

## CHAPTER 3

# Trends and Recent Developments in the U.S. Labor Market

THE CLINTON ADMINISTRATION has made increasing both the quantity and the quality of jobs its highest priority. Providing a stable macroeconomic foundation for private sector activity is essential to achieving this goal, but it is not enough. Sound macroeconomic policies are necessary but not sufficient for the task at hand. They must be complemented by labor market policies to remedy a number of deep and longstanding impediments to the maintenance of high employment and to improvements in the quality of jobs. This chapter discusses these impediments and the Administration's proposals for addressing them.

The 1990–91 recession and the first year of the recovery witnessed rising unemployment. Even though output and employment have since been increasing, the news has been filled with stories of corporate downsizings and the increasing use of “contingent workers.” These reports have sharpened fundamental fears about the security of employment. Popular accounts of recent events also allege that technical change is reducing employment throughout the economy.

After rising steadily for several decades, U.S. real wages have hardly grown since the early 1970s, while the growth of total real compensation (wages plus benefits) has slowed considerably. At the same time, the income gap between rich and poor has been growing, so that the poor are worse off in real terms now than they were two decades ago. Incomes of those in the middle have stagnated. The unemployment rate, both at peaks and troughs of the business cycle, has tended to be higher in the last two decades than in the first half of the postwar period. Employment-to-population ratios have risen for women, but fallen for men—especially for black men, whose employment prospects are particularly bleak. Further, although there is little evidence of any large increase in job instability, turnover rates in the U.S. labor market have long been very high, and job displacement is often very costly for those unlucky enough to lose a job they have held for many years. High turnover rates combined with rising inequality imply increasing uncertainty about future income for many Americans.

In response to these problems in the Nation's labor market, many of which have been with us for several years, this Administration has set out a long-term work force strategy to help the economy create more jobs—at least 8 million over 4 years. To reduce job insecurity, the Administration aims to ease labor market transitions in a number of ways. By making sure that people have health insurance whether or not they are employed, the Administration seeks to reduce the trauma of job loss. The strategy also includes plans to help young workers enter the labor market more smoothly by providing a bridge between school and work. The Work Force Security Act will help experienced workers who have lost jobs find new employment more quickly, and will provide support for training for those who cannot.

Finally, and importantly, the Administration's strategy seeks to improve worker productivity and increase earnings. To this end, the Administration is pursuing policies to increase investment in research and development, to spur private investment in plant and equipment, and to facilitate the spread of modern cooperative employment practices (such as total quality management and quality circles). These initiatives address the general problem of slow wage growth, but growing inequality and real wage declines for the least advantaged are problems that require specific attention. Since growing inequality is due in large part to the growing mismatch between the demand for trained labor and its supply, the Administration aims to provide more and higher quality training so that wages may rise—particularly for the middle-class and the least advantaged. Income inequality has also been directly addressed by an increase in the earned income tax credit.

## **EMPLOYMENT GROWTH**

U.S. employment grew rapidly from 1950 to 1990, with the number of nonfarm jobs increasing on average by over 2.2 percent a year. In contrast, from the end of 1990 to the end of 1992, job growth was virtually nonexistent. During 1993, employment growth improved considerably to an annual rate of 1.8 percent, but job creation remains low compared with past recoveries. As of the fourth quarter of 1993, the U.S. economy had been in recovery for 11 quarters. The unemployment rate fell from its postrecession high of 7.7 percent in June 1992 to 6.4 percent in December 1993. Yet despite these signs of recovery there has been widespread concern about the pace of job growth.

### **A SLOW RECOVERY**

Without question, job growth has been relatively weak since the trough of the recent recession. During the 11 quarters after the

first quarter of 1991, nonfarm payroll employment grew by 2.3 million, an increase of only 2.1 percent. In fact, employment did not begin to rebound until the first quarter of 1992. In previous recoveries employment growth was much stronger. For example, during the first 11 quarters after the recession of 1981–82, nonfarm employment grew by 10.1 percent. In seven previous postwar recoveries, employment increased, on average, by 8.8 percent over the first 11 quarters of recovery and expansion.

