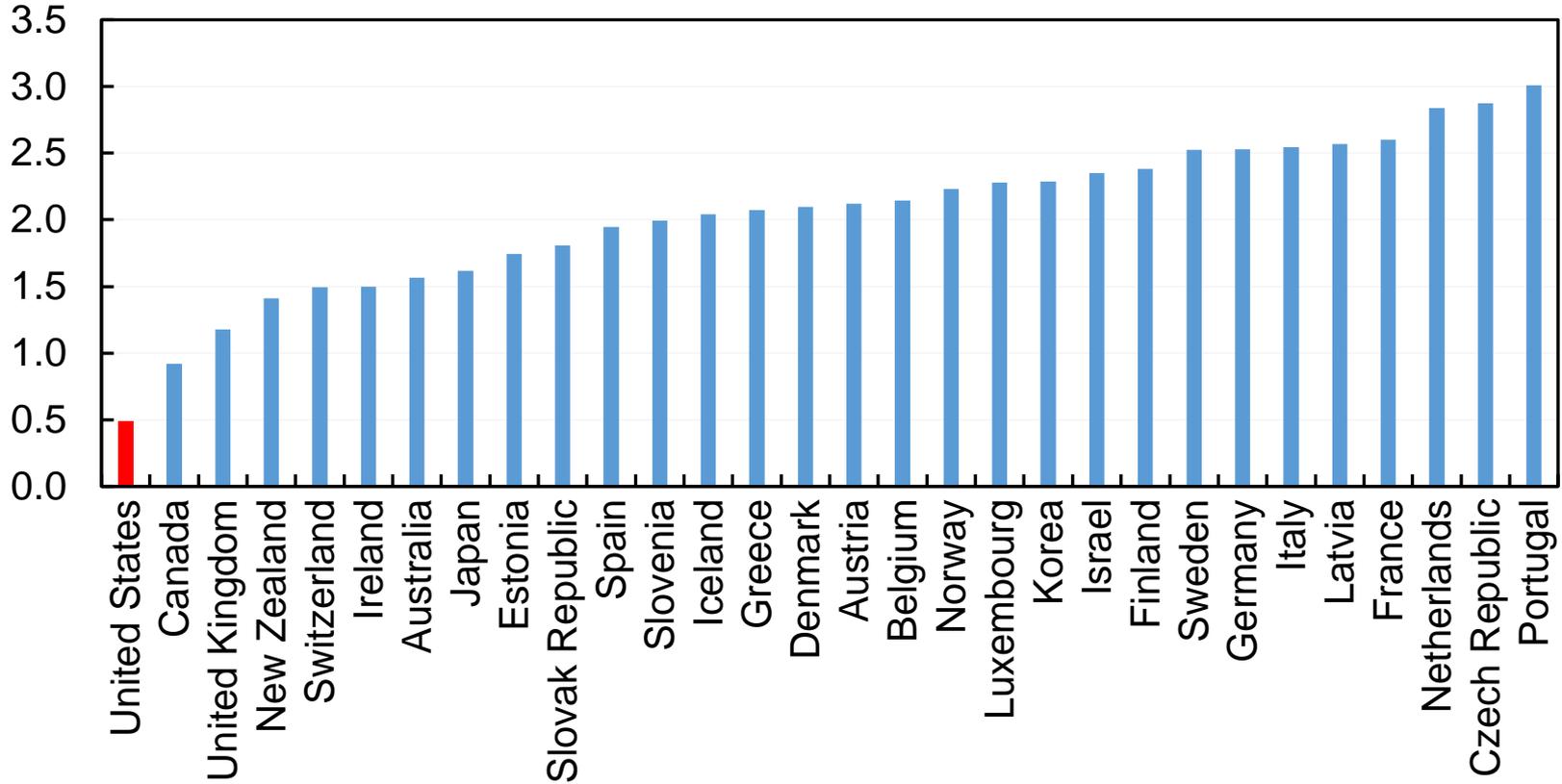
(Comparatively) free markets in labor:

- Willing to accept more inequality
- In exchange, employment will be better

# Lowest overall labor market regulation of advanced OECD economies

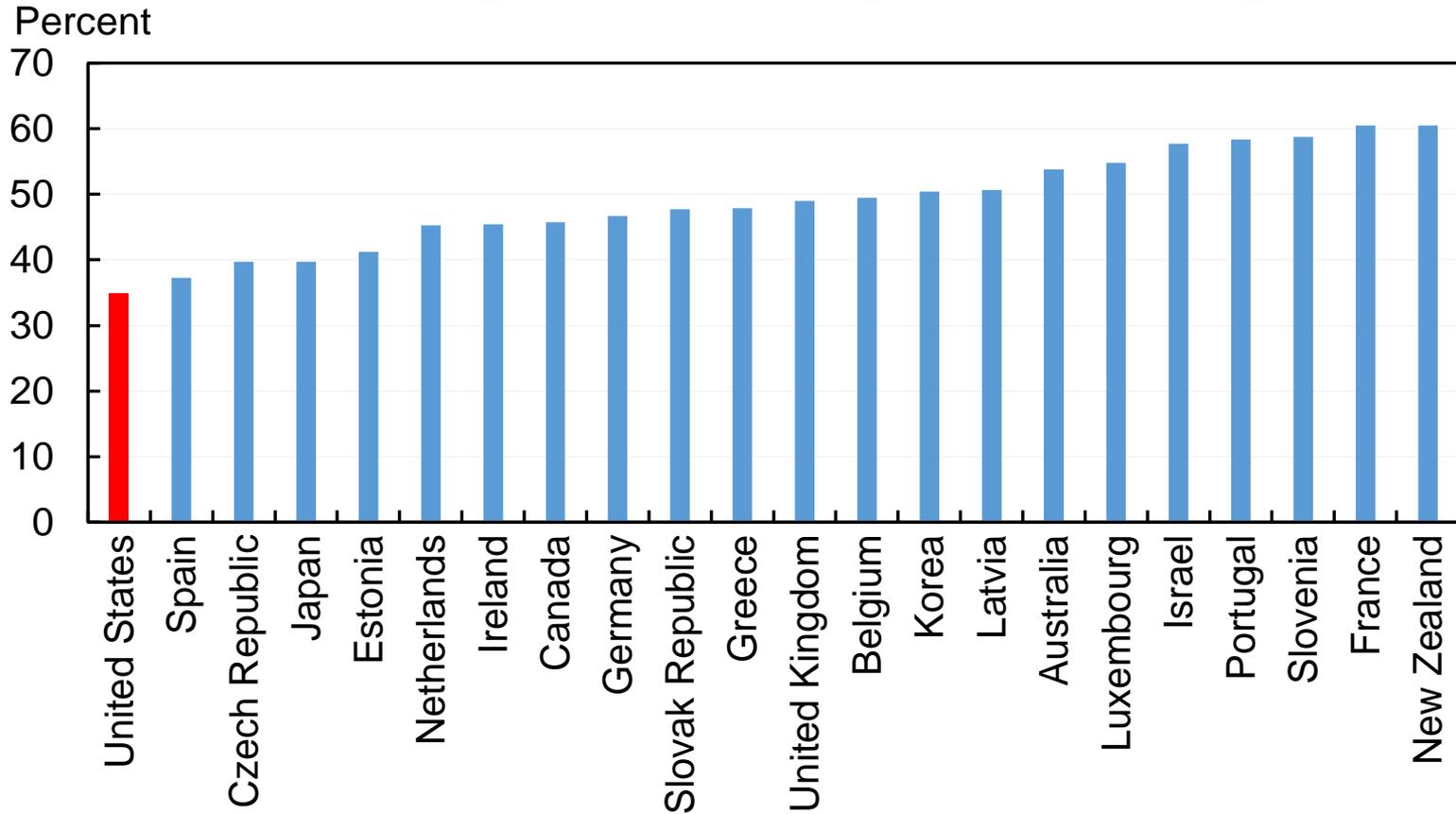
## Employment Protection Legislation for Regular Employment

Index scale of 0-6 from least to most restrictive



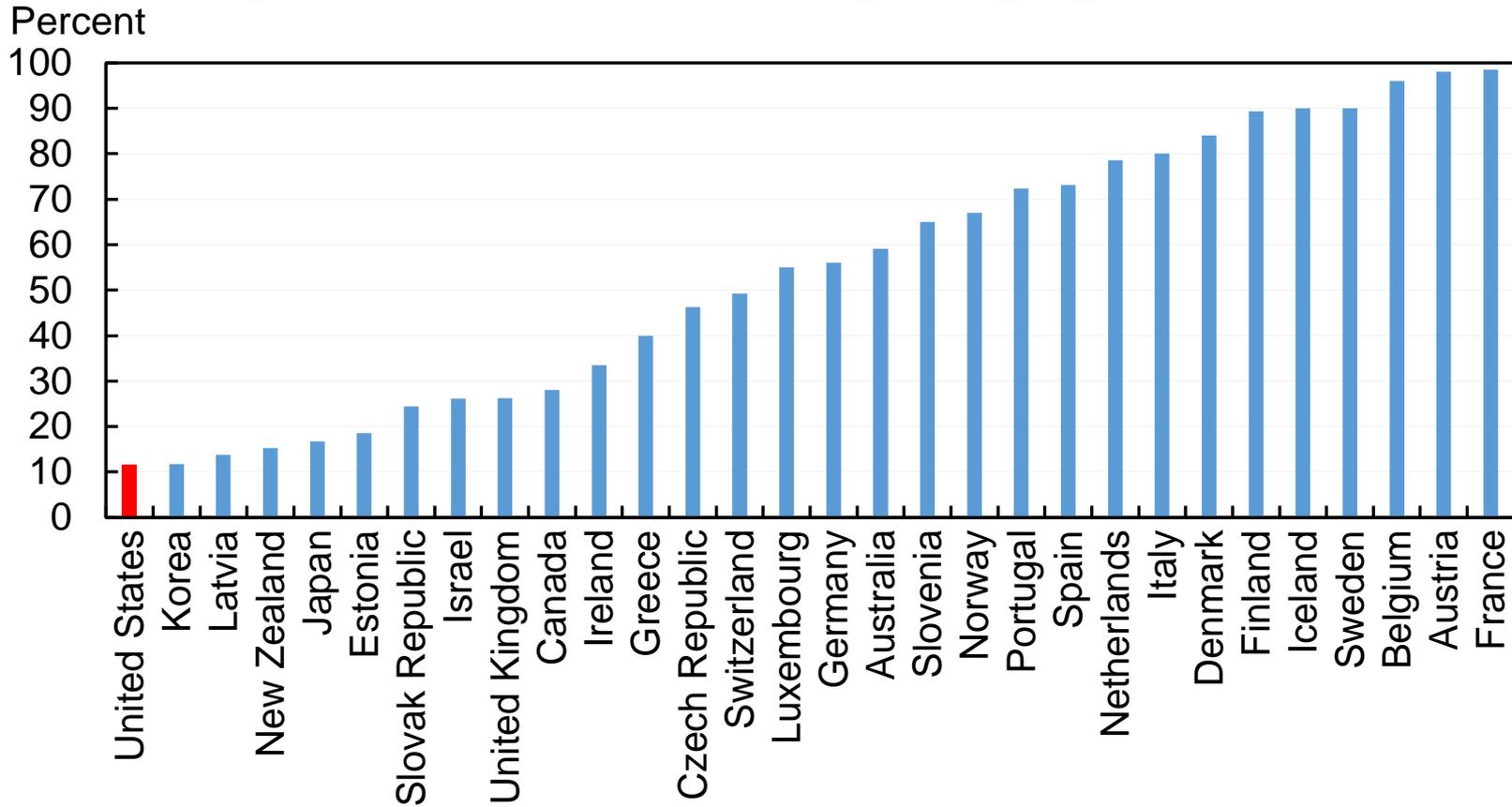
# Lowest minimum wage relative to median wage

## Minimum Wage as a Percentage of Median Wage



# Lowest collective bargaining coverage

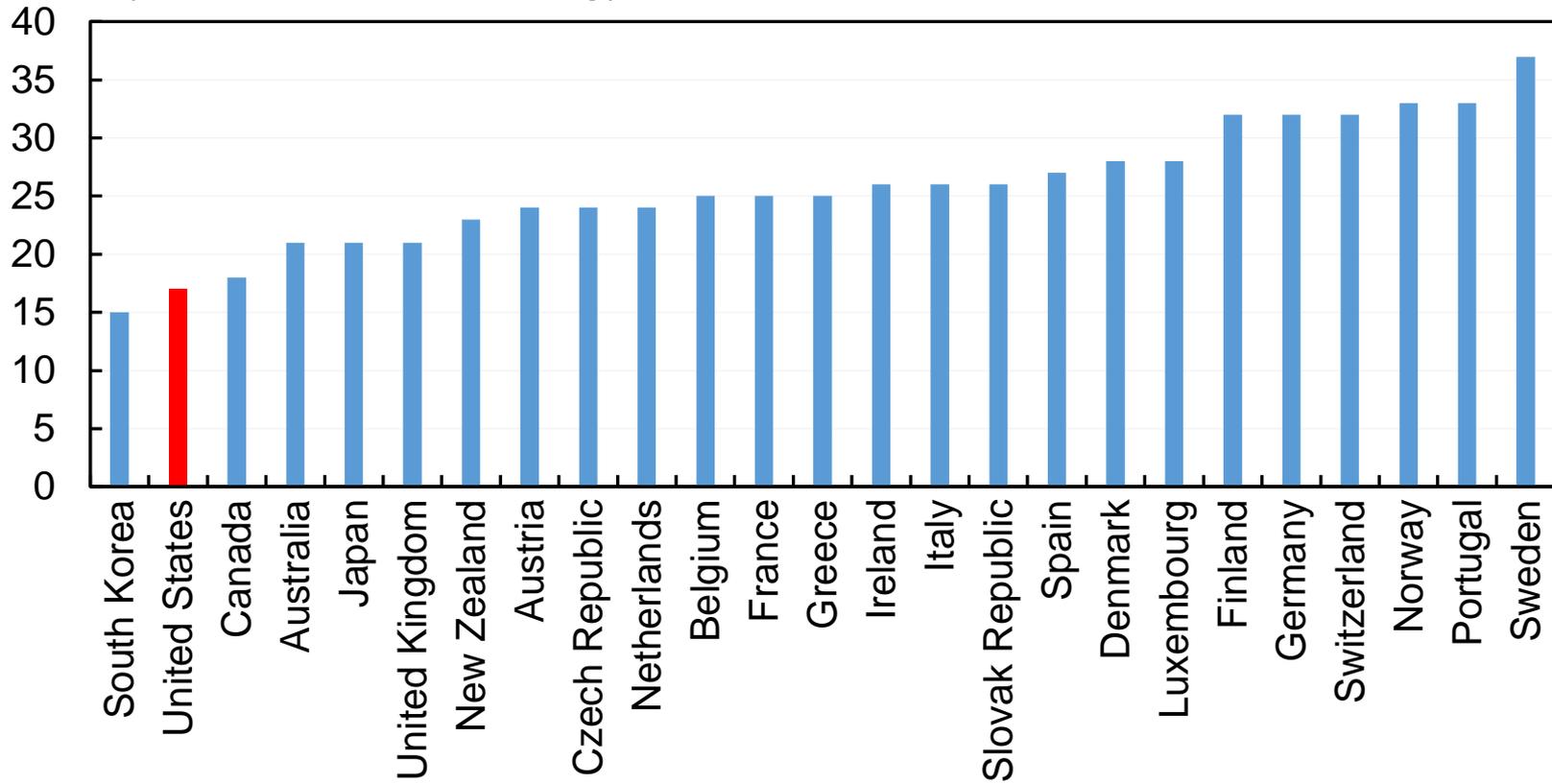
## Coverage Rates for Collective Bargaining Agreements, 2016



