

Challenges and Opportunities in the Labor Market and the Role of Data-Driven Policy

Betsey Stevenson
Member, Council of Economic Advisers

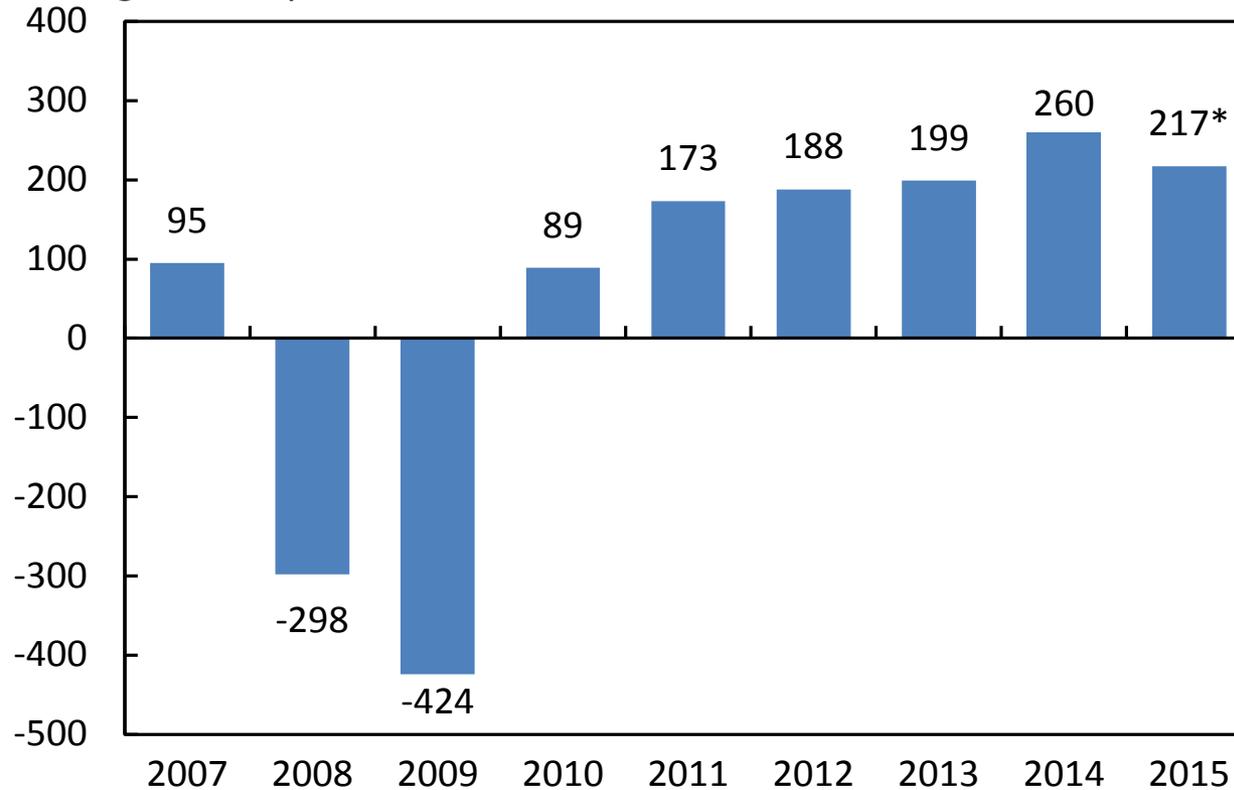


June 23, 2015

The Labor Market Recovery Accelerated in 2014-2015

Average Monthly Job Growth by Year, 2007–2015

Average Monthly Job Gain/Loss, Thousands



*Data for 2015 are for January-May only.

Source: Bureau of Labor Statistics, Current Employment Statistics.

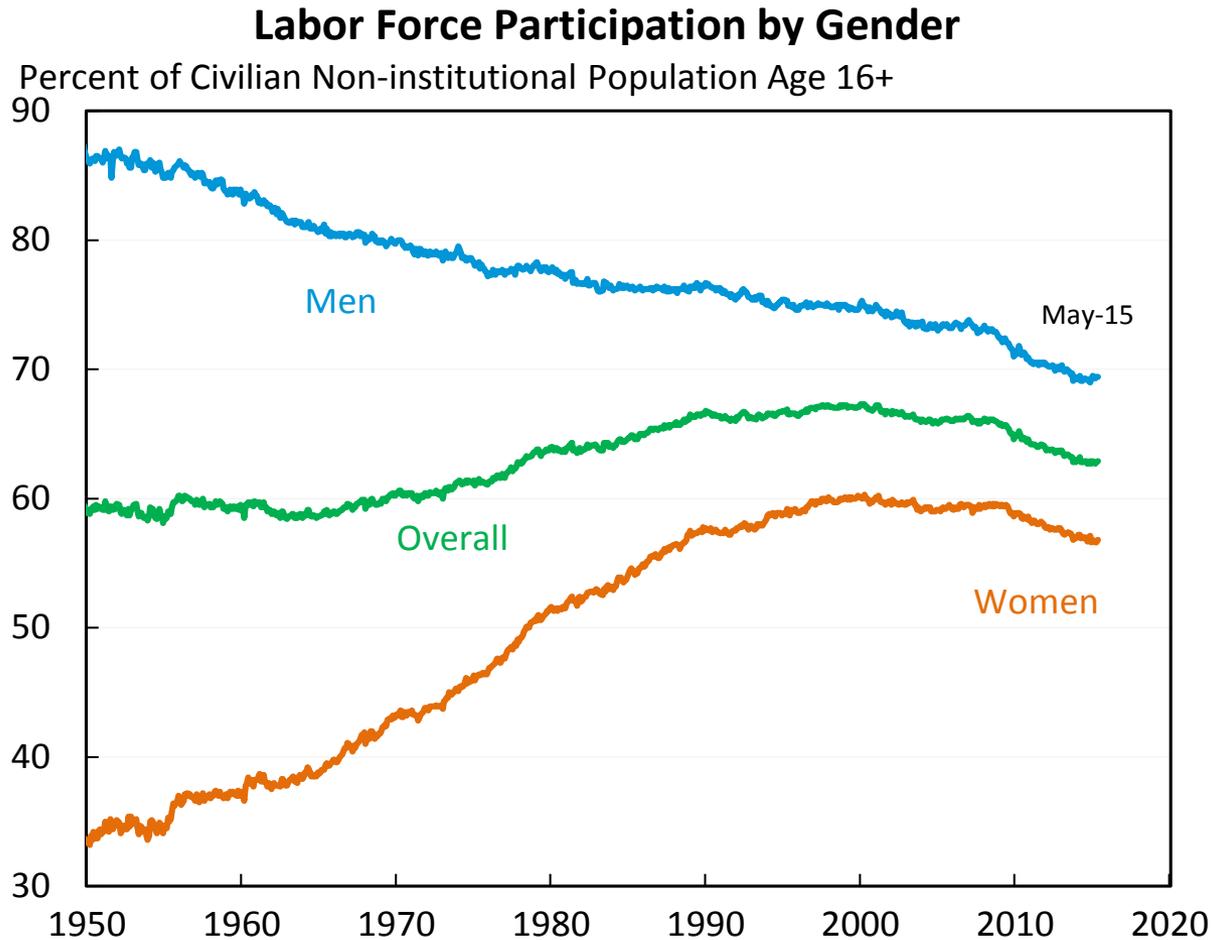
Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- **Relationships Between Labor Market Challenges and the Role of Longitudinal Data**