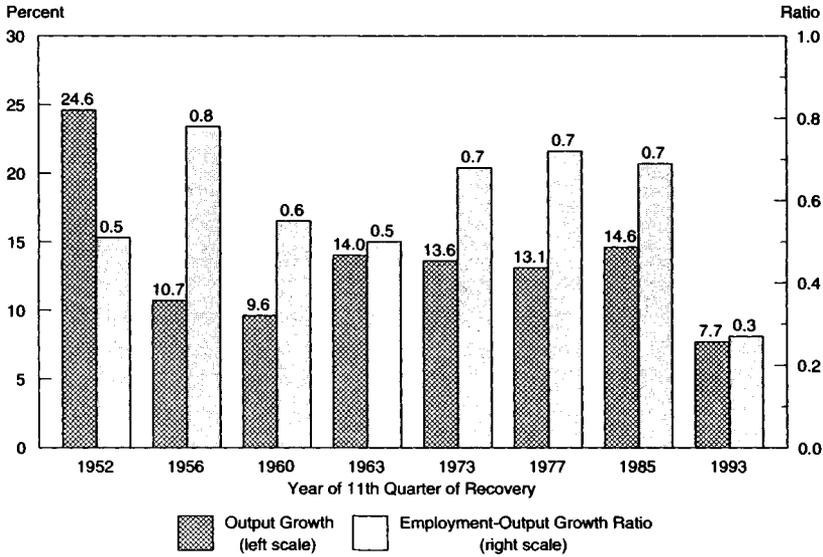
A key difference between the current and past recoveries, however, is the extraordinarily slow pace of output growth. Real gross domestic product (GDP) grew only 7.7 percent during the first 11 quarters of this recovery, compared with an average increase of 14.3 percent during the previous postwar recoveries. Possible reasons for the slow growth of output are discussed in Chapter 2. They include balance sheet adjustments by firms and consumers, cutbacks in defense purchases, slow growth of construction spending, the credit crunch, and slower export growth due to weak economies abroad. Given the slow rate of output growth, it should not be surprising that employment growth has also been slow.

Nevertheless, the current recovery still stands out relative to other recoveries when one compares the ratio of total employment growth to output growth. By the 11th quarter of previous recoveries, that ratio was about 0.62, compared with 0.27 in the current recovery (Chart 3–1). It is comparisons such as this that have led observers to claim that corporate restructuring and rapidly rising productivity have allowed output to grow without commensurate increases in employment. Some critics see deeper forces at work. For example, it has been argued that productivity growth—strongest in the manufacturing sector—is now proceeding at a rapid pace in the service sector as well. Historically, job losses in manufacturing were offset by rapid growth in the service sector, but with strong productivity growth in the service sector this is alleged to be no longer possible.

However, simple comparisons of total labor force growth to total output growth miss an essential point. As output rises during the early stages of a recovery, the ratio of employment growth to output growth is usually low. This is because employers keep more workers on their payrolls than are needed during downturns, and therefore do not hire more workers until their existing work force is fully employed and they are confident of continued growth. Consequently, employment grows slowly, and may even continue to decline, for the first few quarters after GDP begins to recover.

Chart 3–2 compares the *cumulative* growth of employment and output during the most recent recovery with that in previous recoveries. The boxes show how output and employment have grown together historically. The circles show how output and employment

**Chart 3-1 Changes in Output and Payroll Employment in First Eleven Quarters of Recovery**  
 The ratio of employment to output growth is much lower in the current recovery than in the past. Output growth is much slower, too.



Sources: Department of Commerce and Department of Labor.