# Second lowest disability compensation

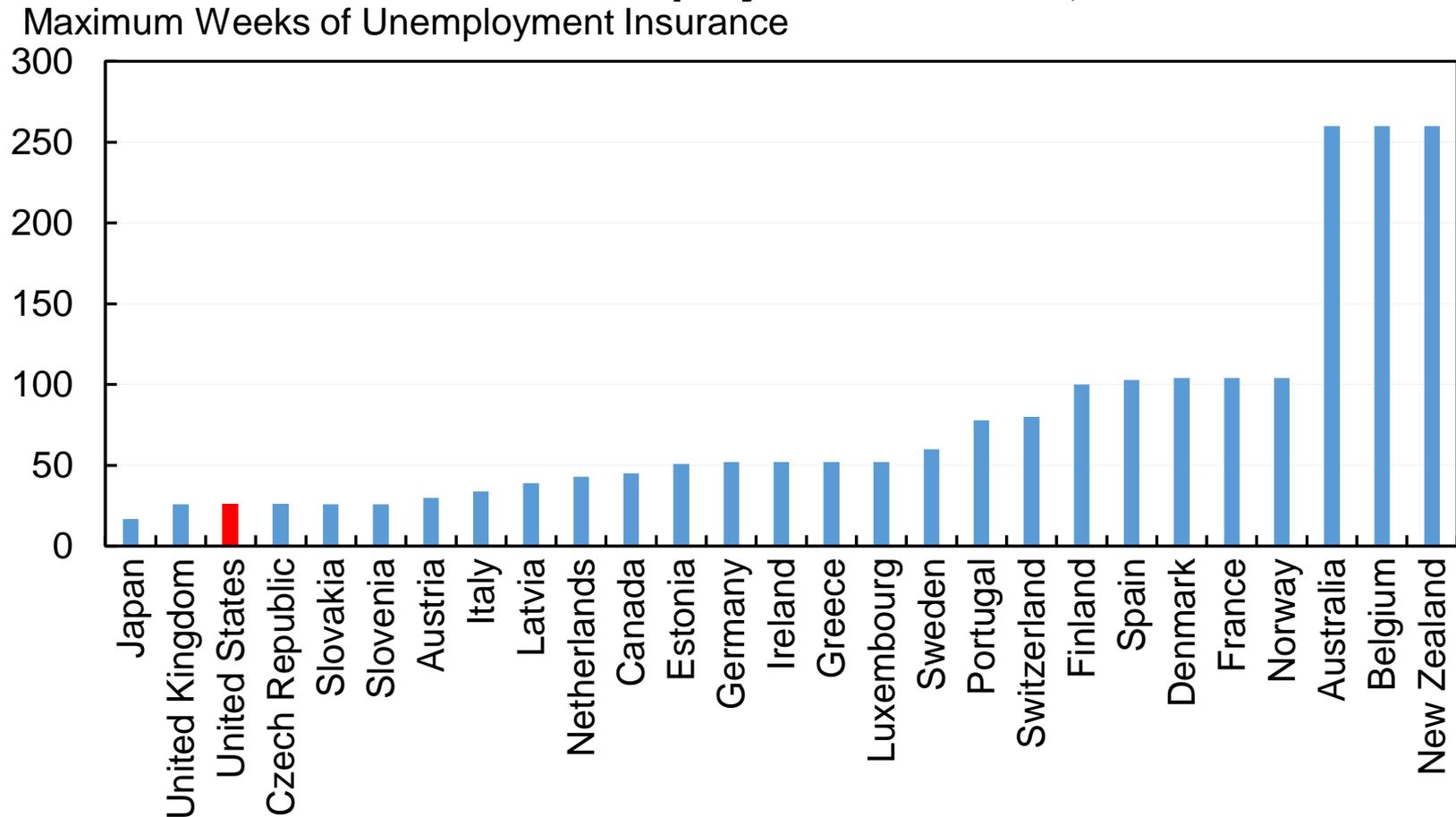
## OECD Disability Compensation Index, 2007

Index (50 = Maximum Generosity)



# Among the lowest unemployment insurance duration

## Duration of Unemployment Benefits, 2010



Note: United States does not include Extended Benefits or Emergency Unemployment Compensation programs. Duration calculated for a "standard worker" aged 30 and with 10 total years of work experience.

Source: Stockholm University, Social Policy Indicators.

## The U.S. grand bargain?

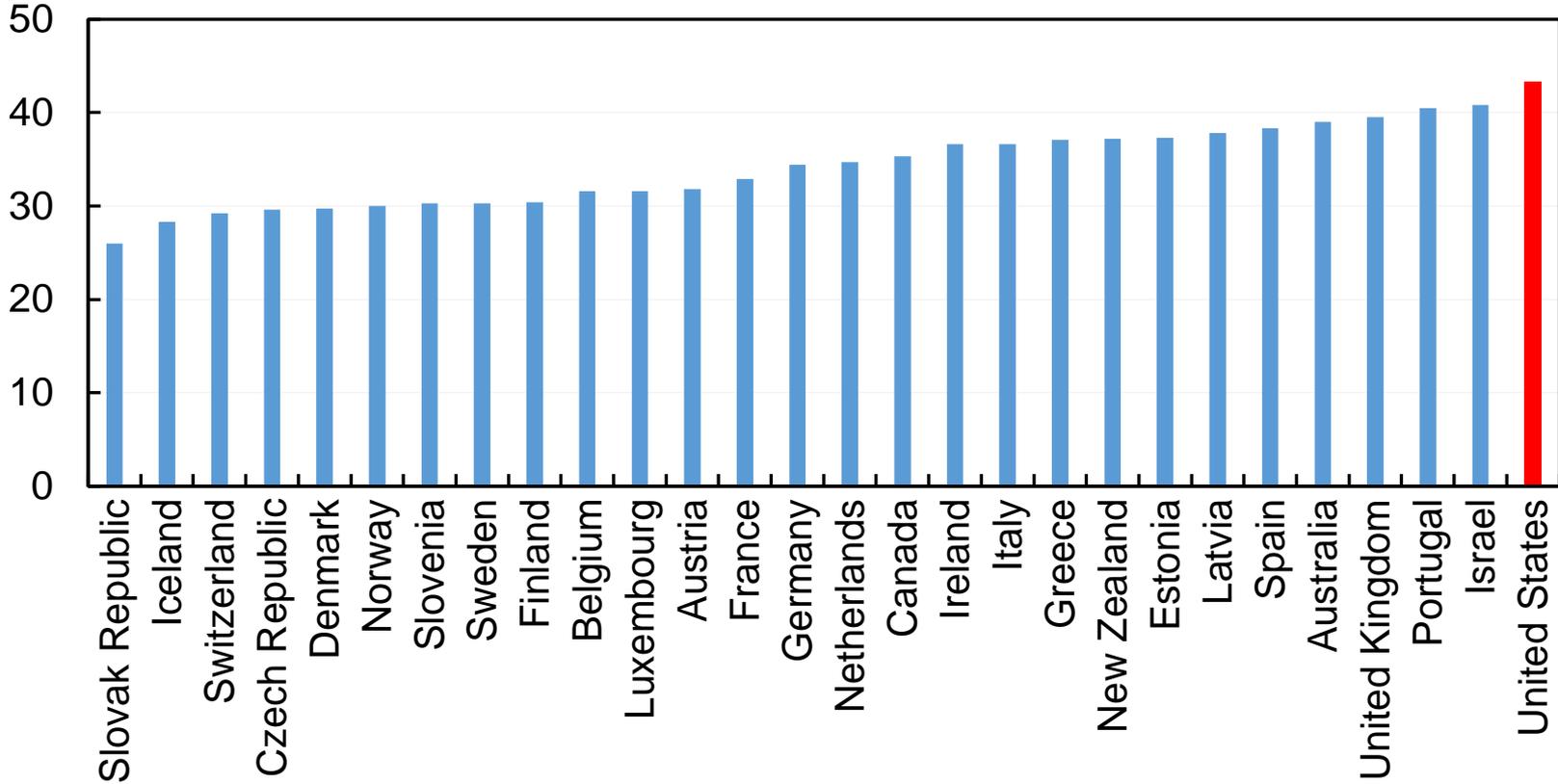
(Comparatively) free markets in labor: ✓

- Willing to accept more inequality
- In exchange, employment will be better

# Highest inequality

## Gini Index, 2014

Gini Index, (0 to 100)



Note: Gross income before taxes.  
Source: Organisation for Economic Co-operation and Development.

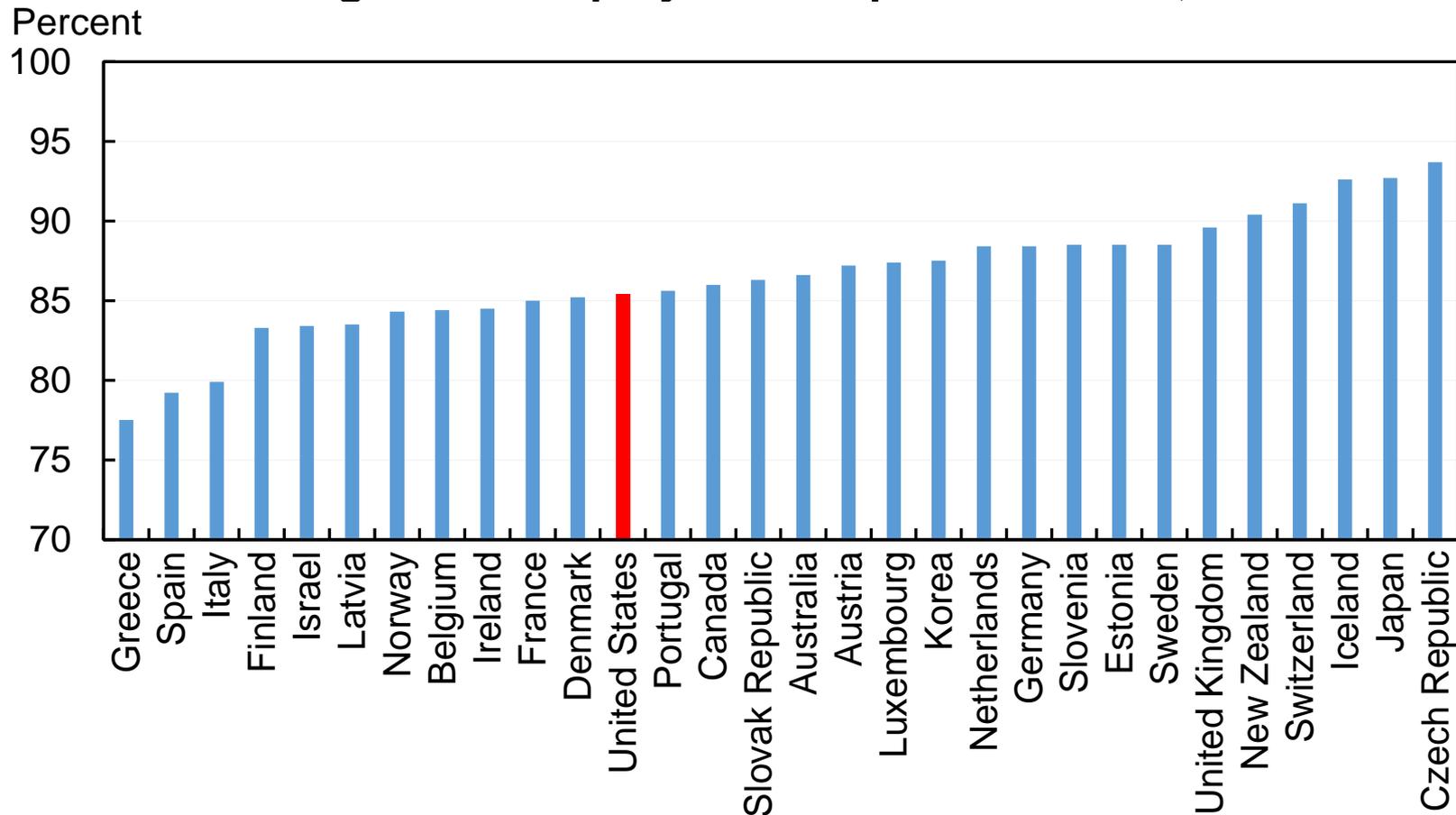
## The U.S. grand bargain?

(Comparatively) free markets in labor: ✓

- Willing to accept more inequality ✓
- In exchange, employment will be better

# Prime age (25-54) male employment-population rate

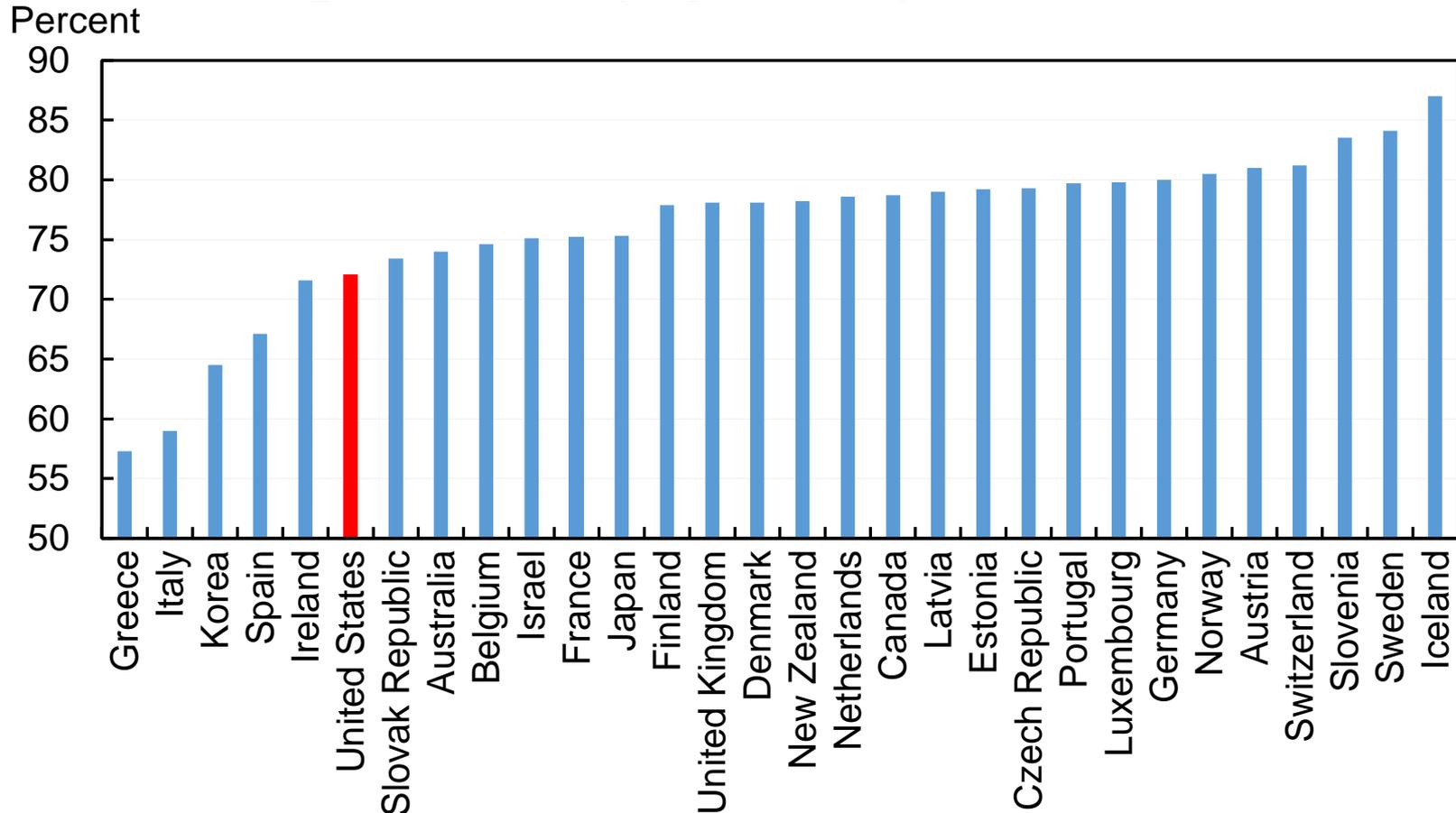
## Prime-age Male Employment-Population Ratio, 2017



Note, Data for Israel is for 2016.  
Source: International Labour Organization.

# Prime age (25-54) female employment-population rate

## Prime-age Female Employment-Population Ratio, 2017



Note, Data for Israel is for 2016.  
Source: International Labour Organization.

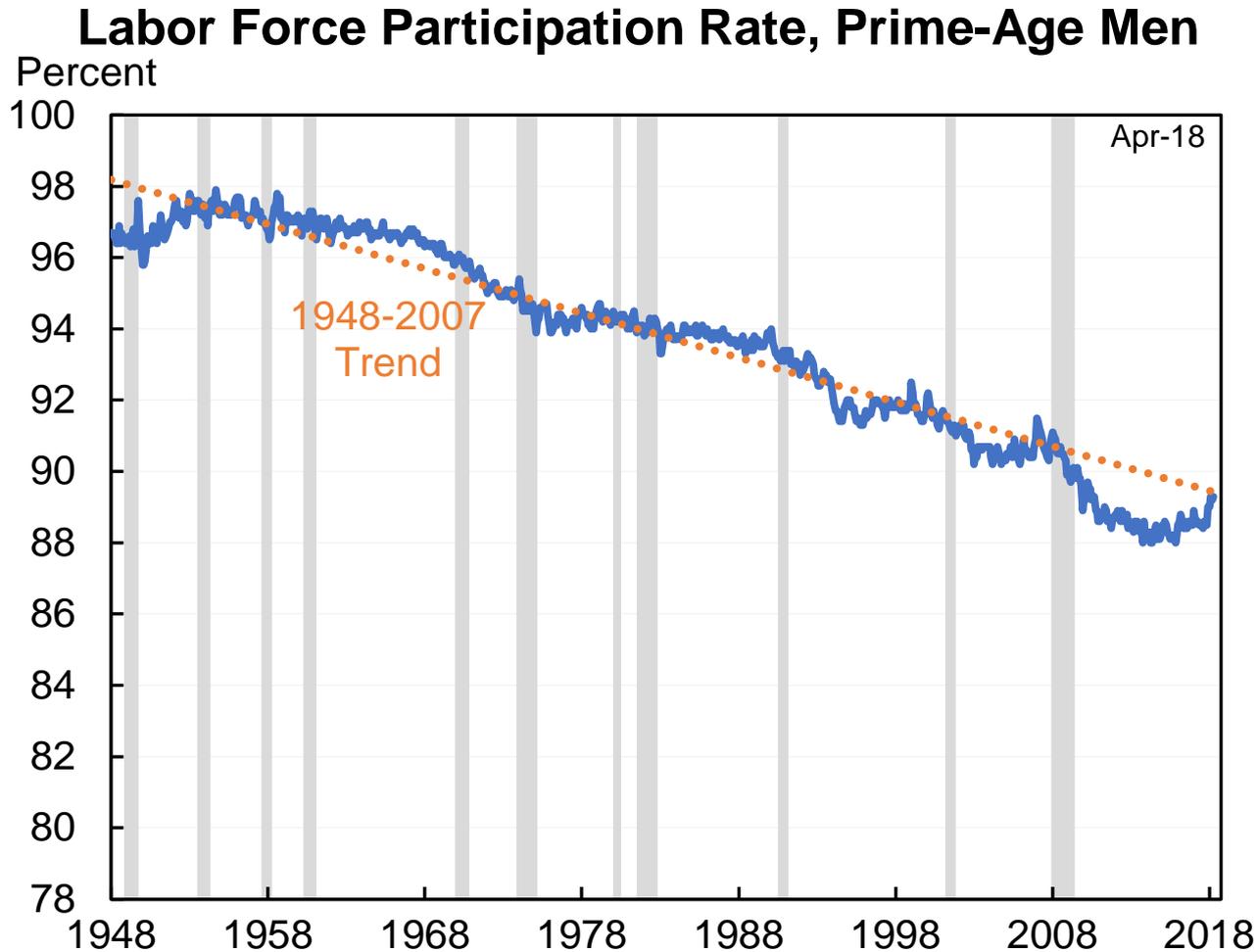
## The U.S. grand bargain?

