Monitoring the Dual Mandate: What Ails the Labor Force?

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A SLOW RECOVERY
Judging by real GDP growth, the current expansion has been unusually weak.

But divide GDP by the size of the labor force, and this expansion looks ordinary.
The explanation for sluggish recovery: Labor-force growth has been exceptionally slow

What ails the labor force?

- **Wages**
  - Stagnation
  - Rising wage inequality, labor market polarization

- **Other trends with implications**
  - Aging
  - Diversity
  - Immigration

- **Policy responses**
  - Beware of unintended consequences
Stagnating wages...

Total wage and salary income by education (2014 dollars)

NOTES: Calculations are for full-time workers ages 25-65 who worked 50-52 weeks in the calendar year. Education groups are defined by a recoded education variable and is comparable across all years. Incomes are deflated using the CPI-U.

Rising service sector employment

Falling manufacturing employment

Ratio of manufacturing to service sector jobs


Job polarization: The shrinking middle class

Percent change from 1979-2014

NOTES: Calculations include workers over age 15 with positive wages and exclude the self-employed. Quartiles based on Texas and US wage distributions from the 1980 decennial census, which refers to 1979 wages.

SOURCES: 1980 Census; 2014 ACS.
Technology replaces routine tasks, which most affects middle skill jobs

Rising income inequality…

Who/what gets blamed?

- Technological change
  - Routine tasks are automated
- Globalization: Offshoring, trade, immigration
  - Production moves overseas
  - Trade increases access to foreign suppliers
  - Immigration
- Slowing educational attainment
- Changing labor market institutions
  - Decline of unions; falling real minimum wage

Exports and imports as a percent of GDP

SOURCE: Bureau of Economic Analysis.
The slowdown in educational attainment


Population with a Bachelor's Degree or higher:
Small gap means education gains dissipating

Foreign-born population
42.4 million in 2014

Due to sharp rise in immigration, the foreign-born share near historic peak

SOURCE: U.S. Census Bureau.
Immigrant workers overrepresented at extremes of the education distribution

NOTE: Percent of foreign workers age 25 and over in the U.S. labor force by education. SOURCE: 2014 American Community Survey

A CHANGING LABOR FORCE
A changing native labor force

- Aging
- Diversity
- Immigration

Aging underway: seniors will be 20% of U.S. population by 2030

SOURCE: U.S. Census, various years; U.S. Census Bureau 2014 population projections 2015-2060.
Changes in population by age group

- 16 to 24
- 25 to 54
- 55 and older

Change (millions)


U.S. labor force participation rate in decline since 2000

(Source: Bureau of Labor Statistics.)
Labor force participation by gender

Percent, SA

Men: 69.1
Women: 56.7


NOTE: Ages 16 and over.

Diversity rising
Population projections by race: 2015 to 2060

Change in population, millions

NH White 14.2 20.9 14.4 62.3 95.4
NH Black -16.4 0 -20
NH Asian
NH Other
Hispanic (any race)
Total

Rising diversity

<table>
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<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
<th>Asian</th>
<th>Other</th>
<th>Hispanic</th>
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<td>2015</td>
<td>61.7</td>
<td>17.7</td>
<td>5.3</td>
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<td>28.6</td>
<td>9.1</td>
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POLICY RESPONSES
Global inequality high, but falling

GDP per capita (1990 $)


World poverty declining

% of population

World poverty declines by region

% of population living on $1.90 per day or less

- Sub-Saharan Africa
- East Asia & Pacific
- South Asia
- Latin America & Caribbean
- MENA

NOTE: Sub-Saharan Africa, Latin America & Caribbean, East Asia & Pacific, and MENA are measured as developing only.

What can we hope to fix with policy?

- Technological progress is what the US excels in
- Curbing trade bad for efficiency, productivity and consumers
- Immigration brings needed skills, labor
- Labor market interventions raise the cost of labor to producers
- Answer: Investing in education