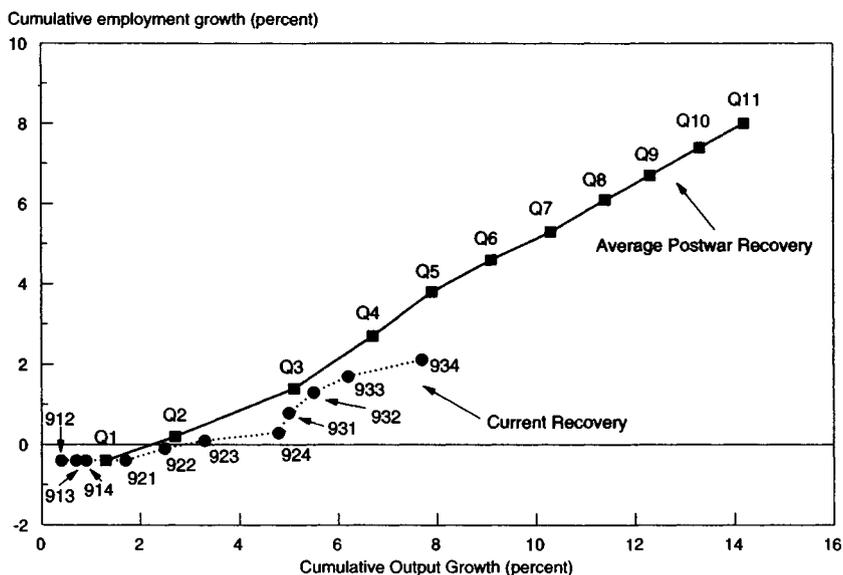
have grown together in the most recent recovery. Although the cumulative growth of output and that of employment have both been extraordinarily slow in this recovery, *the relationship between them is consistent with historical experience*. Using the historical relationship between output and employment growth, one can estimate what employment growth *should have been* during the most recent recovery given output growth. This exercise yields estimates of cumulative employment growth that are larger than actual employment growth during this recovery by as much as 1 percent of total employment. This is a large difference, but not a statistically significant one. In other words, employment growth in the most recent recovery appears to have been at the low end of the range of historical experience, but is nonetheless consistent with it.

A similar conclusion applies to the behavior of manufacturing employment. Analysis of past experience shows that the actual growth of manufacturing employment during the most recent recovery is not statistically different from what would have been predicted based on GDP growth and long-term trends. (Manufacturing employment has been declining as a fraction of the labor force since 1953 and reached its postwar peak in 1979.) This is surprising be-

cause defense cutbacks have caused large job losses in manufacturing in the most recent recovery. Evidently, growth in demand for manufactured goods in other parts of the economy was strong enough to offset the depressing effects of these cutbacks on manufacturing employment.

**Chart 3-2 Employment and Output in Recoveries**

Employment growth in the recent recovery is in line with past experience given the slow growth of output.



Note: Recoveries are dated from the quarter of minimum real GDP.  
Sources: Department of Commerce and Department of Labor.

## SOURCES OF JOB GROWTH

Although much has been written about the sources of job growth, it is hard to get an accurate picture from the pastiche of popular accounts. Are new jobs good jobs or bad jobs? What does the future hold?

### *Industry and Occupation*

The service sector—defined to include personal and business services but exclude trade and finance—was the economy’s job engine in 1993. Although these industries account for less than 30 percent of total employment, they were responsible for more than 60 percent of total job growth in that year. Many of these jobs—about 350,000—were created in the personnel supply industry (mainly temporary agencies), which represented almost 20 percent of total payroll job growth. Other sectors registering strong job cre-

ation over 1993 included retail trade (more than 400,000 jobs) and construction (about 200,000 jobs). In contrast, manufacturing employment declined by about 180,000 during the year.

These sectoral patterns are not new, however. Since January 1983, service sector employment has grown by 11.5 million and has accounted for 52 percent of total nonfarm job growth. And, jobs in retail trade have accounted for an additional 21 percent of all jobs created over this period. Since January 1983, construction employment has risen by 785,000, but manufacturing payrolls have shrunk by 325,000.