- (Comparatively) free markets in labor: ✓
- Willing to accept more inequality ✓
  - In exchange, employment will be better ✗

# Outline

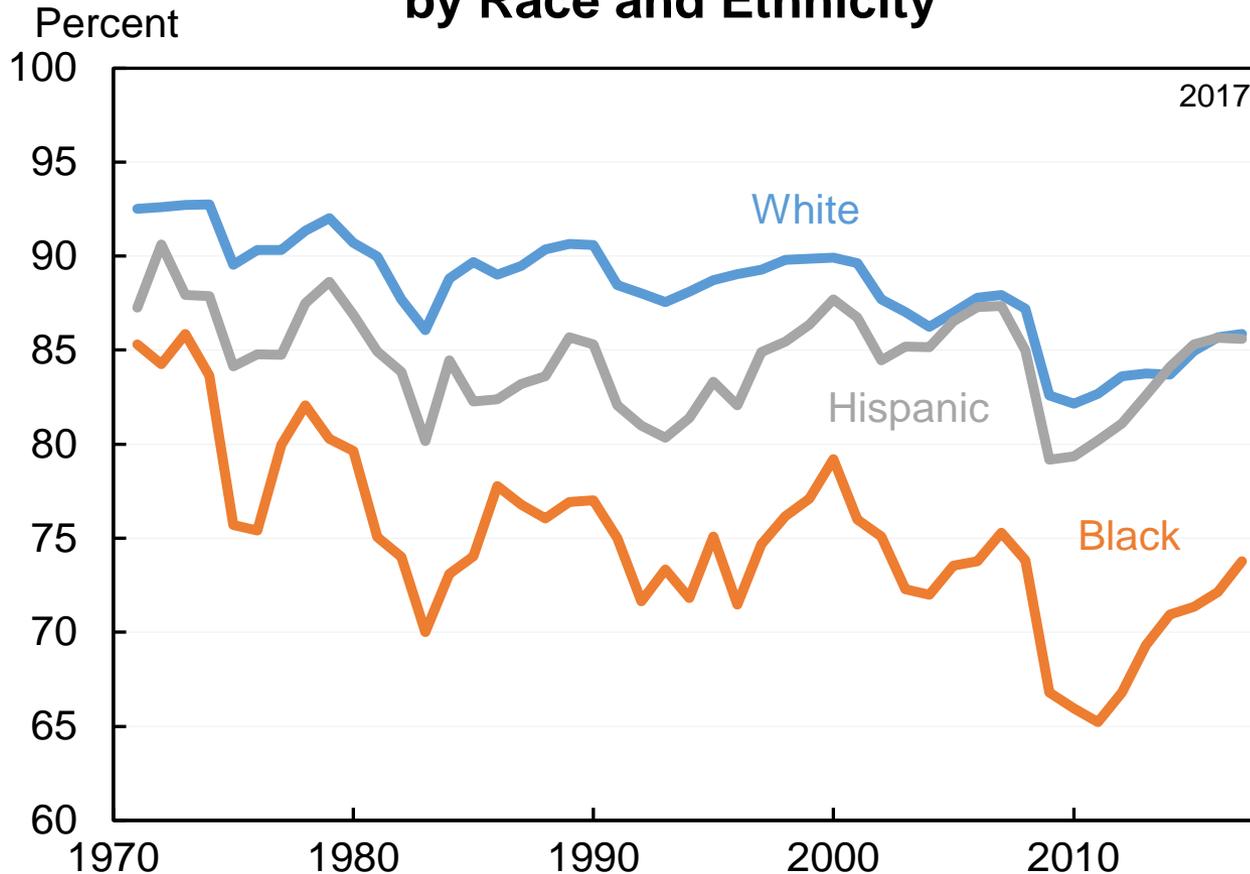
1. The U.S. Grand Bargain?
- 2. The Problem For Men Has Been Long In the Making**
3. Women Have Joined Men Since Around 2000
4. Policy Options

# The problem has been long in the making for men...



# Employment rates are similar for Hispanics and lower for African Americans

## Prime-Age Male Employment-Population Ratio by Race and Ethnicity



Note: 1971 is the first CPS ASEC year with race/ethnicity categories that are comparable over time.

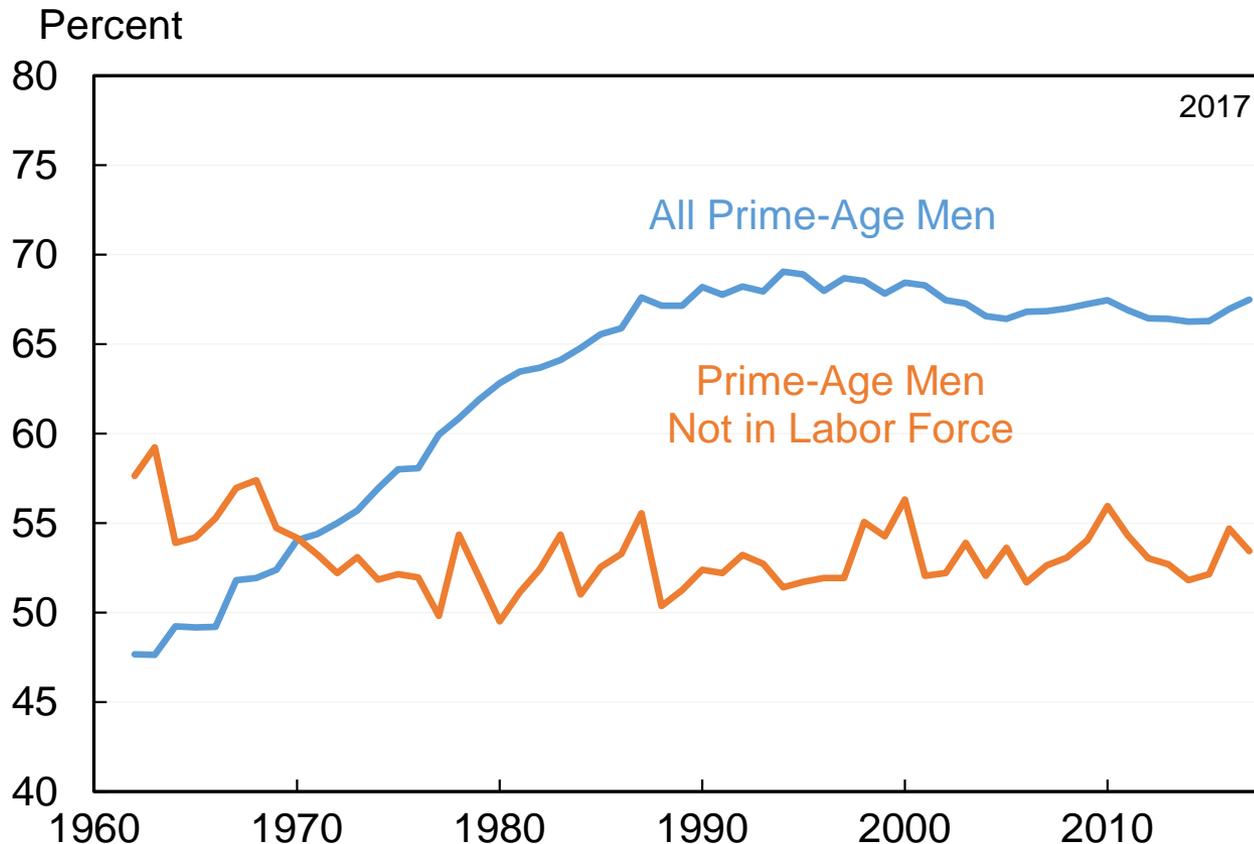
Source: Calculations based on Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement), IPUMS.

## Types of explanations

- Supply: Men no longer want to work
- Demand: No one wants to hire men
- Institutional: Markets missing opportunities or institutions destroying those opportunities

# Share with another household member in the labor force has been fairly steady since 1990s

## Share of Prime-Age Men with Other Household Member in Labor Force



## **Disability cannot explain the majority of the decline in prime-age male LFPR**

The labor force participation rate for prime age men fell 8.4 percentage points from 1967 to 2016. At the same time, Social Security disability receipt increased by 1.6 percentage points for this group.

## **Disability cannot explain the majority of the decline in prime-age male LFPR**

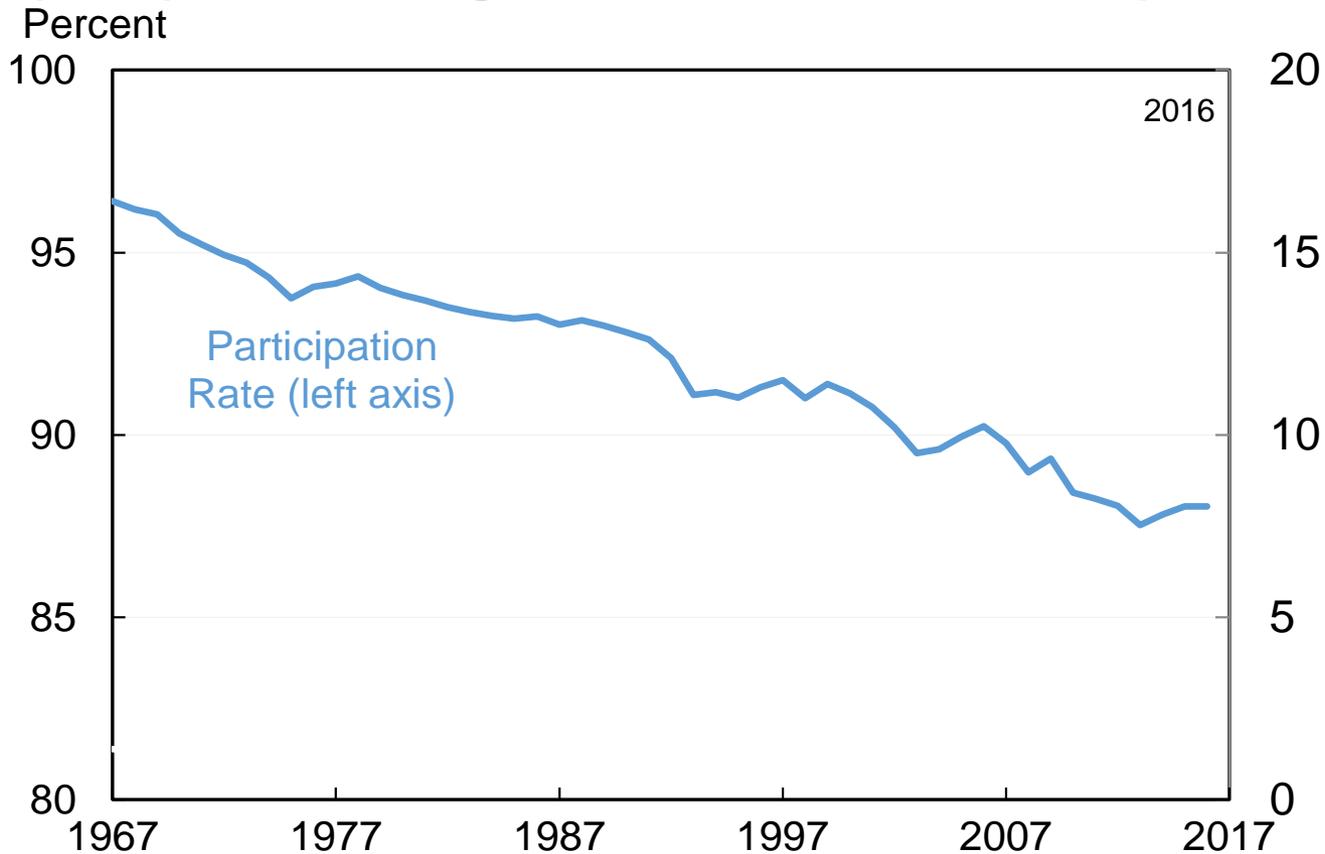
The labor force participation rate for prime age men fell 8.4 percentage points from 1967 to 2016. At the same time, Social Security disability receipt increased by 1.6 percentage points for this group.

This is an upper bound for three reasons:

1. Part of SSDI increase is shift towards older population. This portion does not explain the age-adjusted decline in LFPR.
2. Many men receiving SSDI would not have participated anyway.
3. Reduction in LFPR can cause SSDI receipt.

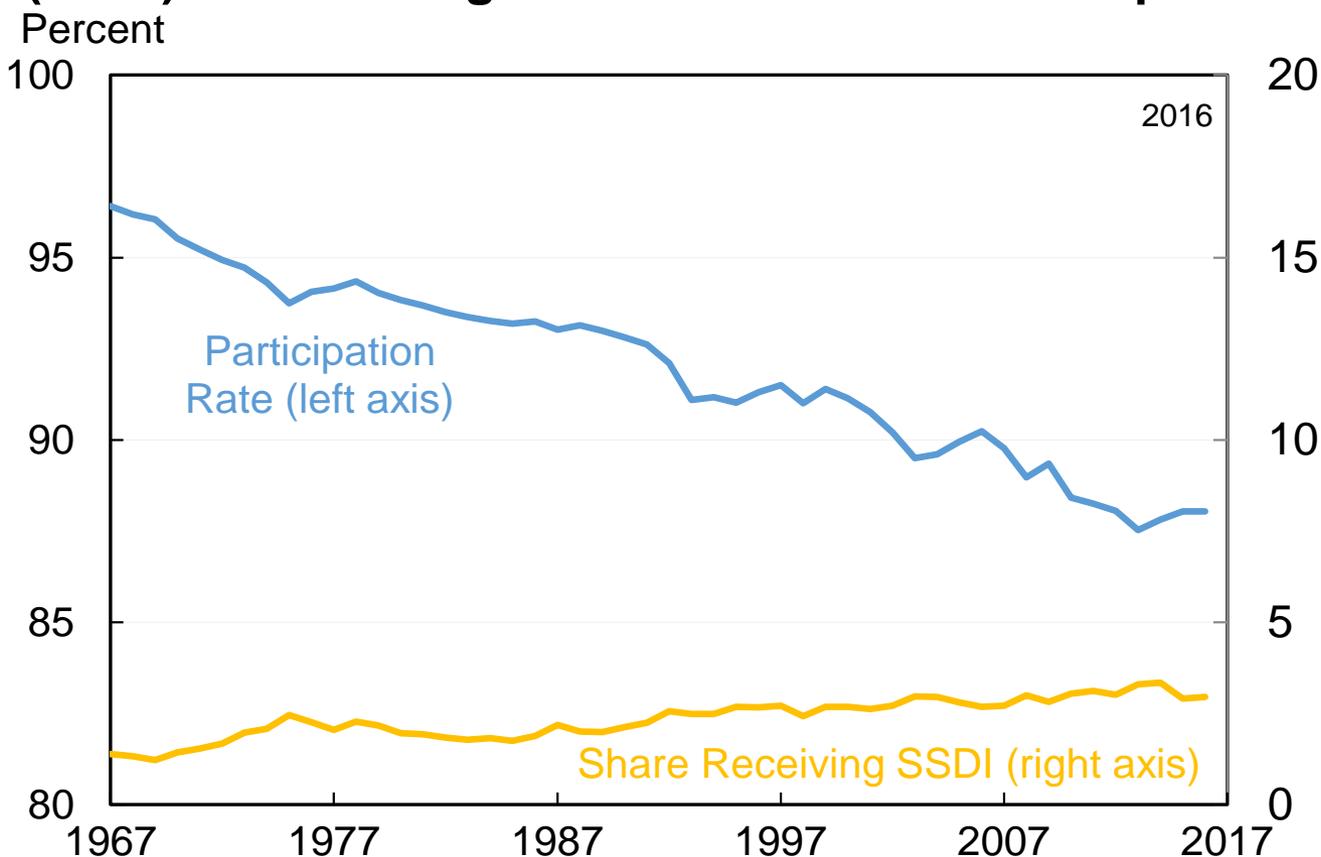
# Plausible estimates are SSDI accounts for 0.2 to 0.4 p.p. reduction in LFPR