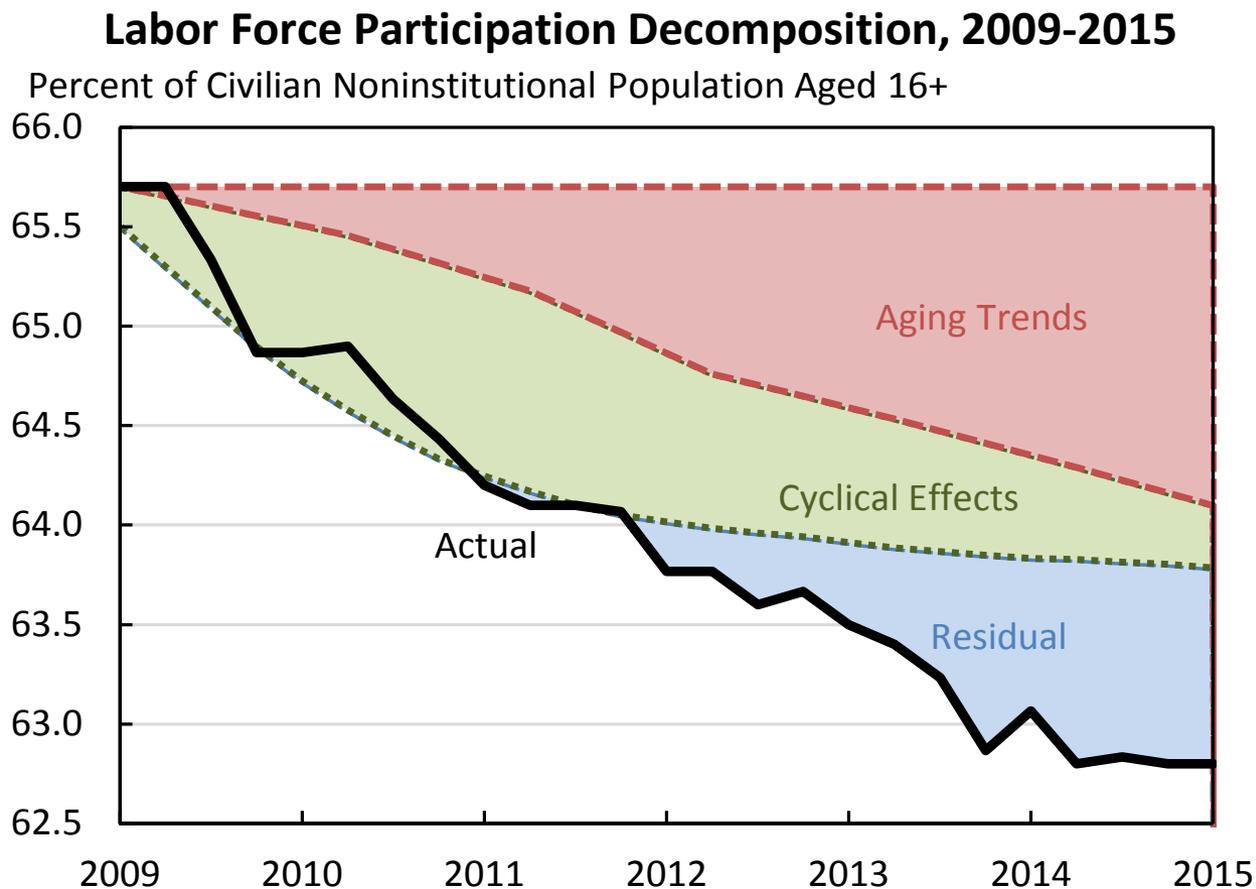
Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- **Relationships Between Labor Market Challenges and the Role of Longitudinal Data**

Labor Force Participation Has Fallen Among Men and Women Since 2000



Of the Participation Decline Since 2007, More than Half is Due to an Aging Population and One-Sixth is Due to the Business Cycle



Note: Year axis denotes first quarter of year noted. See Chapter 3 of the 2015 *Economic Report of the President* for methodological details.
Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

There is Less Disagreement in the Literature on the Participation Rate than May be Apparent at First Glance

Comparison of Participation Rate Estimates

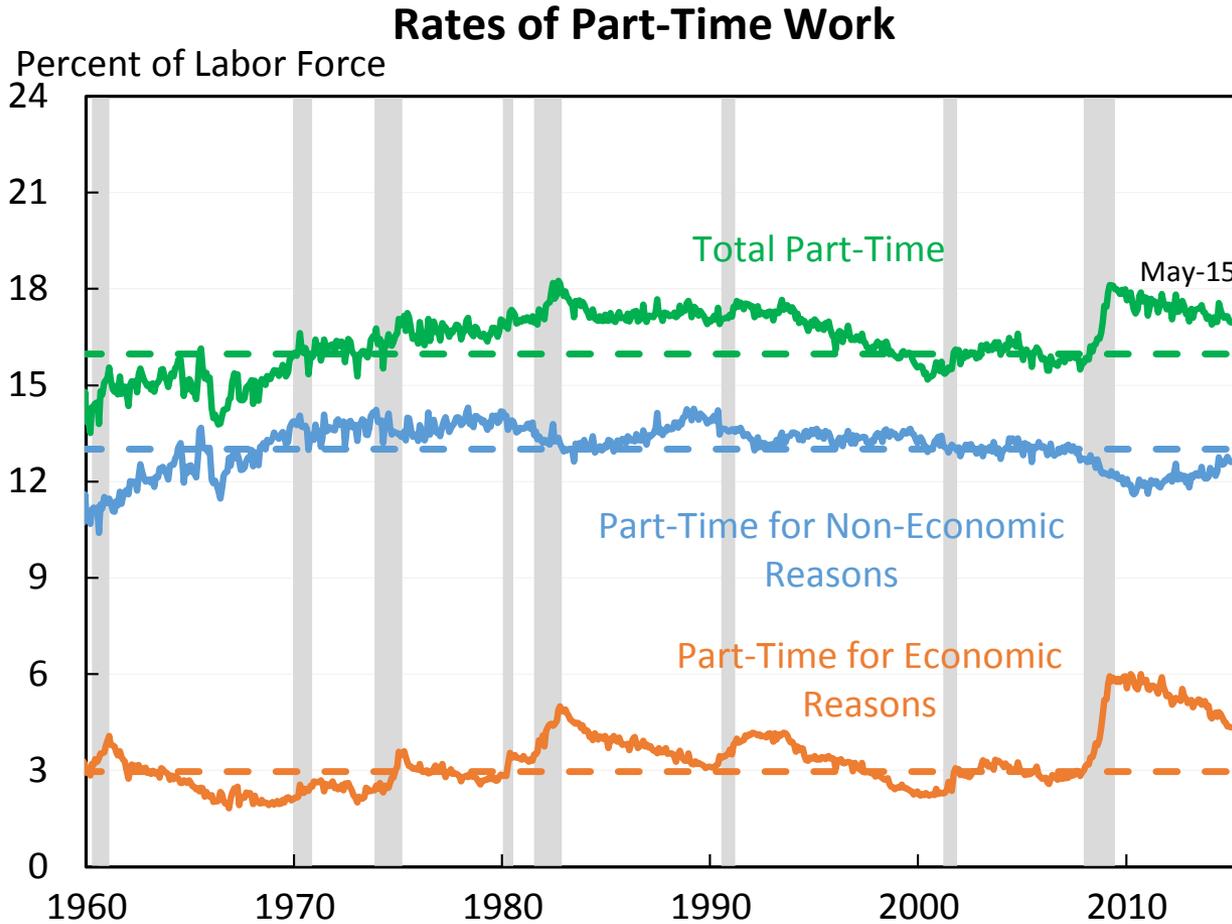
	Time Period	Shares of the Total Decline		CEA Estimated Shares Over Same Time Period	
		Trend	Cycle	Trend	Cycle
CEA	2007:Q4 – 2014:Q4	55%	17%		
<i>Beginning in 2007</i>					
CBO (2014)	2007:Q4 – 2013:Q4	50%	33%	48%	25%
S. Aaronson et al. (2014)	2007:Q4 – 2014:Q2	82%	11%	51%	21%
D. Aaronson et al. (2014)	2007: Q4 – 2014:Q3	74%	13%	54%	19%
Erceg and Levin (2013)	2007-2012	17%	55%	55%	42%
Fallick and Pingle (2013)	2007:Q4 – 2013:Q2	75%	16%	53%	35%
Kudlyak (2013)	2007-2012	80%	20%	55%	42%
Shierholz (2012)	2007-2011	31%	--	49%	59%
Van Zandweghe (2012)	2007-2011	42%	58%	49%	59%
Aaronson et al. (2006)	2007-2013	82%	--	48%	25%
<i>Other time periods</i>					
CEA (2014)	2011:Q1 – 2014:Q4	77%	-39%		
Fujita (2014)	2000:Q1 – 2013:Q4	65%	30%	39%	19%
Aaronson, Davis, and Hu (2012)	2000-2011	40%	--	43%	43%