## Possible Effects of Social Security Disability Insurance (SSDI) on Prime-Age Male Labor Force Participation



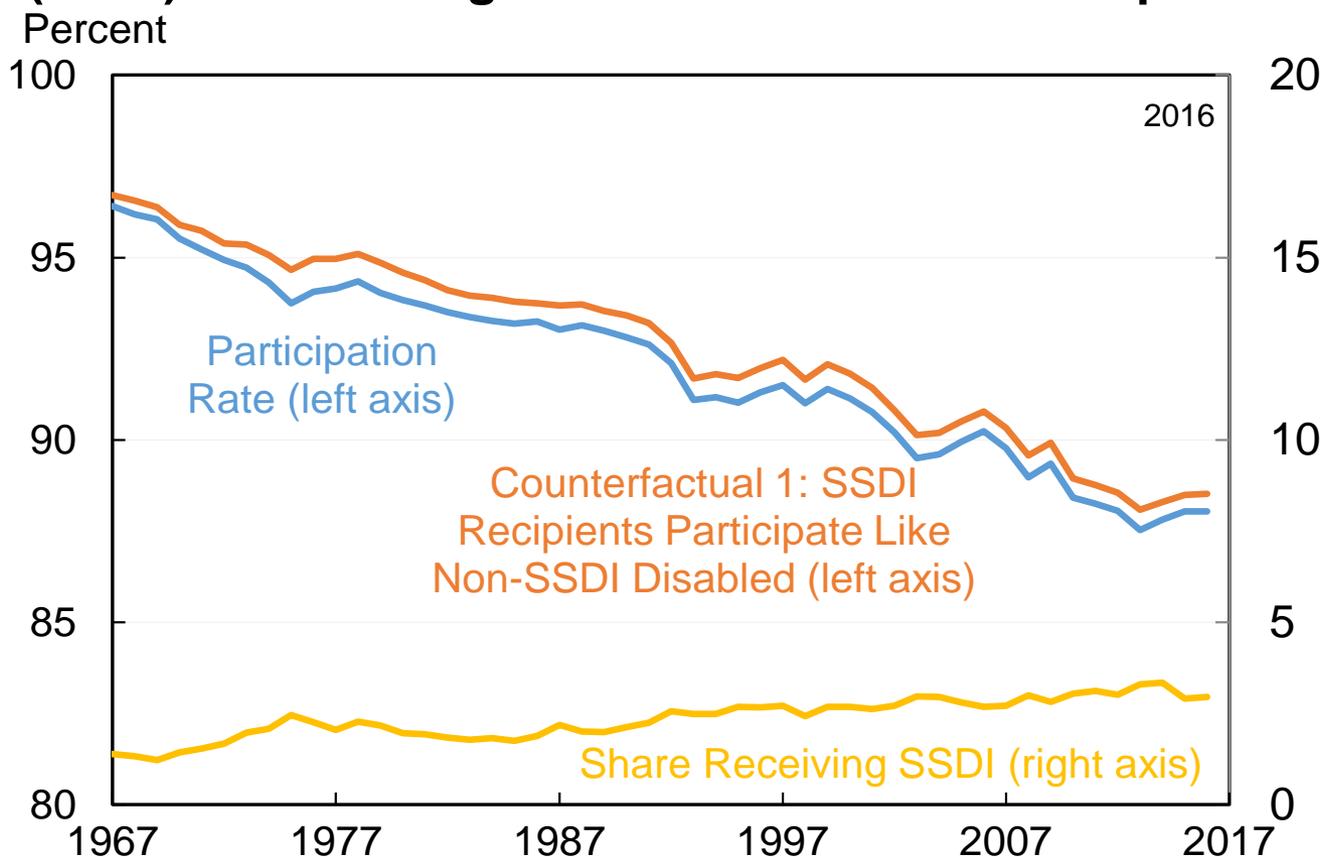
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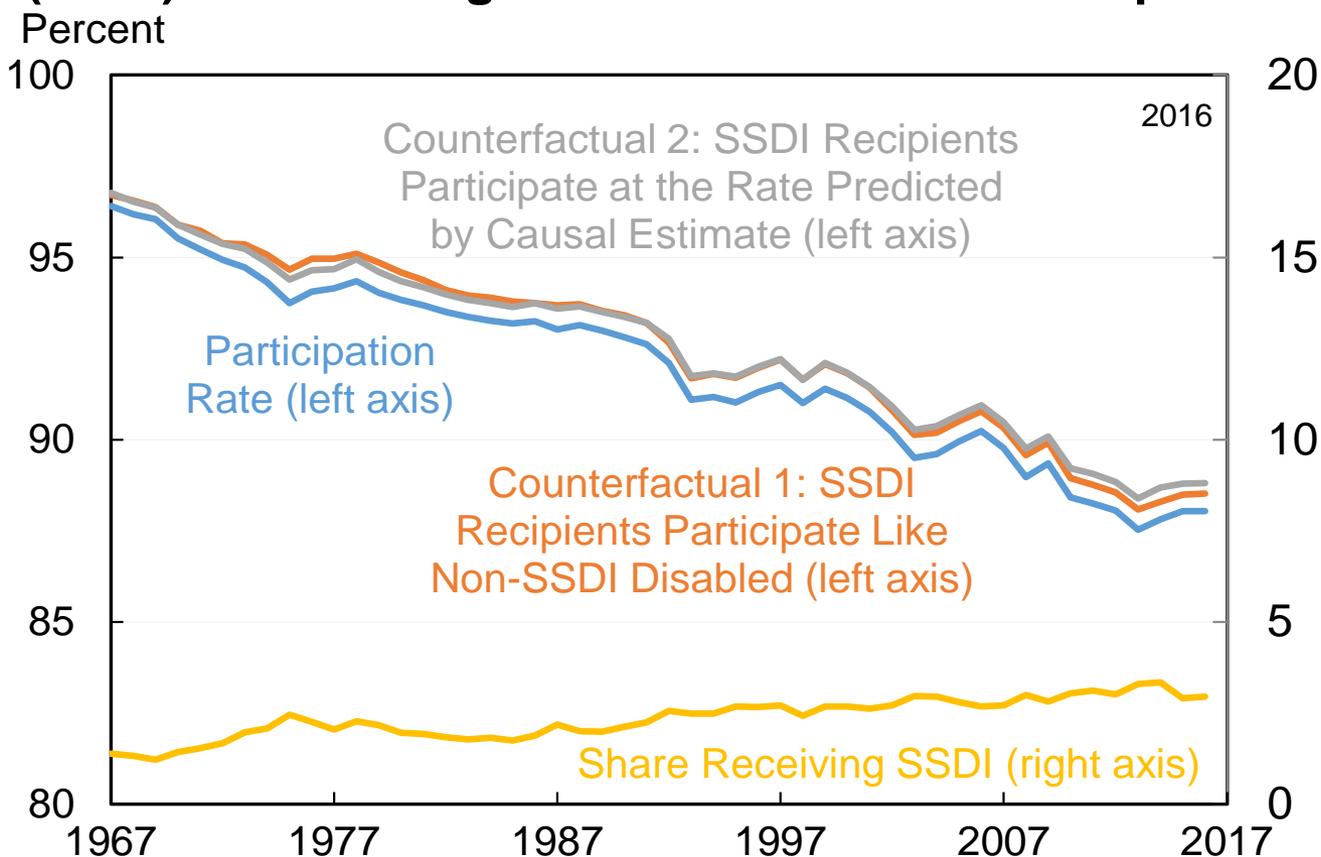


Note: Participation rates for non-SSDI recipient disabled are age-adjusted using a linear probability model.

Source: Calculations based on Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement), IPUMS.

# Plausible estimates are SSDI accounts for 0.2 to 0.4 p.p. reduction in LFPR

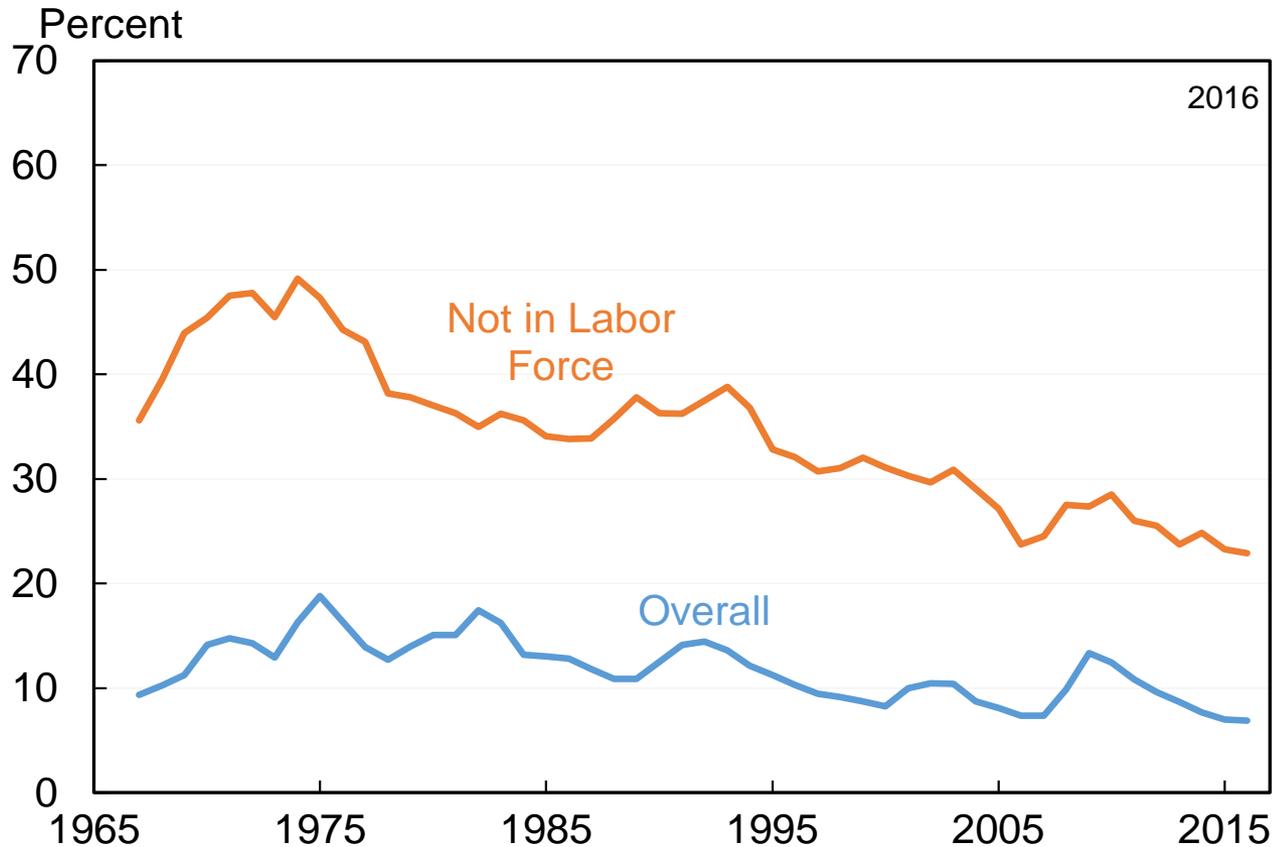
## Possible Effects of Social Security Disability Insurance (SSDI) on Prime-Age Male Labor Force Participation



Note: Participation rates for non-SSDI recipient disabled are age-adjusted using a linear probability model. Gray counterfactual based on French and Song (2014). Source: Calculations based on Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement), IPUMS.

# Government cash benefits other than Disability Insurance have fallen

## Share of Prime-Age Men Receiving Government Cash Transfers Other Than Social Security



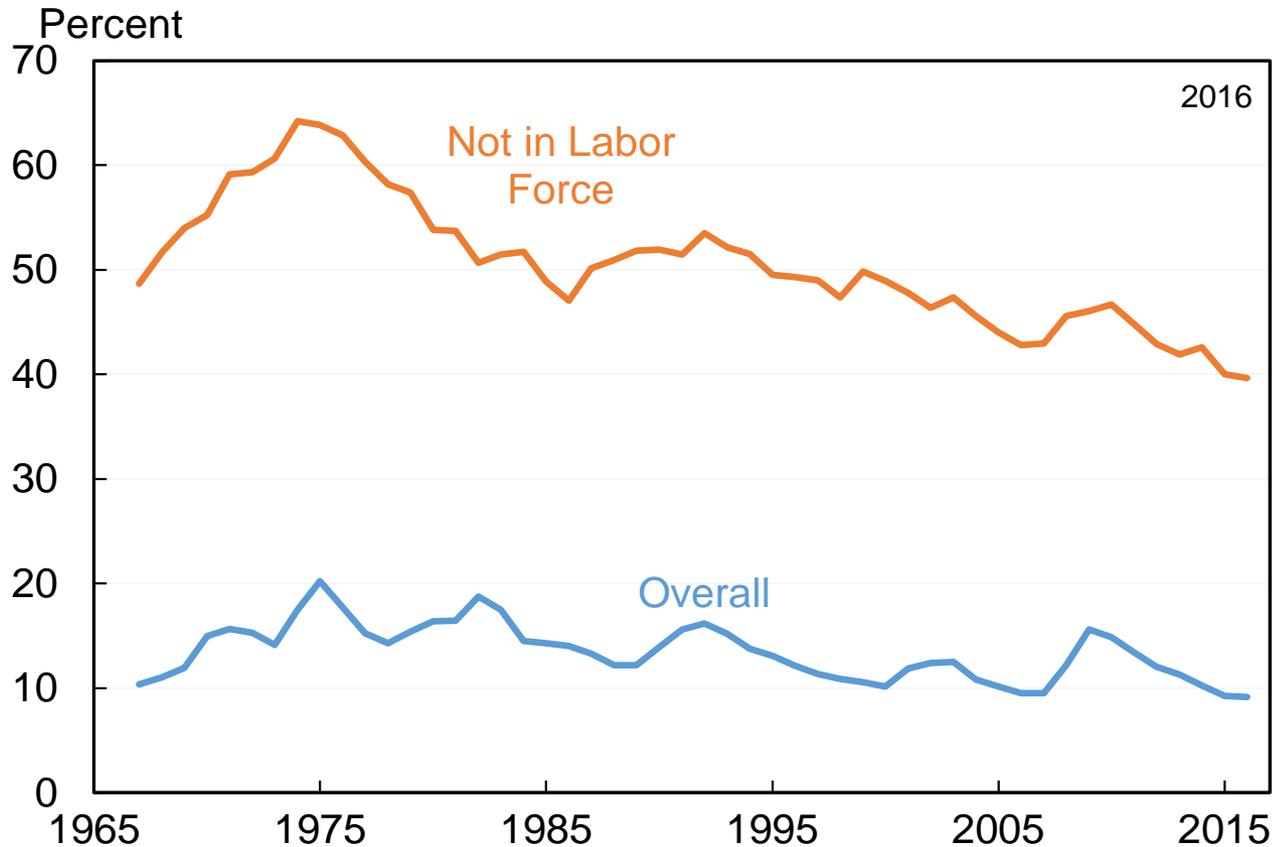
2016

Not in Labor Force

Overall

# As a result overall government cash benefit incidence has fallen

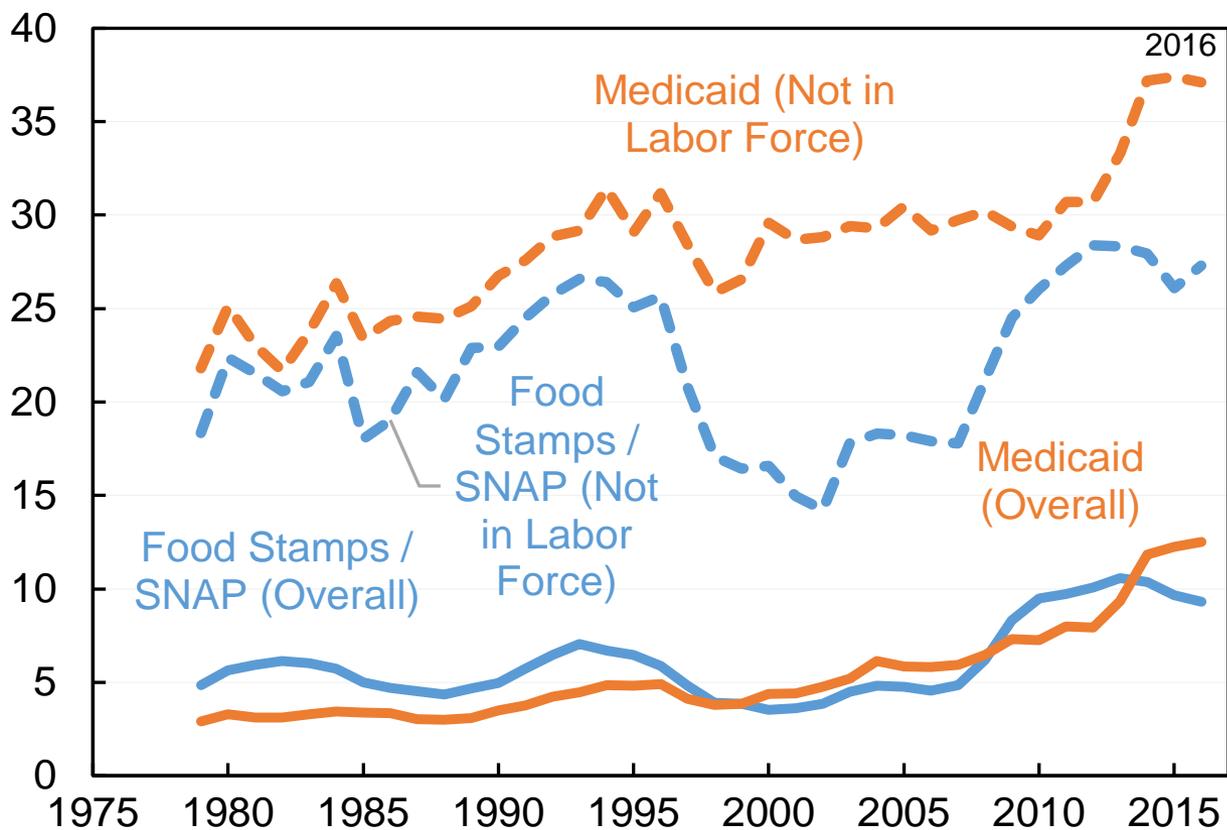
## Share of Prime-Age Men Receiving Any Government Cash Transfers