Source: Cited studies; CEA calculations.

Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- **Relationships Between Labor Market Challenges and the Role of Longitudinal Data**

Part-Time Work Increases During Recessions Due to Increased Rates of Part-Time Work for Economic Reasons



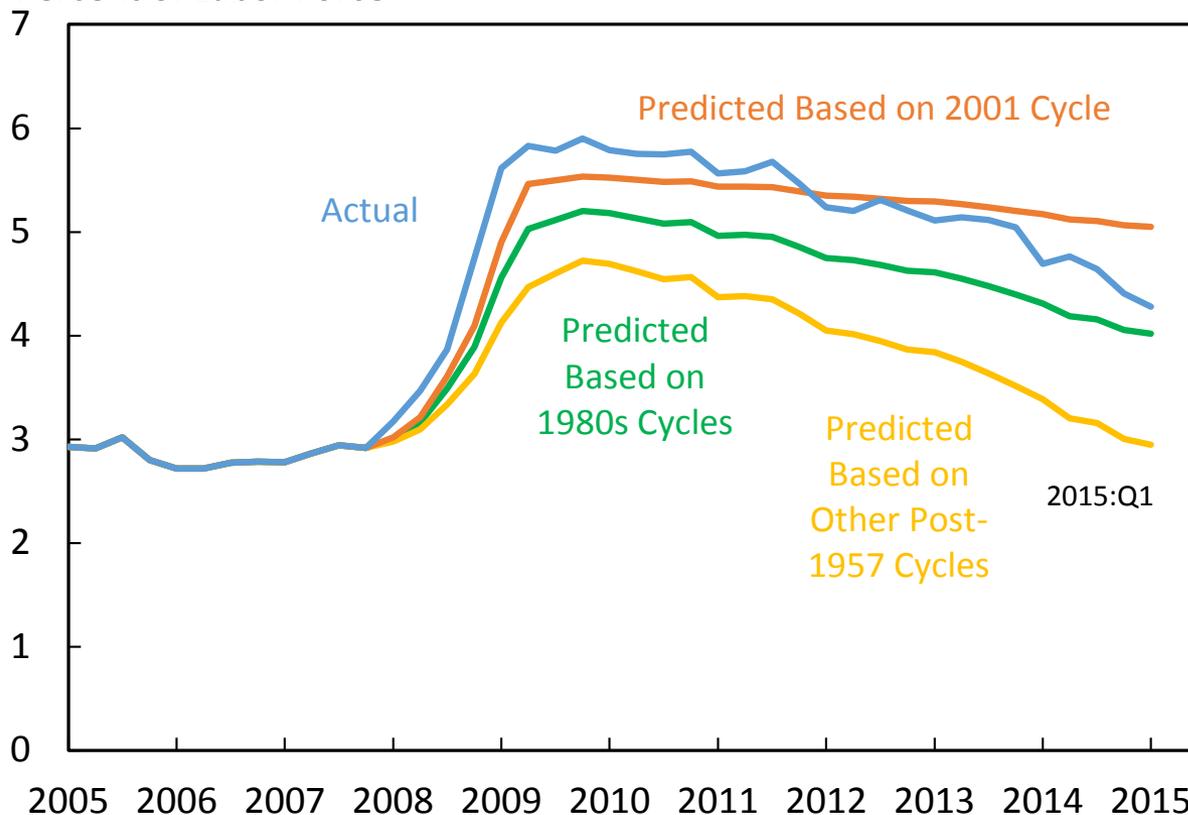
Note: Shading denotes recession. Dashed lines represent pre-Great Recession (December 2001-December 2007) averages. See Chapter 3 of the 2015 *Economic Report of the President* for details on comparability over time.

Source: Bureau of Labor Statistics, Current Population Survey; Polivka and Miller (1998); CEA calculations.

Part-Time Work for Economic Reasons is Falling at a Rate Similar to What the 1980s and 2001 Recessions Would Predict

Share Part-Time for Economic Reasons, Actual and Predicted

Percent of Labor Force



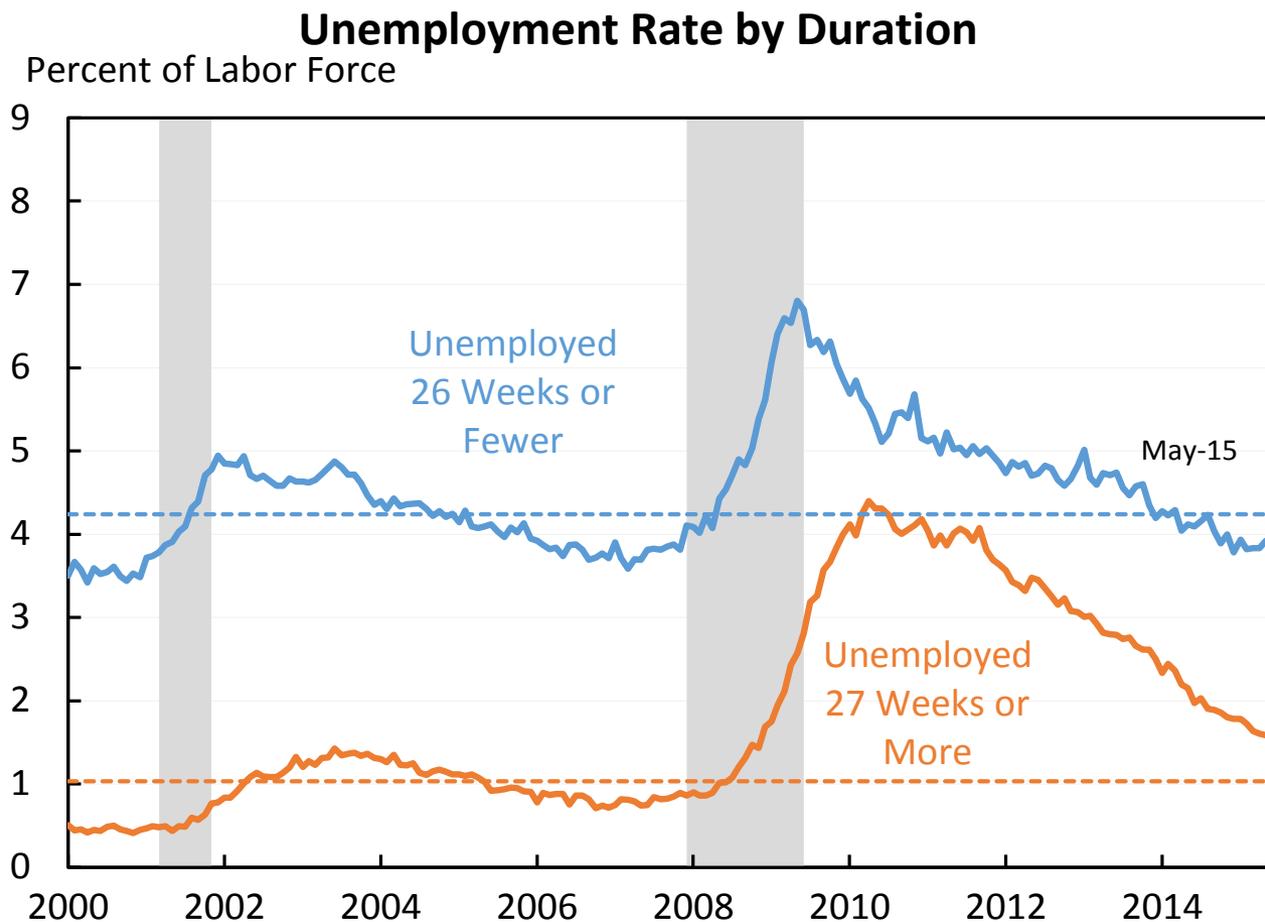
Note: The 1980s recessions are consolidated into a single cycle.

Source: Bureau of Labor Statistics, Current Population Survey; Polivka and Miller (1998); CEA calculations.

Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- Relationships Between Labor Market Challenges and the Role of Longitudinal Data

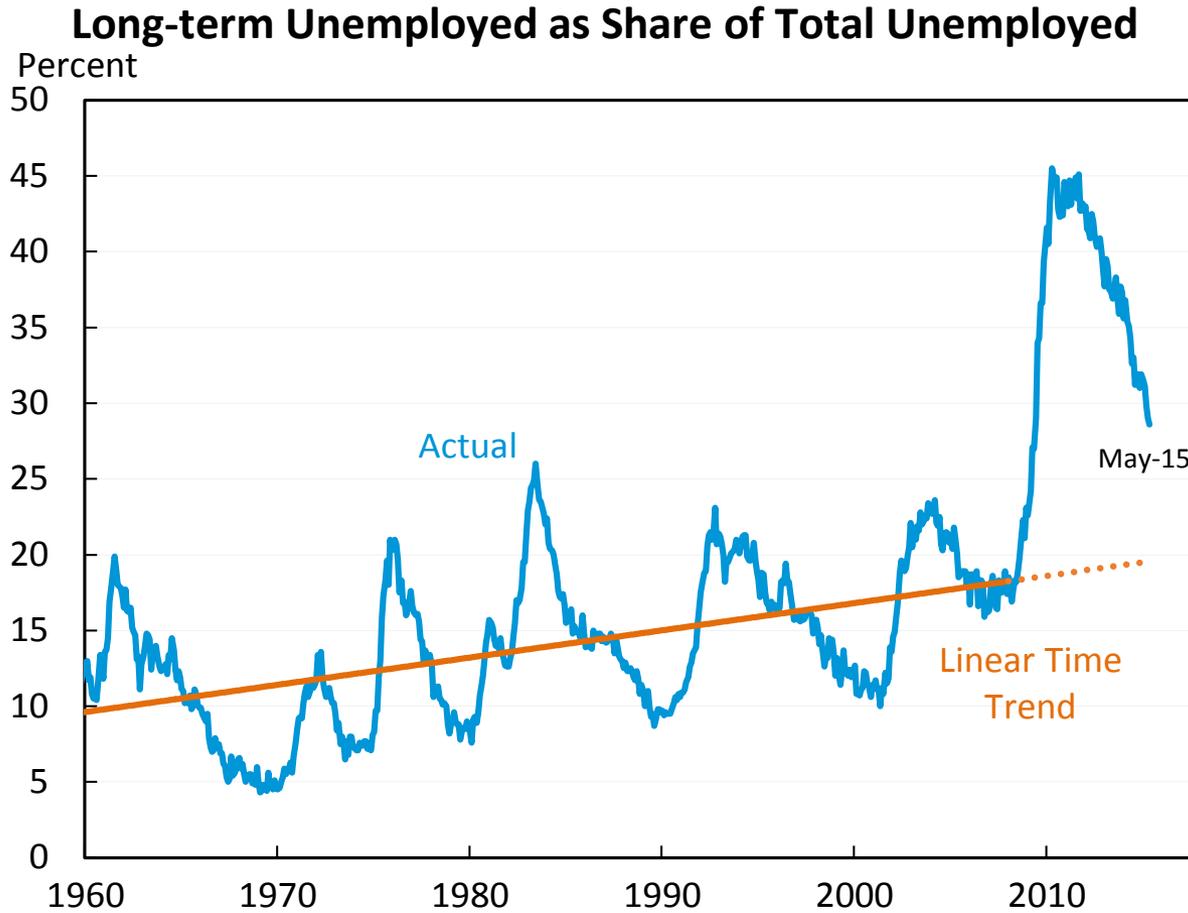
Long-Term Unemployment Has Accounted for Almost 3/4 of the Decline in the Unemployment Rate Over the Past 12 Months



Note: Shading denotes recession. Dashed lines represent pre-Great Recession (December 2001-December 2007) averages.