# Medicaid and SNAP have risen, but their rise lags the fall in employment rates

## Prime Age Male Receipt of Food Stamps / SNAP and Medicaid, 1979-2016

Percent

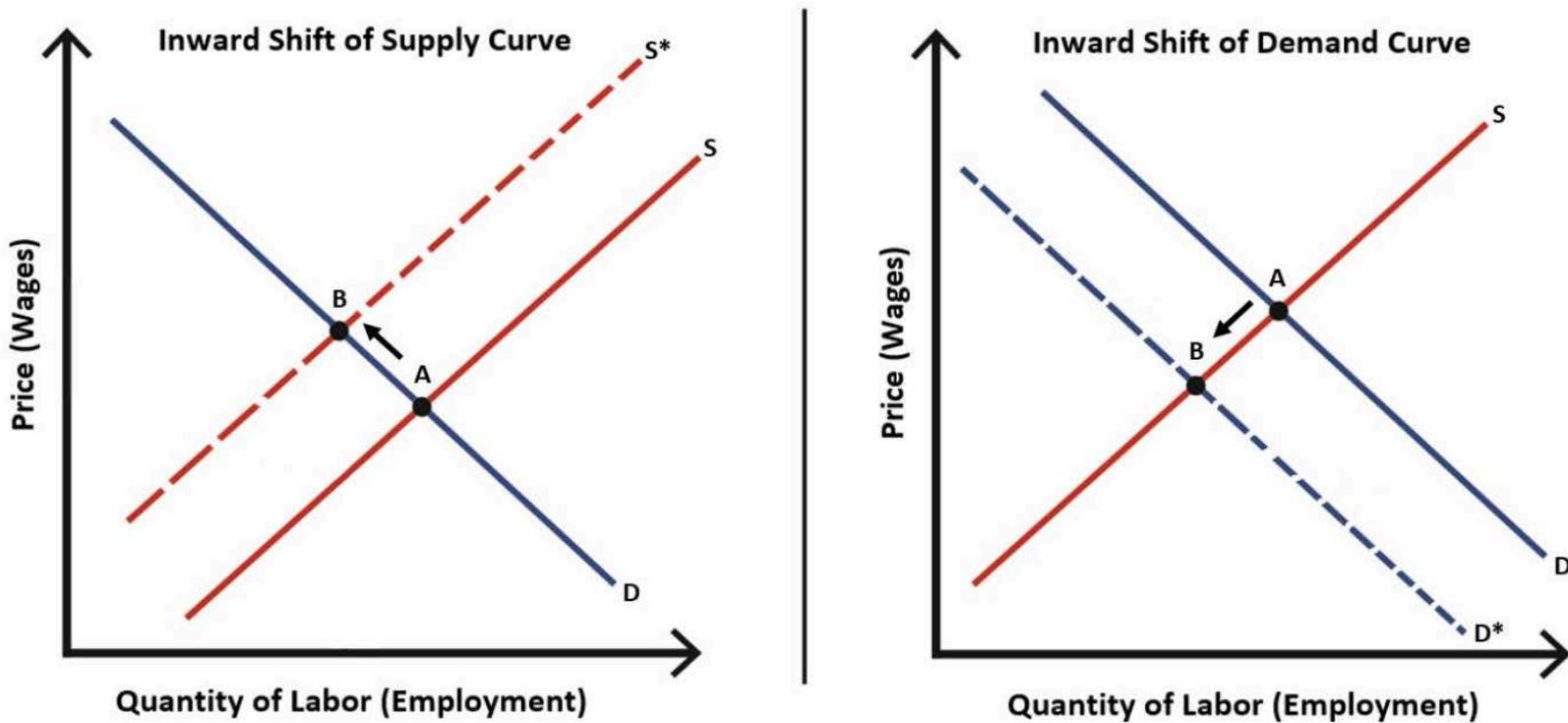


## Types of explanations

- Supply: Men no longer want to work x+
- Demand: No one wants to hire men
- Institutional: Markets missing opportunities or institutions destroying those opportunities

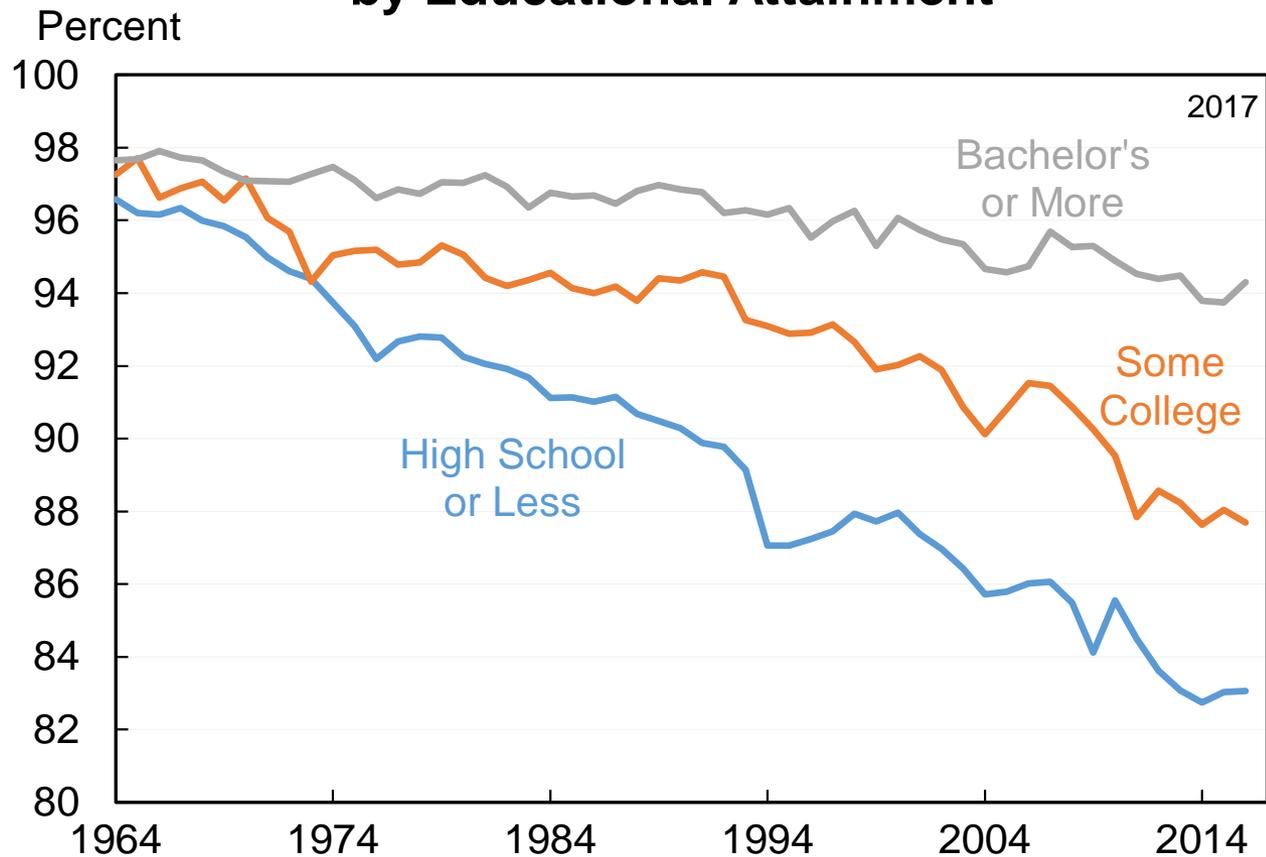
# Demand is a much more compelling explanation: quantity and price (i.e., relative wages) down for less skilled

Figure 11: Labor Supply and Demand Shifts



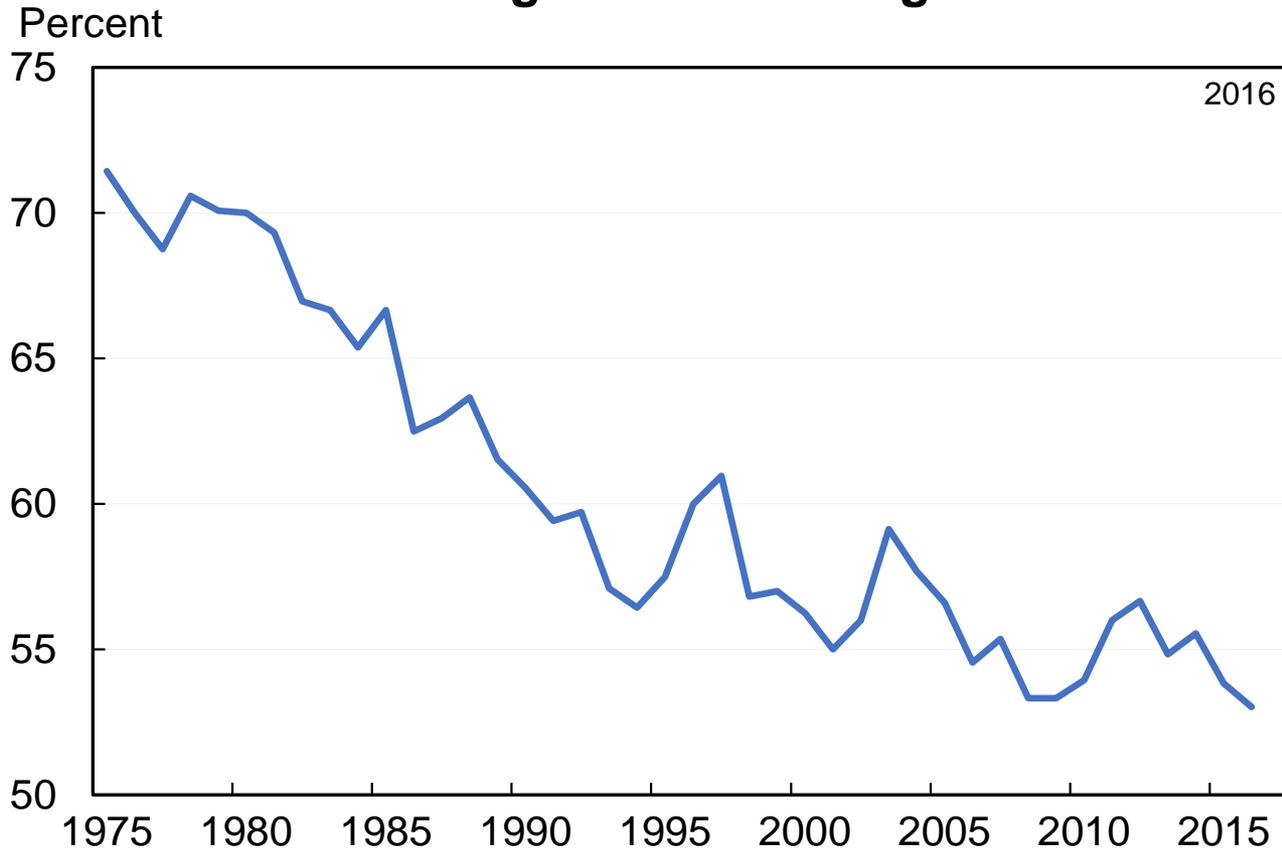
# Education is an increasingly large factor

## Prime-Age Male Labor Force Participation by Educational Attainment



# Relative wages have fallen—which is consistent with a decline in demand

## Ratio of High School Graduate Wages to College Graduate Wages

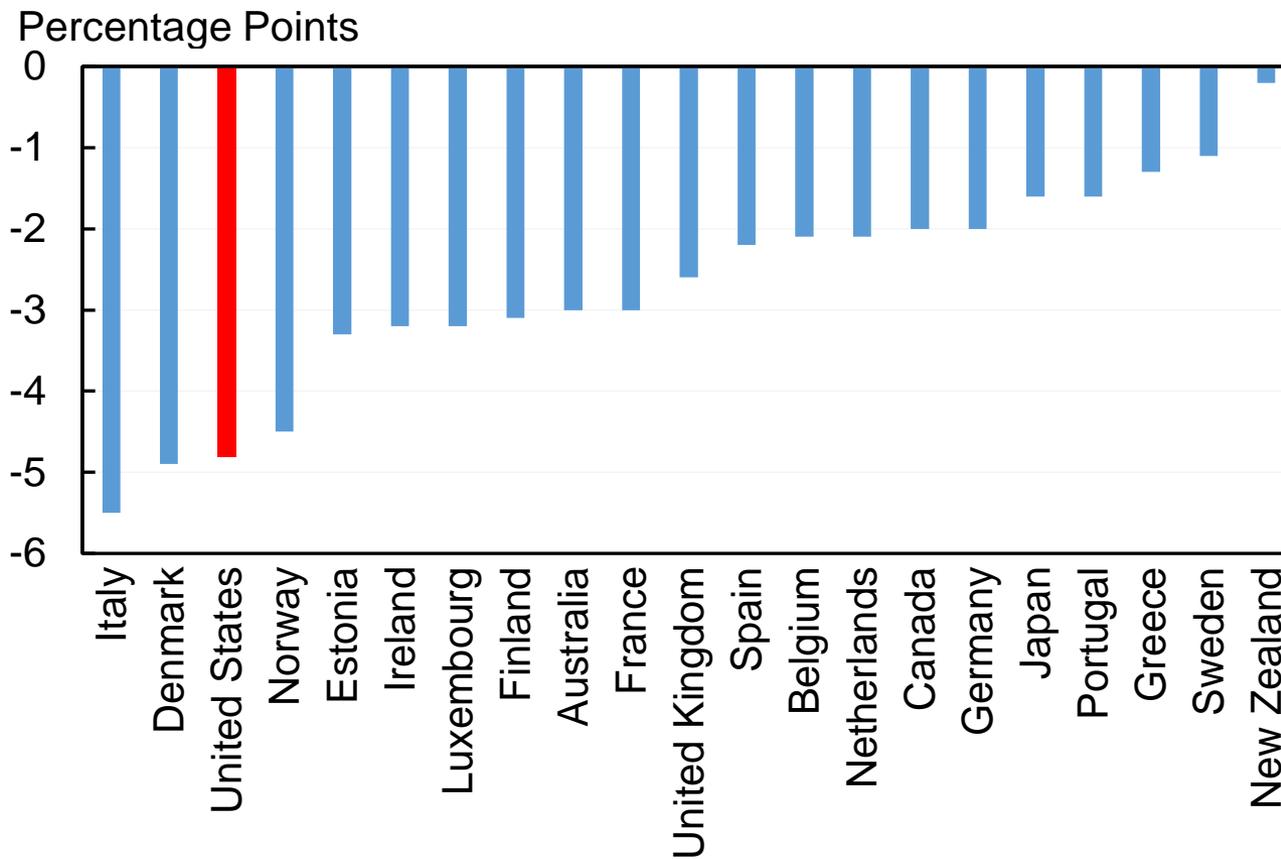


Note: The earnings ratio compares the median full-time, full-year worker age 25 years or older with just a high school degree to the same type of worker with at least a bachelor's degree. Prior to 1992, high school graduate is defined as completed 12th grade and bachelor's degree is defined as four years of college.

Source: Calculations based on Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement), IPUMS.