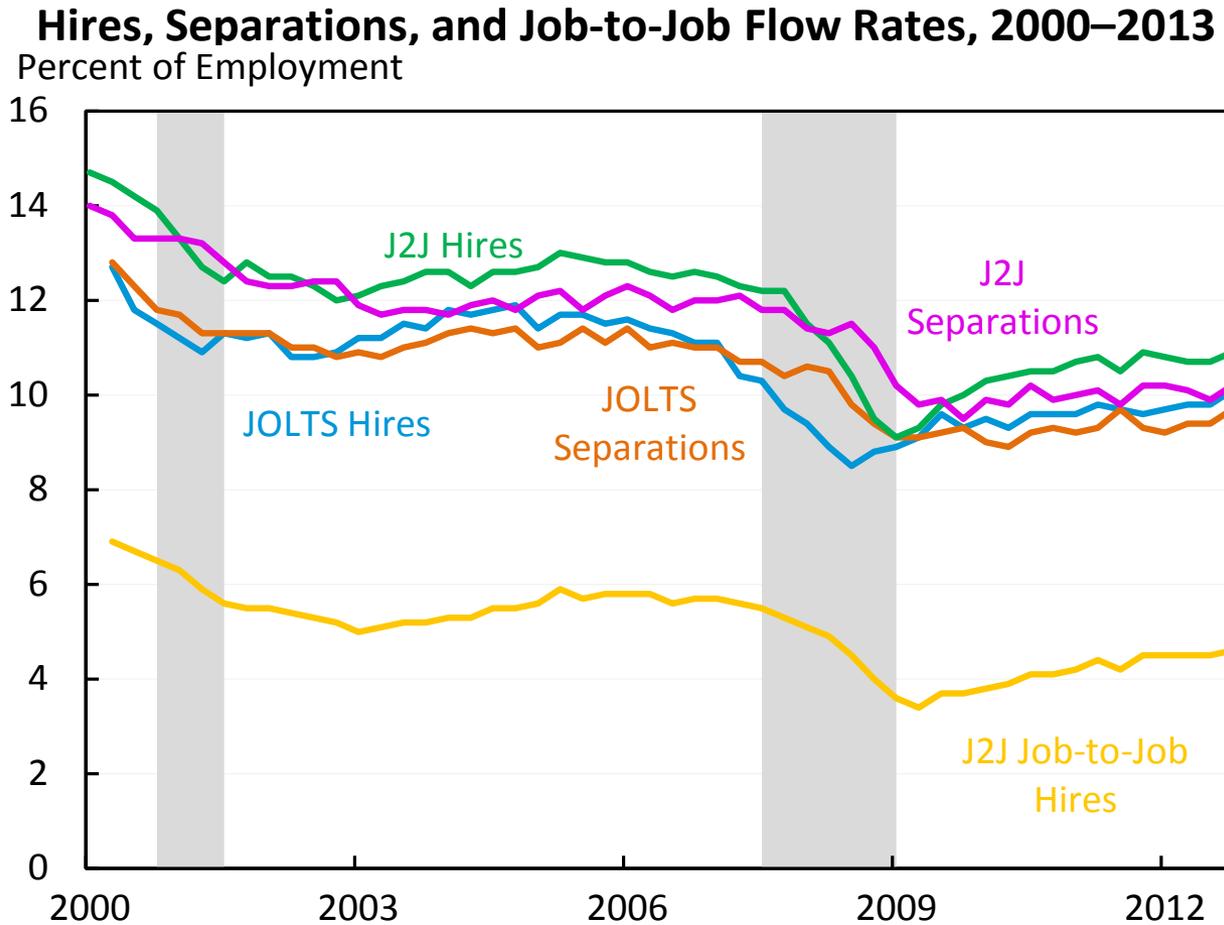
Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

Long-Term Unemployment Has Accounted For an Increasingly Large Share of the Increase in Total Unemployment Over the Past Half Century



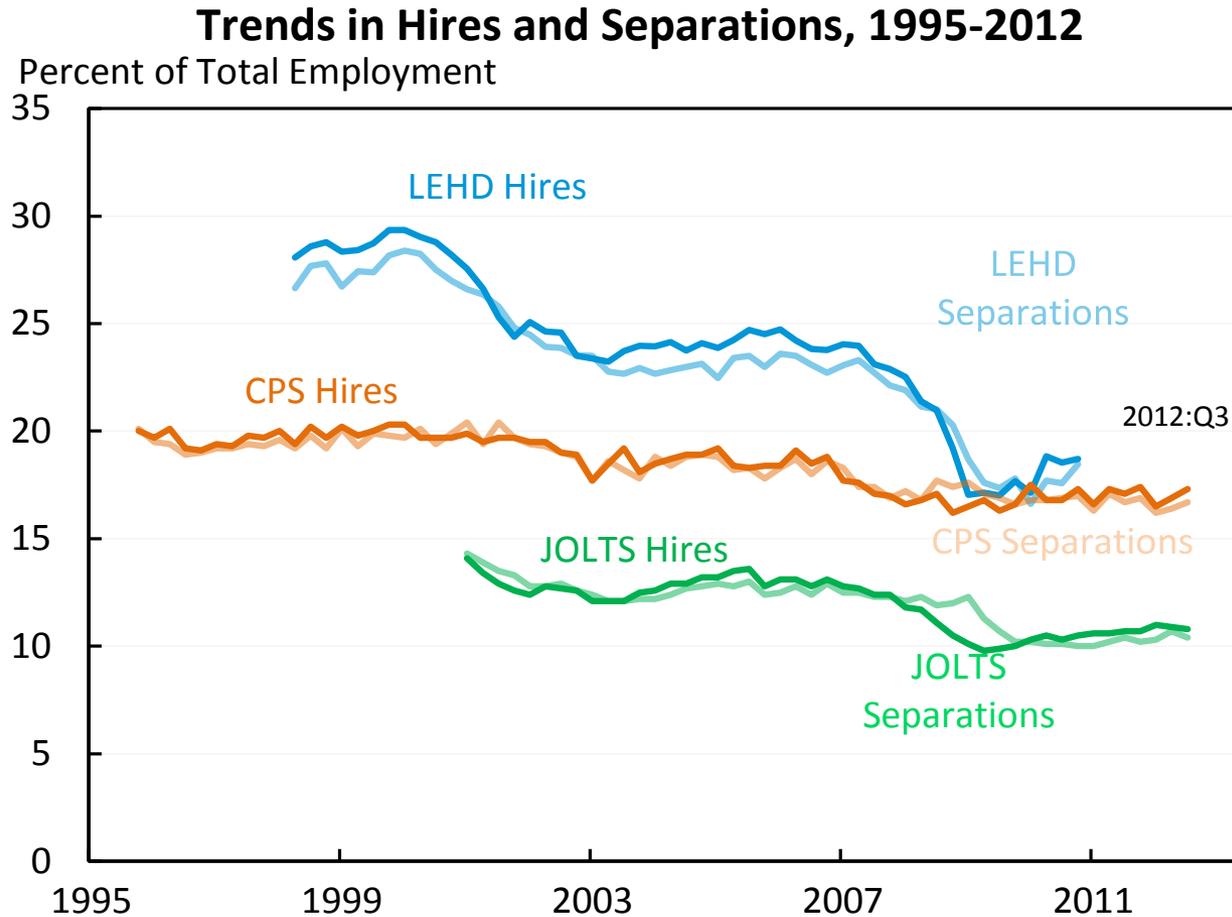
Note: Time trend projection is based on data from 1948 through 2007.
Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

Multiple Measures Show Labor Market Fluidity Has Increased Since the Great Recession...

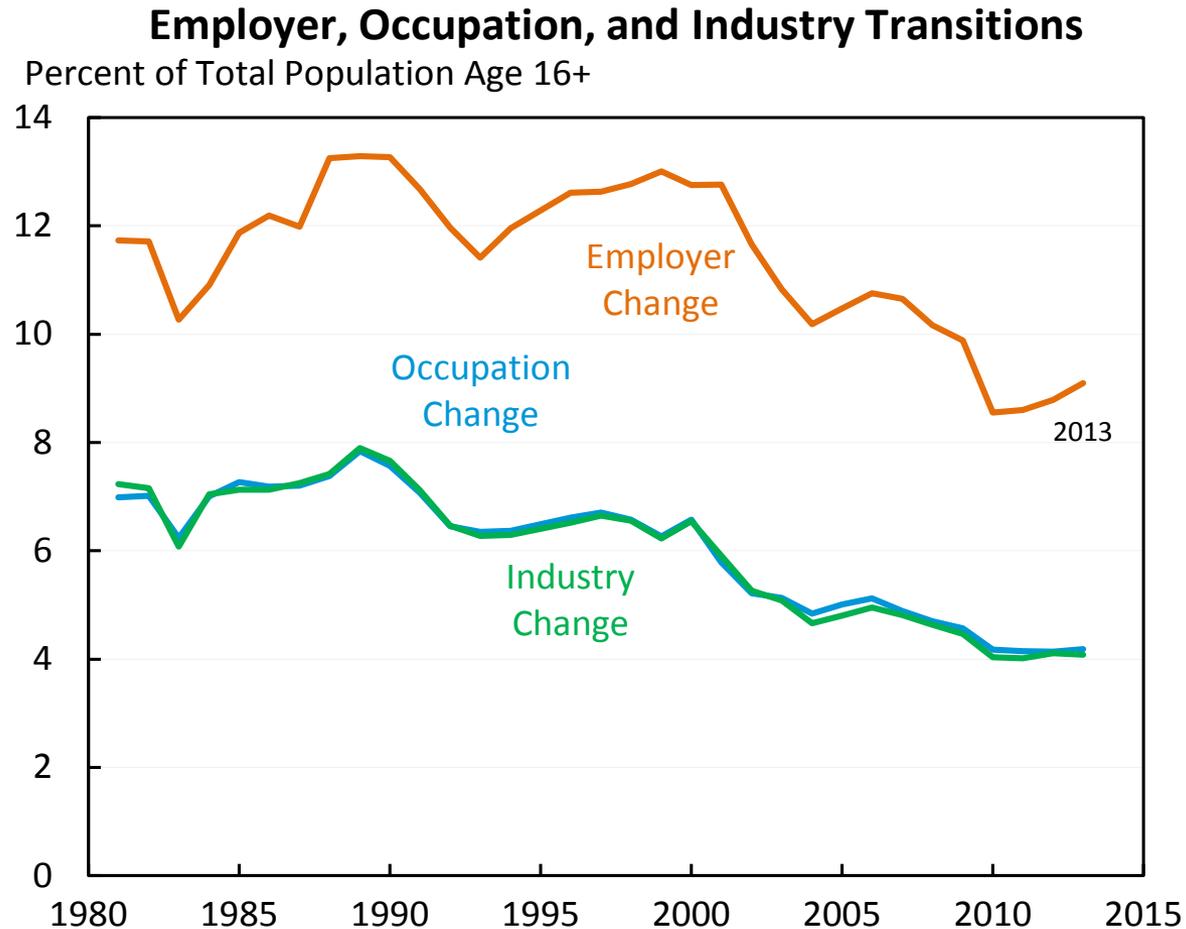


Note: J2J job-to-job hires are generally equal to J2J job-to-job separations (not shown). Shading denotes recession.
Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey; Census Bureau, Job-to-Job Flows.

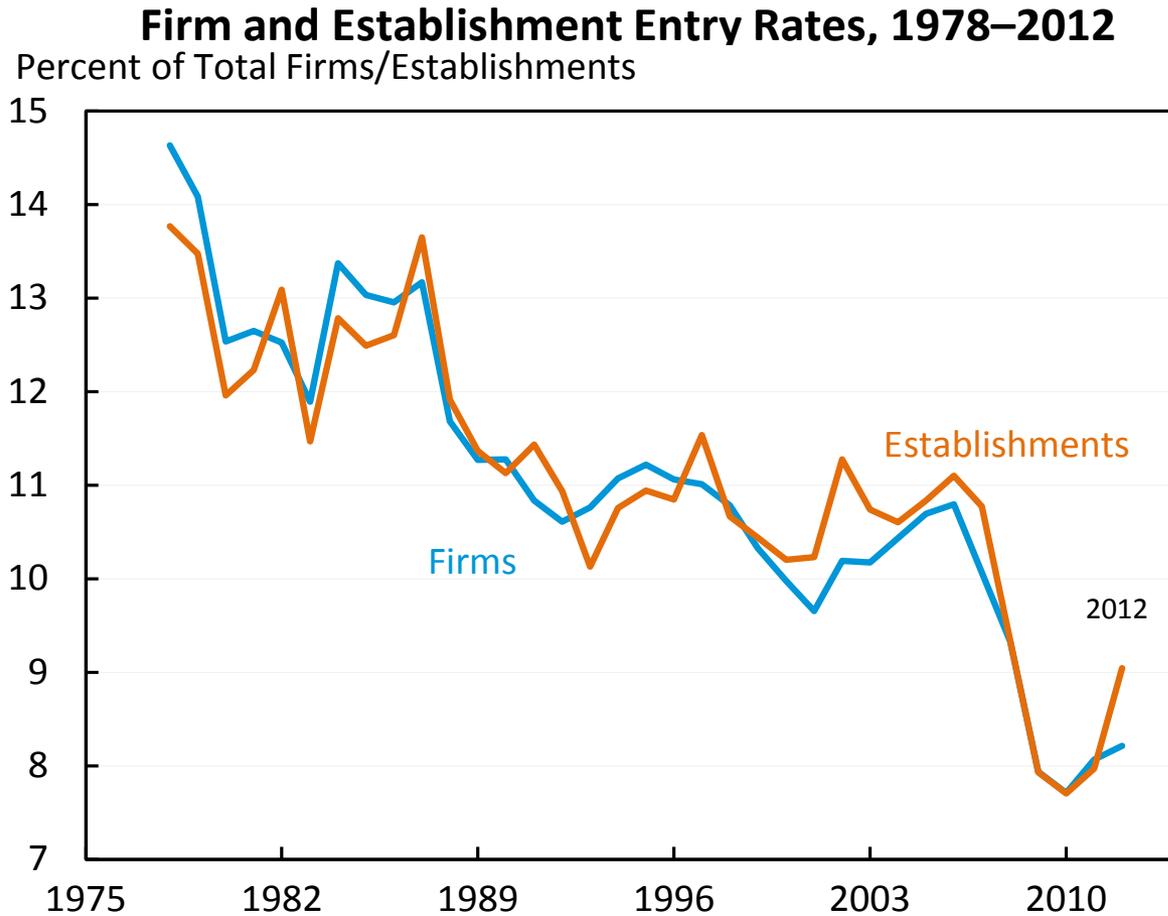
...But Fluidity Has Been Declining for Decades