# But demand has fallen across the advanced economies without the same consequences, so institutions must matter too

## Change in Prime-age Male Labor Force Participation Rate, 1990-2017

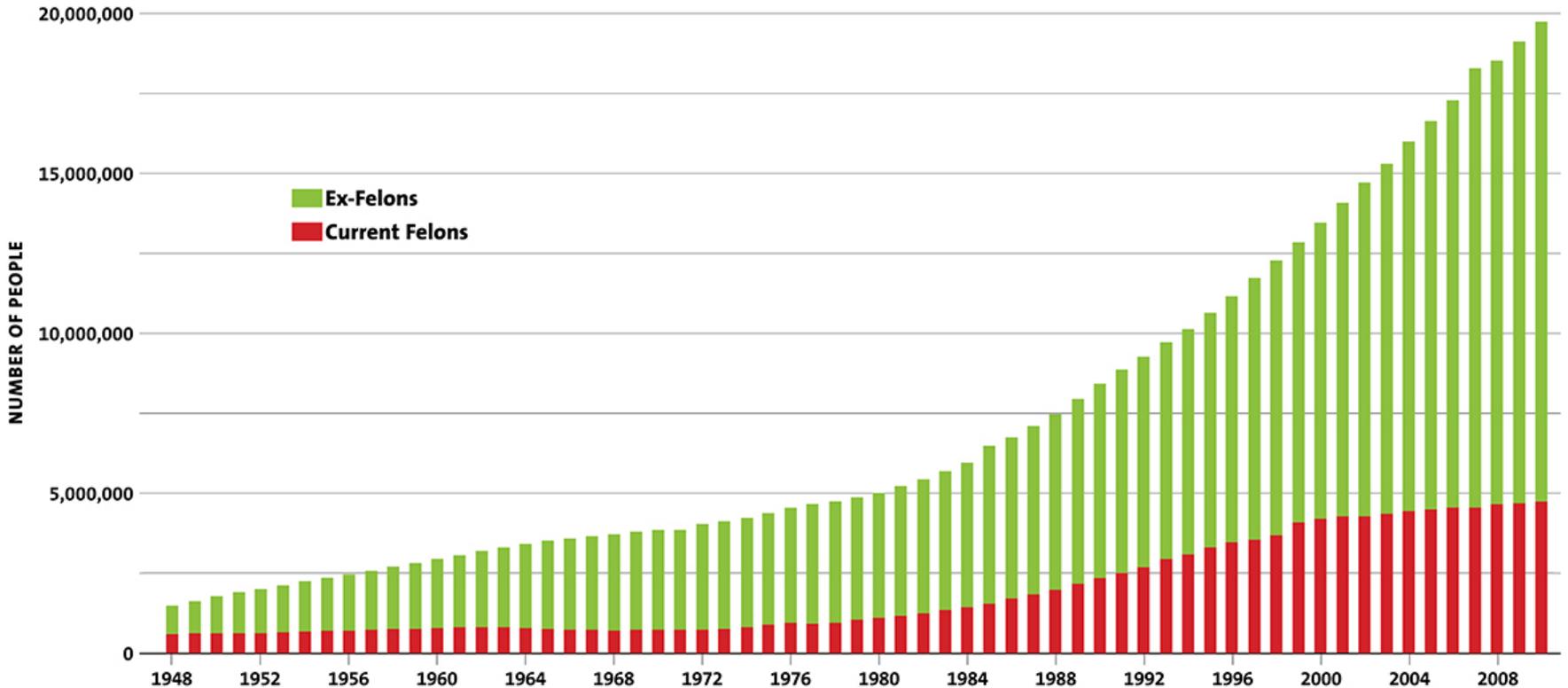


## Types of explanations

- Supply: Men no longer want to work ✗+
- Demand: No one wants to hire men ✓-
- Institutional: Markets missing opportunities or institutions destroying those opportunities

# Institutional explanation #1: Increase in incarceration

ESTIMATED POPULATION OF FELONS AND EX-FELONS, 1948-2010



SOURCE: Shannon et al., The Growth, Scope, and Spatial Distribution of America's Criminal Class, 1948-2010

## Effects of incarceration on employment rates

Currently in prison: 1.1 million in Federal or State prison not in numerator or denominator. To the degree that people in prison would have been employed at a lower rate, including them would lower the measured employment rate—but plausibly only by a few tenths of a percentage point.

## Effects of incarceration on Employment

Currently in prison: 1.1 million in Federal or State prison not in numerator or denominator. To the degree that people in prison would have been employed at a lower rate, including them would lower the measured employment rate—but plausibly only by a few tenths of a percentage point.

Formerly in prison: ~5 million formerly incarcerated (~7% of prime age men). They appear to be employed at a substantially lower rate, plausibly lowers prime-age male employment rate by ~1 p.p.

## Institutional explanation #2: Opioid Epidemic

### Men out of the workforce have lower self-reported health

**Table 4: Self-Reported Health Status for Workers Ages 25-54  
by Labor Force Status**

	Employed (%)	Unemployed (%)	Not in Labor Force (%)
Men			
Excellent	20.0	19.5	12.3
Very Good	36.3	29.2	20.6
Good	31.9	35.1	24.4
Fair	10.7	13.9	25.4
Poor	1.2	2.3	17.3
Number of Respondents	7,277	468	683

## Nearly half of these men are on pain medication

**Table 6: Prevalence of Pain and Pain Medication for Men Ages 25-54  
by Labor Force Status**

	Employed	Unemployed	Not in Labor Force
<b>All Men Ages 25-54</b>			
Average Pain Rating (0-6)	0.76	0.82	1.92
Time Spent With Pain > 0	29.6 %	26.3 %	51.6 %
Took Pain Medication Yesterday	20.2 %	18.9 %	43.5 %
Number of Respondents	7,277	468	683
<b>Disabled Men Ages 25-54</b>			
Average Pain Rating (0-6)	1.49	1.25	2.81
Time Spent With Pain > 0	52.3 %	42.1 %	70.9 %
Took Pain Medication Yesterday	32.4 %	12.4 %	57.7 %
Number of Respondents	191	25	276

Note: Sample is Well-Being Module pooled over 2010, 2012, and 2013 for men ages 25-54. Data are weighted using Well-Being Module adjusted annual activity weights.

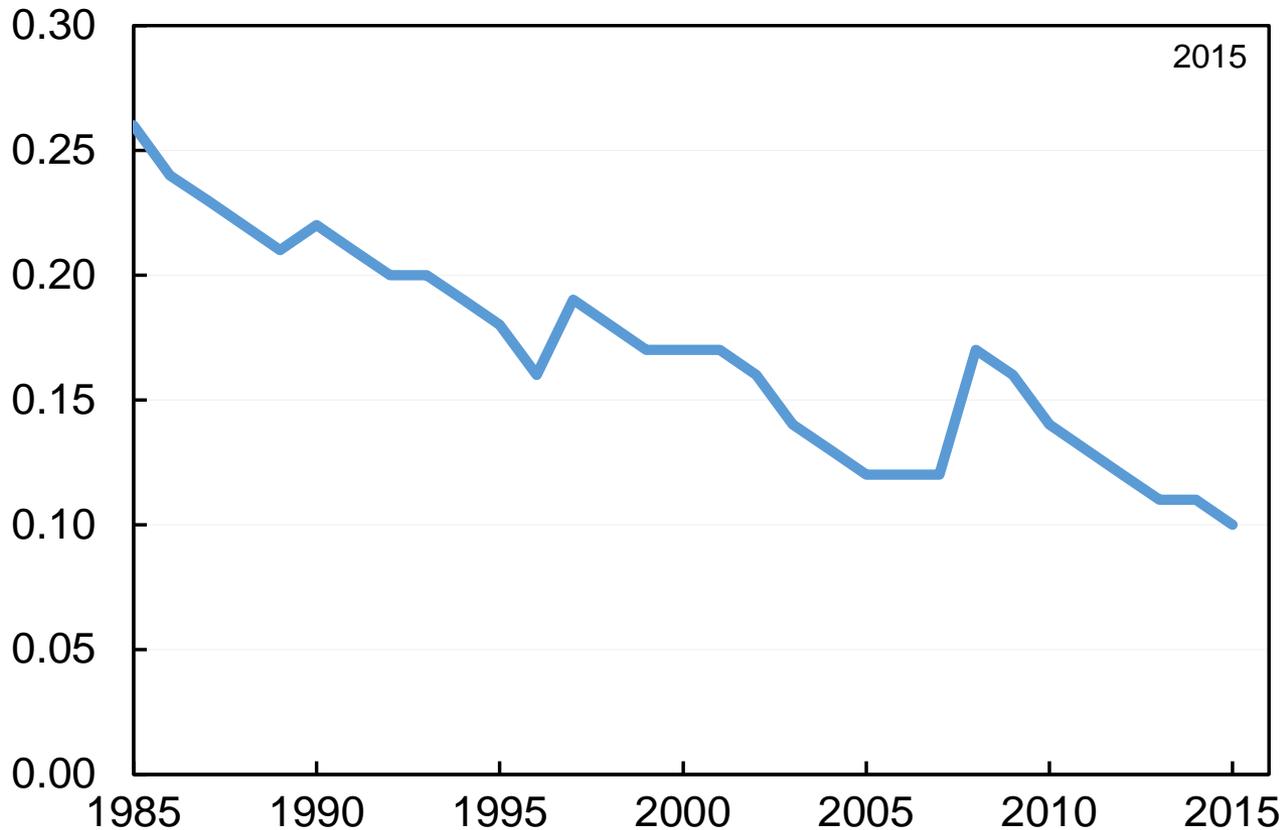
Source: Bureau of Labor Statistics (American Time Use Survey).

## Institutional explanation #3: U.S. labor markets are not very supportive

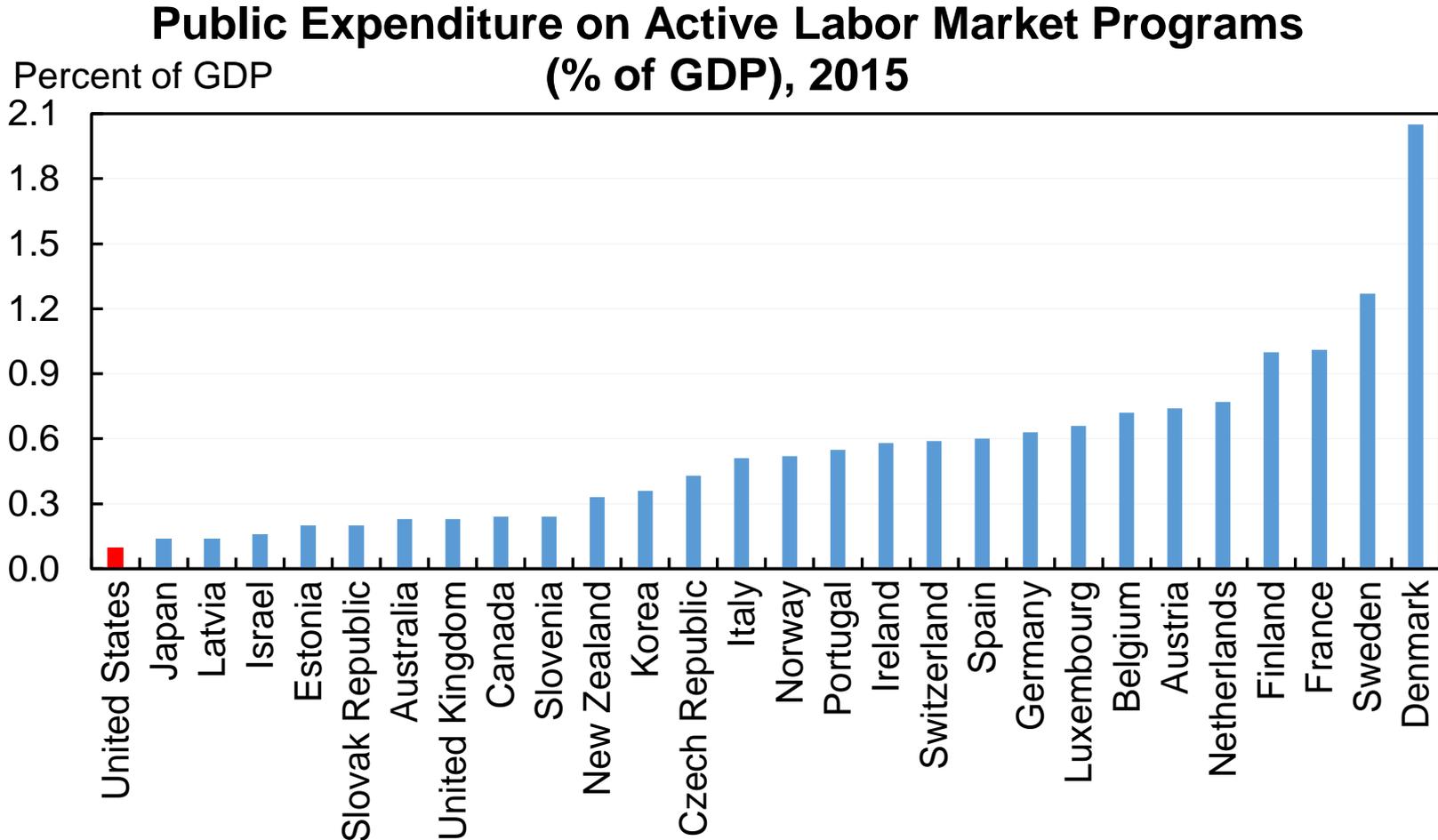
OECD Measure of Labor Market Support	U.S. Percentile Rank (100 = most supportive)
Nationwide Paid Leave Policy	0
Expenditure on Active Labor Market Policies	6
Net Childcare Costs (lone parent)	6
Implicit Tax on Returning to Work, Second Earner	10
Number of Weeks of Sick Leave	11

## E.g., consistent declines in spending on active labor markets policies...

**U.S. Expenditure of Active Labor Market Programs  
(% of GDP), 1985-2015**

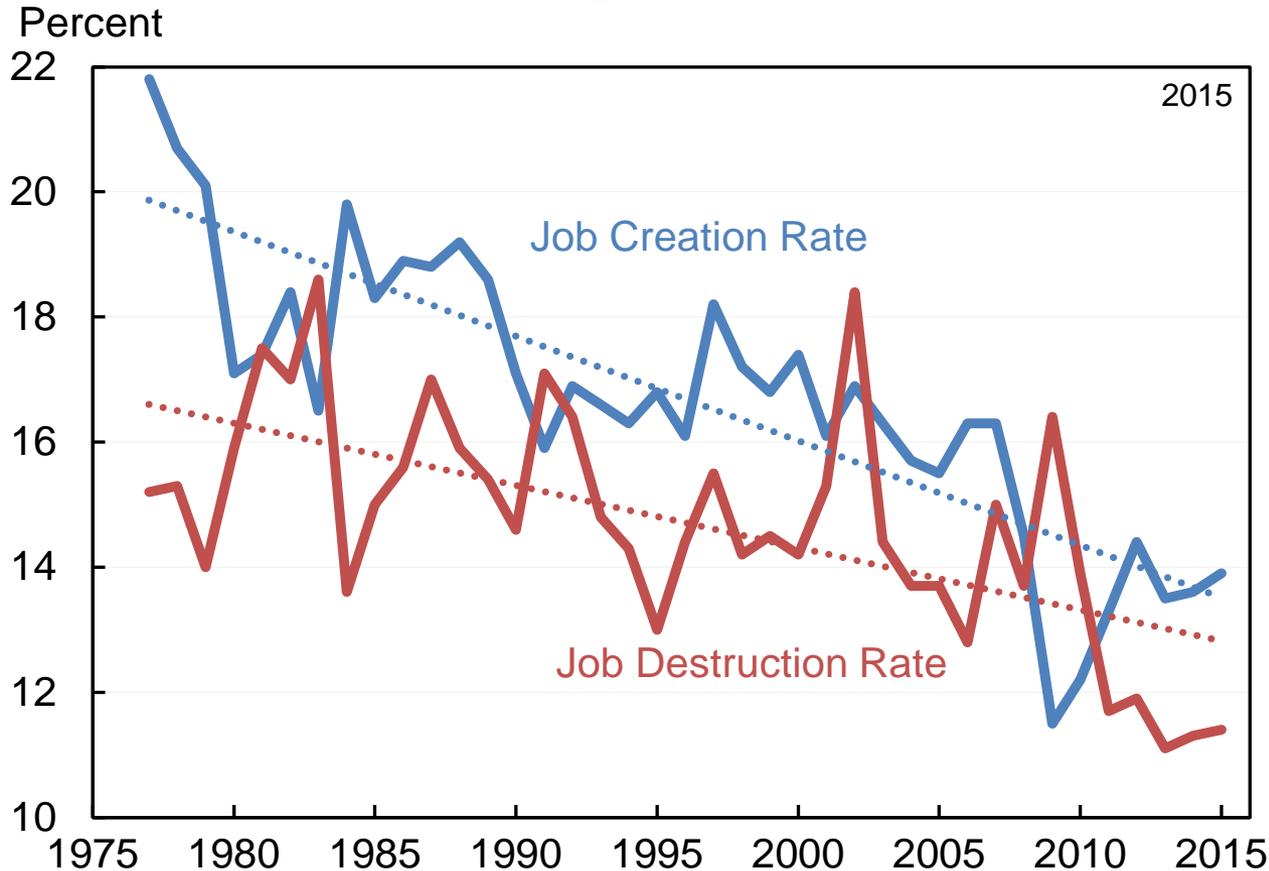


...which is now well below other advanced economies



# (Speculative) Institutional explanation #4: Reduced labor market fluidity and propagation of shocks

## Labor Market Dynamism, 1977-2015



Note: Job creation and destruction expressed as share of total employment. Dashed lines indicate 1977-2015 linear trend.

Source: Census Bureau, Business Dynamics Statistics.