Workers are Less Likely to Change Employers, Occupations, and Industries



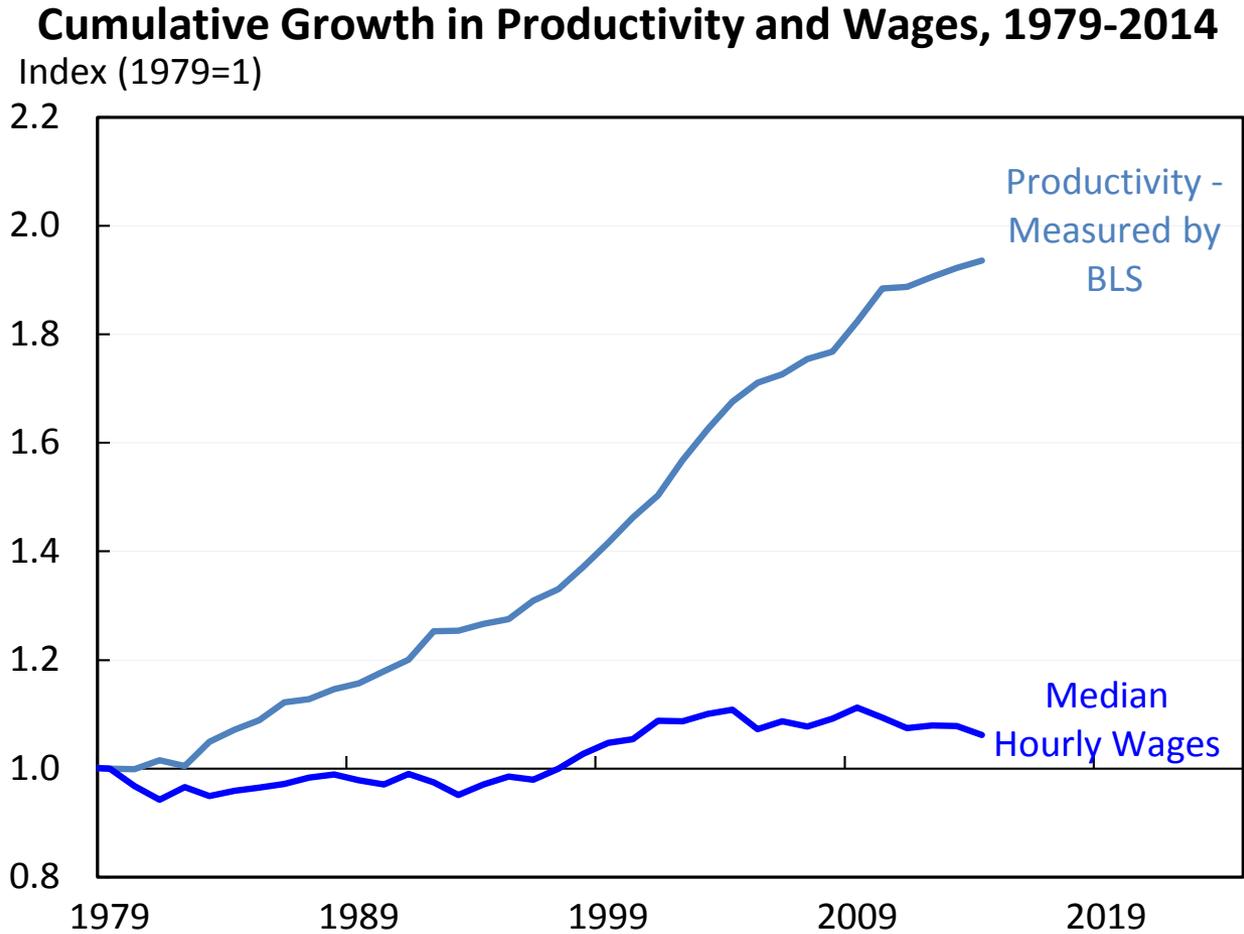
Firm and Establishment Entry Rates Have Also Declined



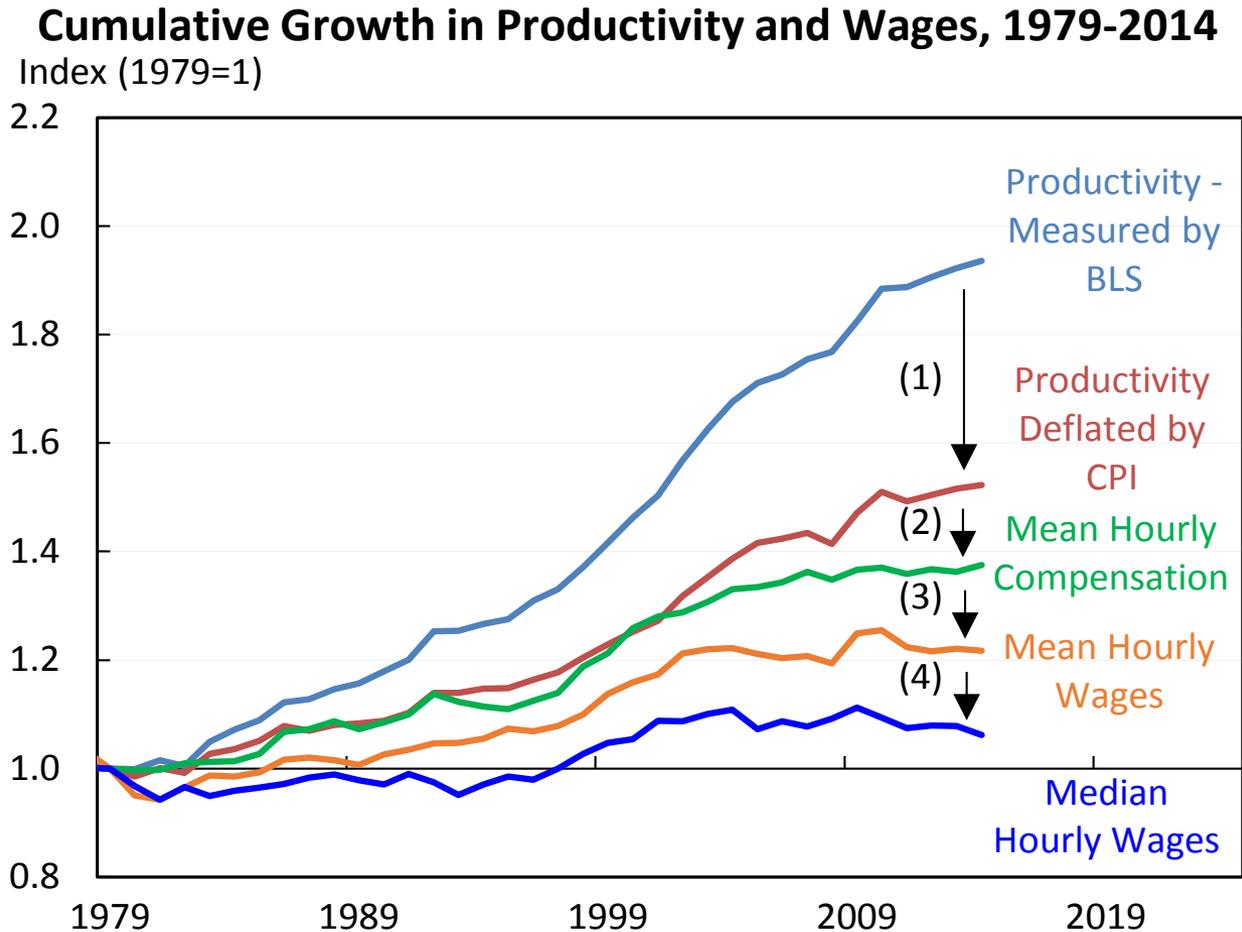
Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- **Relationships Between Labor Market Challenges and the Role of Longitudinal Data**