## Types of explanations

- Supply: Men no longer want to work ✗+
- Demand: No one wants to hire men ✓-
- Institutional: Markets missing opportunities or institutions destroying those opportunities ✓

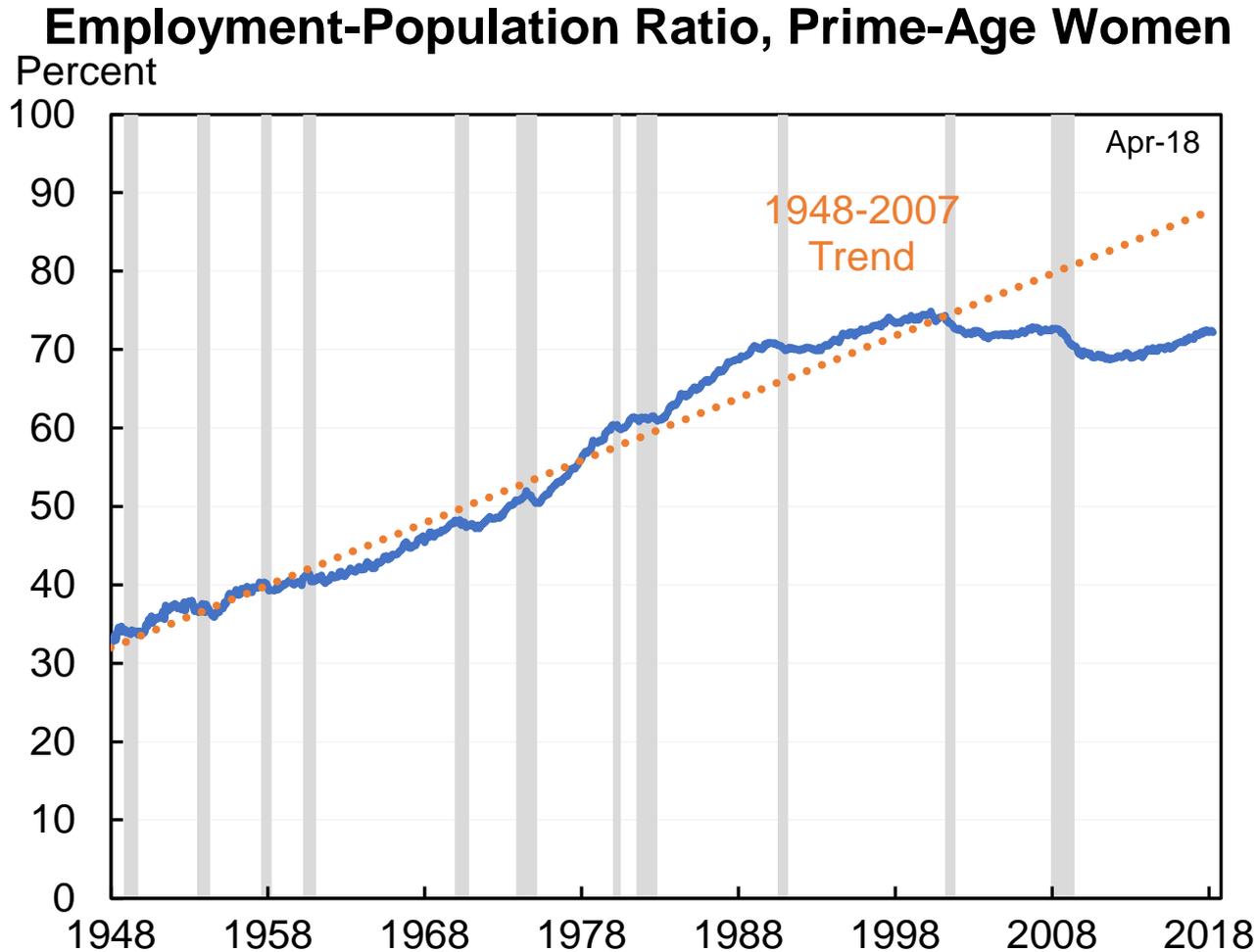
## Impacts of nonparticipation & unemployment

- Increased mortality, largely due to suicide and alcohol (Eliason and Storrie 2009 and Gerdtham and Johannesson 2003)
- Higher rates of smoking initiation (Marcus 2014)
- Increased body weight (Black, Devereux, and Salvanes 2015)
- Lower reported happiness (Winkelmann and Winkelmann 1995; Knabe and Ratzel 2011; Lucas, et al. 2001)
- Community effects, including crime (Raphael and Winter-Ebmer 2001; Gould, et al. 2002; Lin 2008)
- Effects on children: school performance, future earnings and future benefits receipt (Rege, Telle, and Votruba 2011; Oreopoulos, Page, and Stevens 2008)
- Pain and pain medication (Krueger 2017)

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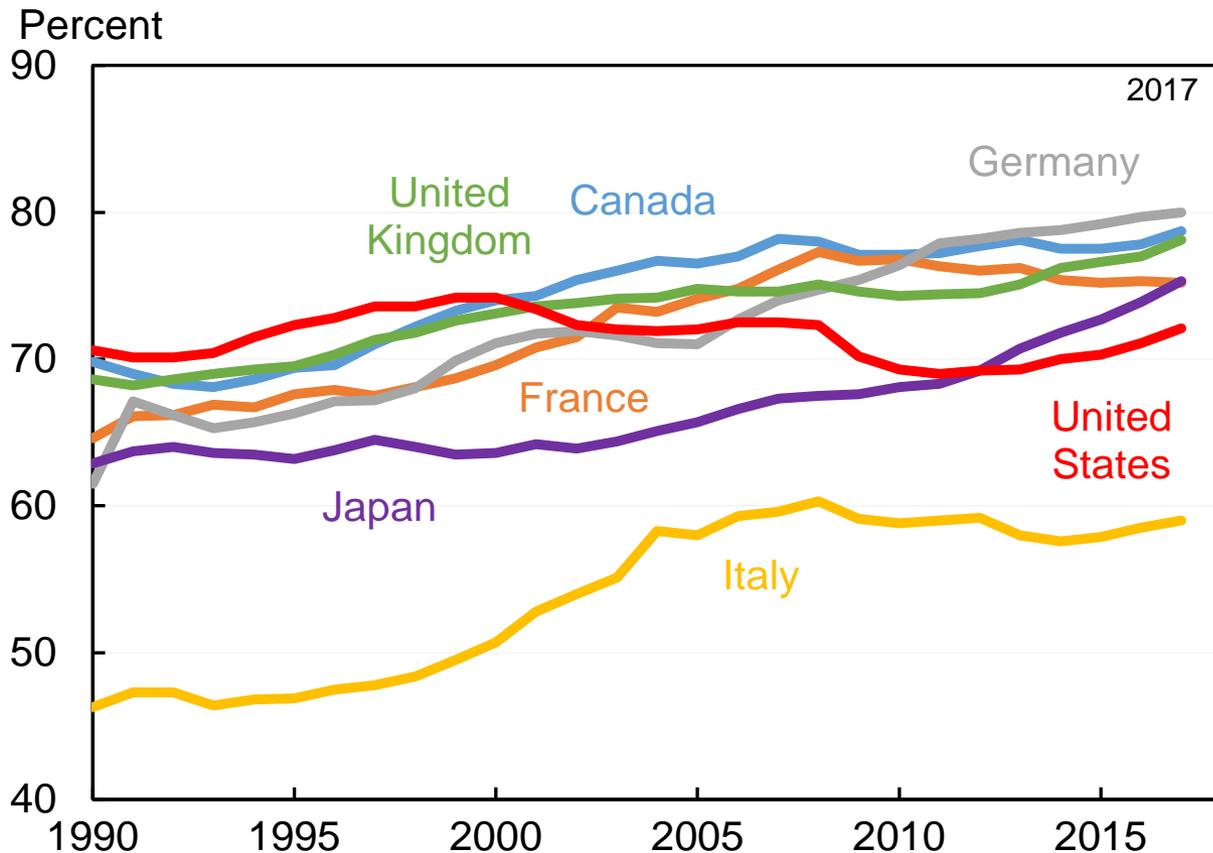
# After decades of increasing, women are now joining men in declining employment rates



Note: Shading denotes recession.  
Source: Bureau of Labor Statistics, Current Population Survey; author's calculations.

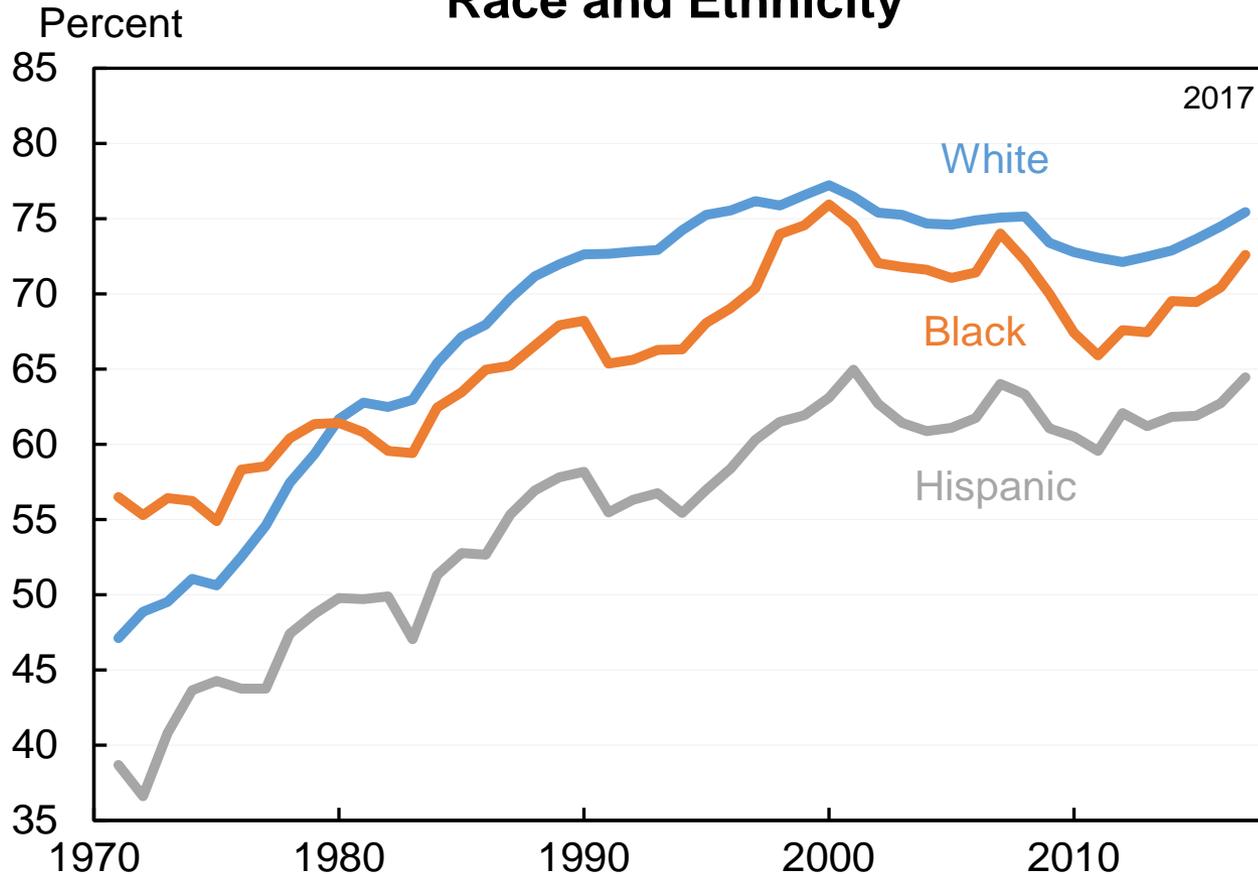
# The United States has gone from towards the top to toward the bottom

## Prime-age Female Employment-Population Ratio, G-7 Countries



# Employment rates are lower for both Hispanics and African Americans

## Prime-Age Female Employment-Population Ratio by Race and Ethnicity



Note: 1971 is the first CPS ASEC year with race/ethnicity categories that are comparable over time.

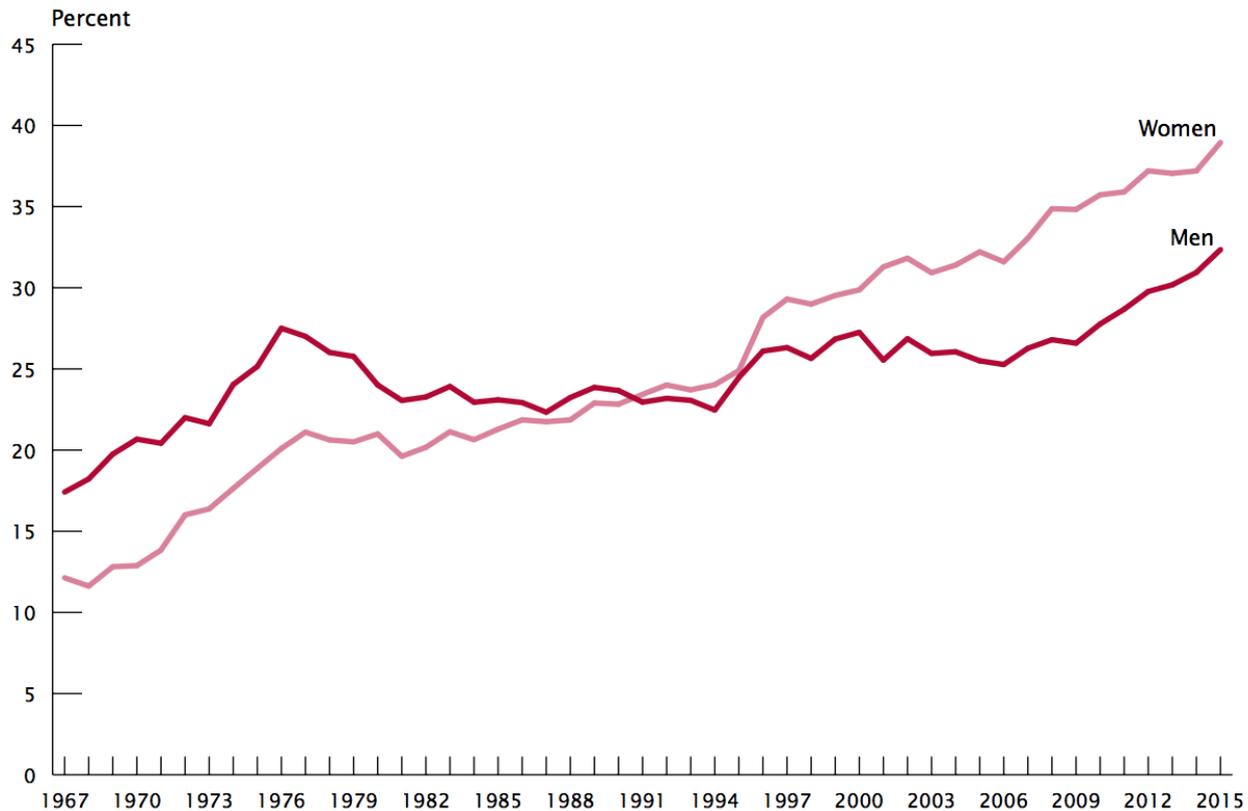
Source: Calculations based on Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement), IPUMS.

## Explanations

- Cultural/institutional Explanations
  - Changing Education
  - Changing Workplaces
  
- Policies
  - Policies designed to increase participation
  - Policies that have not kept up

# Women outnumber men in higher education

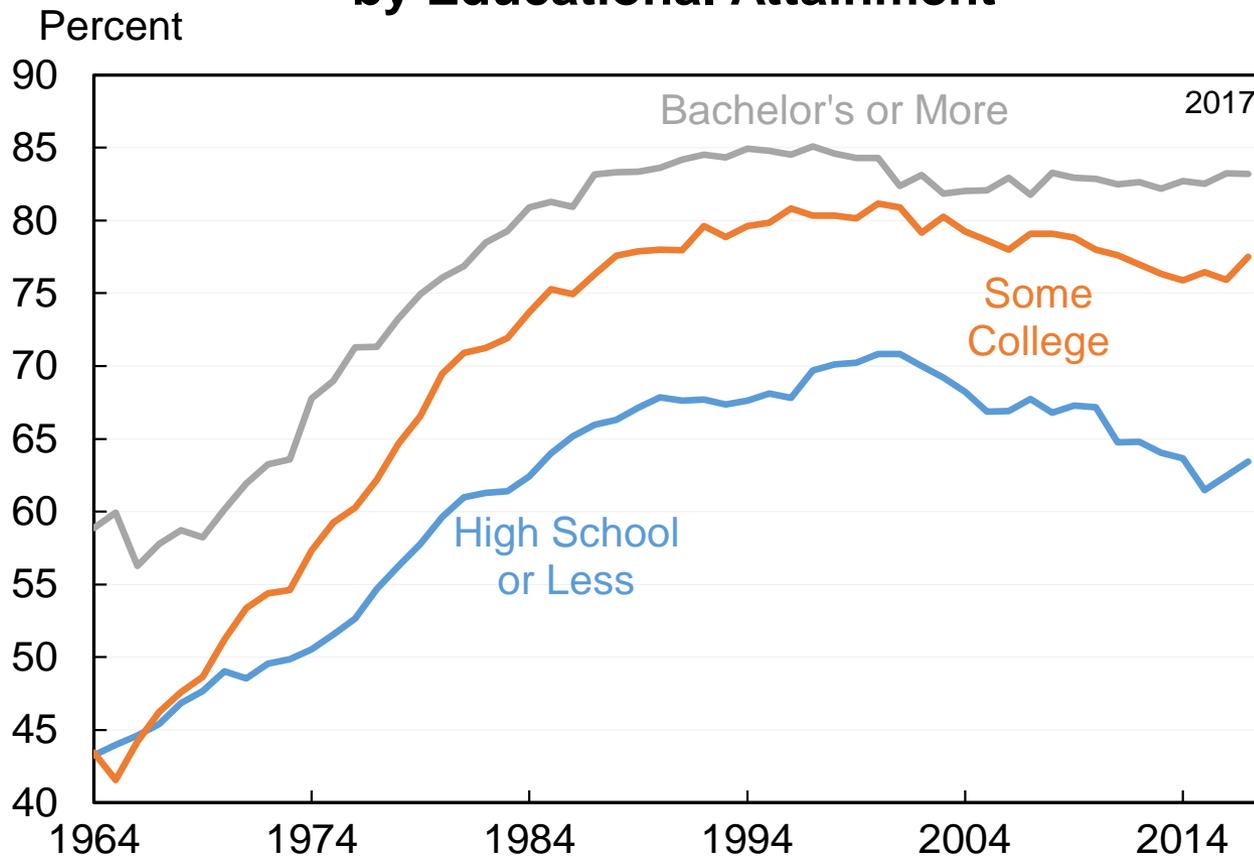
Figure 7.  
**Percentage of the Population Aged 25 to 29 With a Bachelor's or Higher Degree, by Sex: 1967 to 2015**



Source: U.S. Census Bureau, 1967–2015 Current Population Survey.

# Participation increased for all education groups; since 2000 the decline has been largest for high school or less

## Prime-Age Female Labor Force Participation by Educational Attainment



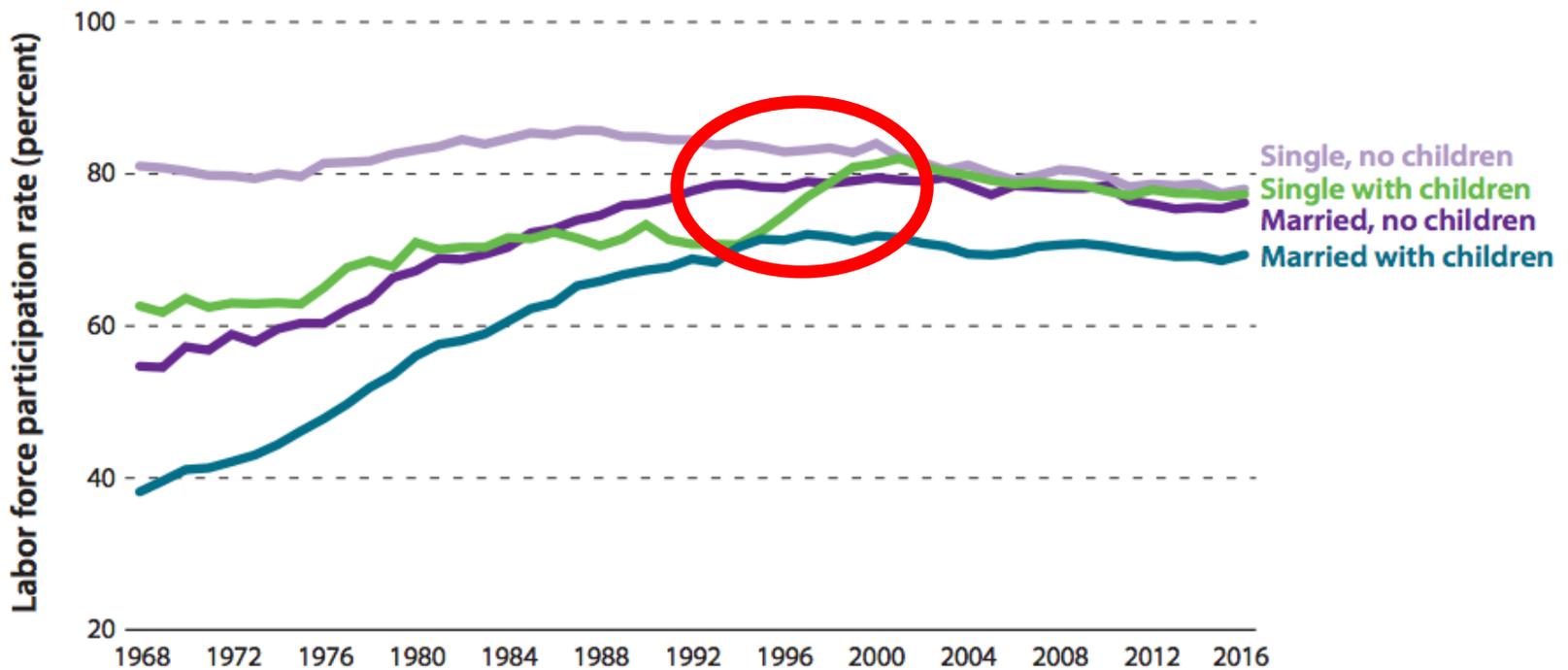
## **Institutional changes have facilitated increased women's labor force participation**

- Shifting obstetrics from solo practice to teams
- Pharmacists working part time
- Why not in many other fields, like lawyers?

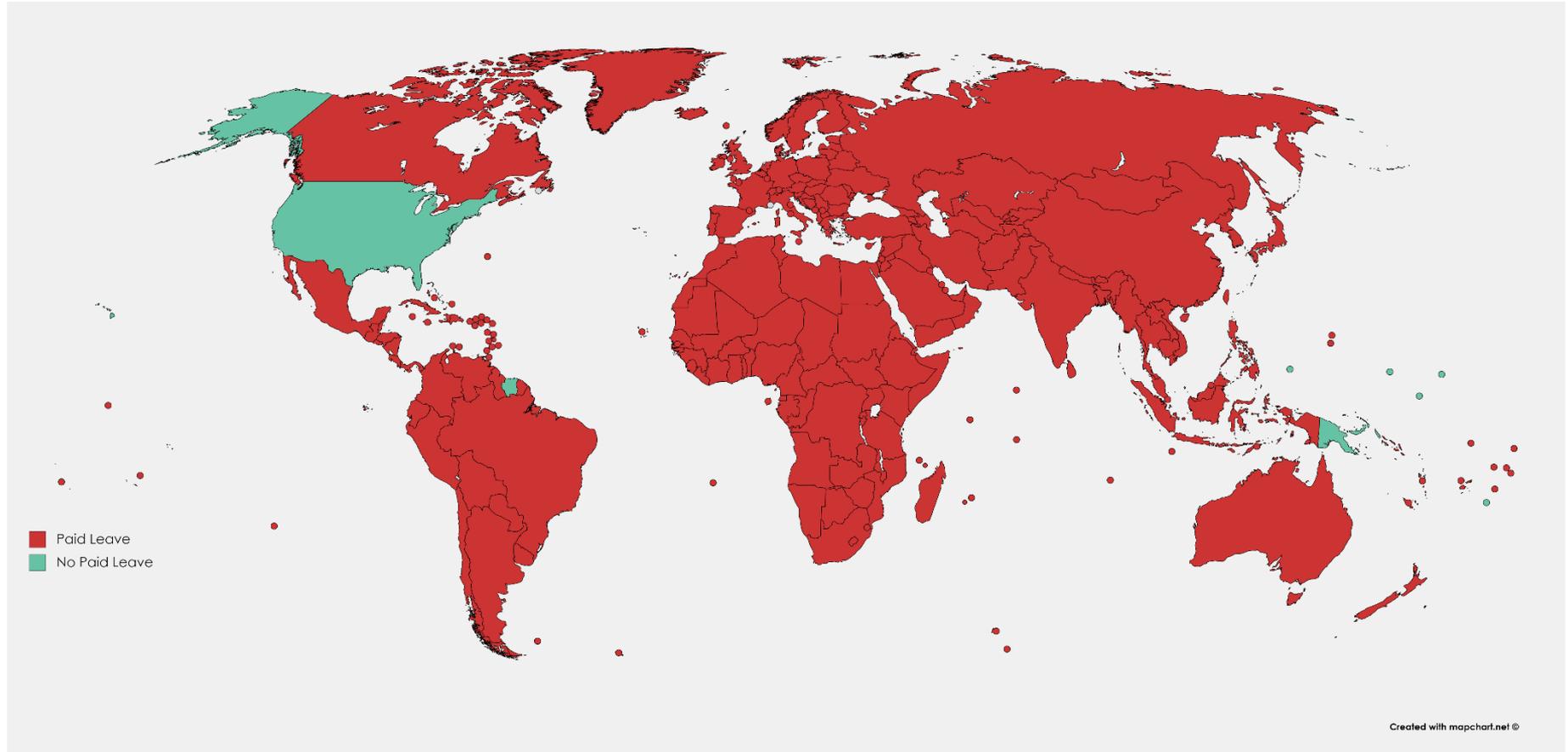
# Increases for female LFPR were propelled by women with children, but those stopped and declines have been largest for childless singles

FIGURE 7.

Prime-Age Women's Labor Force Participation, by Marital Status and Presence of Children under Age 18

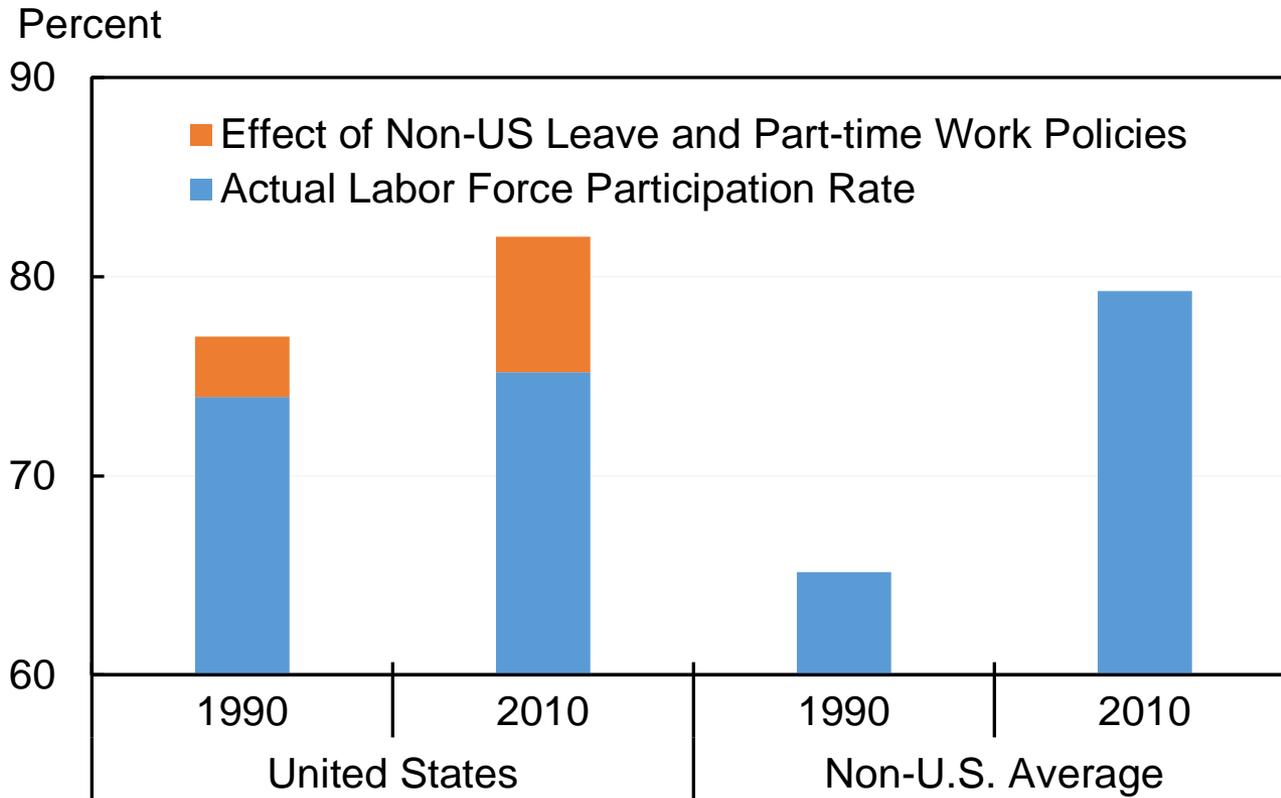


# The United States is the only major country with no paid parental leave



# Blau and Kahn find policy changes can account for 30 percent of U.S. relative deterioration

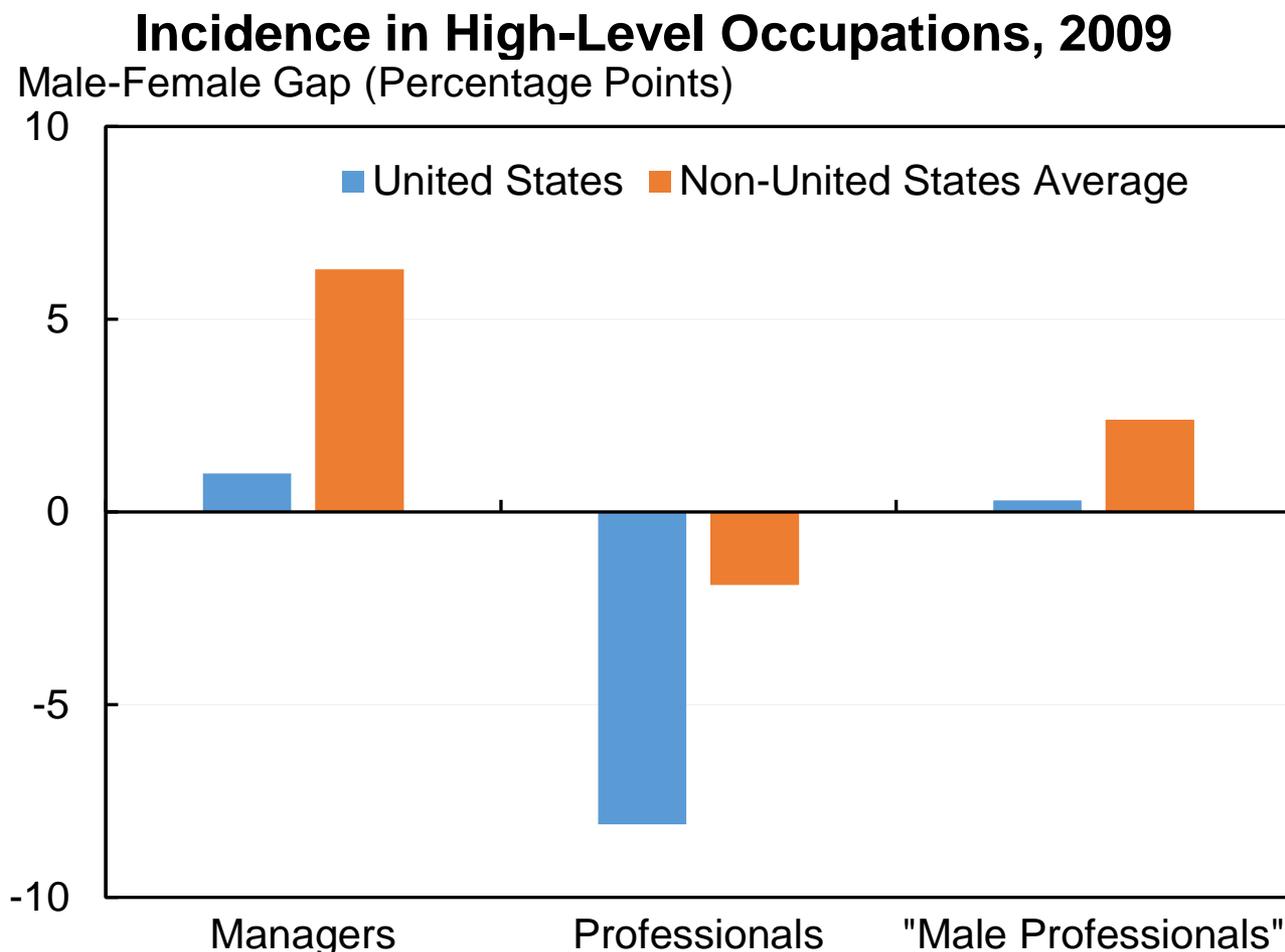
## Effect of Parental Leave and Part-time Work Policies on Prime-age Female Labor Force Participation



Note: Non-US countries include: Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, and the United Kingdom.

Source: Blau and Kahn (2013).

# U.S. women are more likely to be in high-level occupations than women in other OECD countries



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4. **Policy Options**

## The big ideas

1. Universal Basic Income
2. Employment Guarantee
3. Wage Subsidies

## Some smaller ideas

### 1. Labor Demand

- Infrastructure
- Public employment
- Work Opportunity Tax Credit for long-term unemployed

## Some smaller ideas

### 1. Labor Demand

### 2. Labor Supply

- Minimum wage/unionization
- EITC for workers without qualifying children
- Tax treatment of secondary earners

## Some smaller ideas

### 1. Labor Demand

### 2. Labor Supply

### 3. Connective Tissue & Flexible Workplaces

- Unemployment Insurance reform
- Universal dislocated workers support
- Disability insurance reform
- Childcare subsidies, flexible workplaces, paid leave

## Some smaller ideas

**1. Labor Demand**

**2. Labor Supply**

**3. Connective Tissue & Flexible Workplaces**

**4. Labor Market Fluidity**

- Wage insurance
- Occupational licensing reform
- Land use reform



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