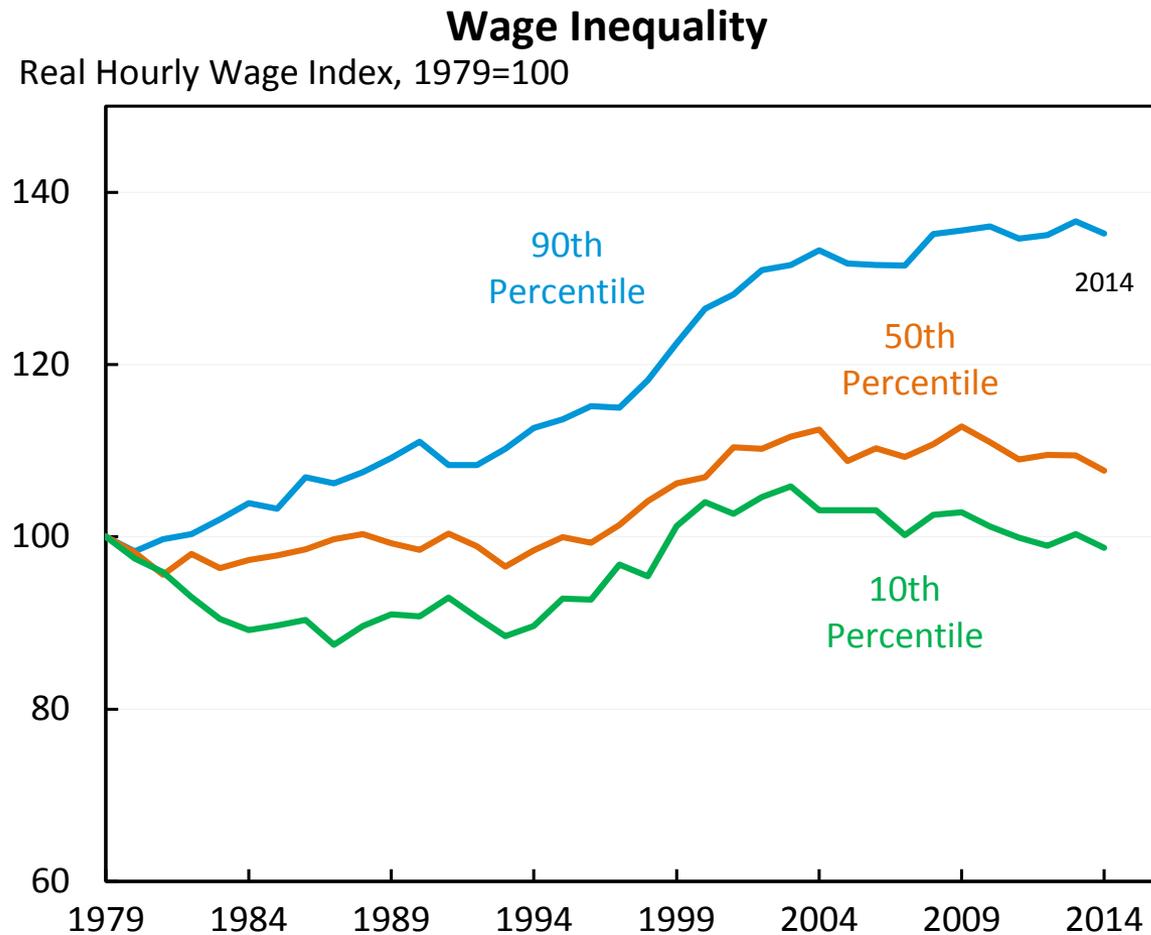
The Productivity-Wage Gap Appears Large



The Productivity-Wage Gap Has Multiple Components, the Largest of Which is a Difference in Deflators



Inequality Has Increased as Wages Have Stagnated for Most Workers, But Risen For the Highest-Earners



Note: The figure depicts real hourly wage quantiles for workers age 18 to 64, excluding individuals who are self-employed, who have real wages below \$0.50 or greater than \$100 (in 1989 dollars), or whose wages are imputed. Top-coded earnings adjusted following Lemieux (2006). Inflation adjusted using the CPI-U-RS.

Source: Bureau of Labor Statistics, Current Population Survey (Merged Outgoing Rotation Groups); CEA calculations.

Overview

- **Five Longer-Term Challenges**
 - Declining labor force participation
 - Elevated rates of part-time work for economic reasons
 - Heightened long-term unemployment
 - Lower labor market fluidity
 - Stagnating wages
- **Relationships Between Labor Market Challenges and the Role of Longitudinal Data**

Four New Working Papers Suggest Firm-Side Behavior May be Linked to Fluidity, Wage Growth, and Inequality

Moscarini and Postel-Vinay (2015)

- Use data from JOLTS
- Suggestive evidence of “job ladder” from smaller to larger firms that collapsed during the Great Recession

Haltiwanger, Hyatt, and McEntarfer (2015)

- Use matched employer-employee LEHD data
- No evidence of “job ladder” from smaller to larger firms, but evidence of worker reallocation from lower-paying to higher-paying firms

Kahn and McEntarfer (2014)

- Use matched employer-employee LEHD data
- Separations – especially those most likely to be voluntary – tend to drop more sharply among lower-paying firms during recessions

Song et al. (2015)

- Use data sampled from the Social Security Administration Master Earnings File
- Nearly all of the rise in earnings inequality between 1982 and 2012 was due to increases in between-firm earnings inequality

Challenges and Opportunities in the Labor Market and the Role of Data-Driven Policy

Betsey Stevenson
Member, Council of Economic Advisers



June 23, 2015