A common misconception identifies manufacturing jobs as "good jobs" and service jobs as "bad jobs." However, growth in high-end services such as various kinds of business services have led to increased demand for high-level white-collar workers. During 1993, 48 percent of the increase in employment occurred in the managerial and professional occupations. The large increases in these relatively well-paying occupations belie the criticism that most employment growth has been in "bad jobs."

The recent occupational pattern of employment growth is largely in line with the experience of the last 10 years, during which managerial and professional jobs accounted for 49 percent of new employment. Both over the last year and over the last decade, new employment has shifted toward better paying jobs requiring more skills and education, not toward low-paid, low-skilled jobs.

### *Outlook for the Future*

One of the major goals of this Administration is to increase employment by at least 8 million jobs in 4 years. Progress toward this goal has been moderate but steady. Between January and December 1993, nonfarm payroll employment grew by 1.8 million jobs, and the number of unemployed fell by 809,000, lowering the unemployment rate from 7.1 percent to 6.4 percent. With a higher growth rate of output expected next year, the pace of job creation should accelerate.

The Bureau of Labor Statistics (BLS) projects employment to grow between 1.1 and 1.9 percent per year through 2005. Most of this growth is expected in service-producing industries, which the BLS expects will add between 1.4 million and 2.1 million jobs per year. Employment in manufacturing is expected to fall or to rise only modestly, with losses or gains of fewer than 160,000 workers per year. Many new jobs (about 500,000 a year) will be in service occupations such as food service workers and home health aides, but even more will be in the comparatively higher-paying managerial, professional, and technical occupations (about 825,000 a year).

## UNEMPLOYMENT AND NONEMPLOYMENT

The United States has a history of strong job growth, and the outlook for job creation over the next decade is good. But how many new jobs are enough? The best indicator of how well we are doing is how many of the people who want jobs are able to get them. The unemployment rate is one measure of this. The unemployed are defined as people who are not working but are either waiting to return to a job or looking for a new one. If jobs are sufficiently difficult to find, however, some people may give up looking. Then they are counted not as unemployed but as “discouraged workers.” Thus, both unemployment rates and the employment-to-population ratio need to be examined to determine if the economy is providing enough jobs.

### TRENDS

The National Bureau of Economic Research, the private organization that dates the beginning and endpoints of U.S. business cycles, fixed the trough of the 1990–91 recession at March 1991. Yet unemployment did not reach its peak of 7.7 percent until June 1992. Since then the unemployment rate has fallen steadily to 6.4 percent in December 1993. (In January 1994 the BLS began measuring unemployment in a new way: Box 3–1 describes the changes). This represents a considerable improvement, but the economy has a way to go before unemployment reaches normal levels. Unemployment was below 6.4 percent from April 1987 to January 1991, and from February 1978 to March 1980. After World War II and prior to 1974, unemployment topped 6.4 percent for only three brief periods, each of less than a year.

Chart 3–3 shows the time path for unemployment since 1948. Besides the ups and downs that correspond to business cycles, the outstanding feature is the apparent ratcheting up in the level of unemployment in the 1970s. Since the early 1970s, unemployment has never returned to the levels typical of recoveries in the 1950s and 1960s, and has peaked at much higher rates. It is widely believed that this long-term increase in unemployment is at least in part due to an increase in the minimum level to which unemployment can be reduced without causing increasing inflation—the so-called natural rate of unemployment. The natural rate in turn is thought to depend on labor market frictions, and skill and geographic mismatches, between labor supply and labor demand.

There have also been changes in the incidence of long-term unemployment. As of December 1993, 1.7 million workers, comprising 21.0 percent of the unemployed, had been unemployed for 27 weeks or longer. This is a reduction from September 1992, when the number of long-term unemployed reached 2.1 million and comprised

### **Box 3-1.—The New Current Population Survey**

The Current Population Survey (CPS), a national survey of 60,000 U.S. households, provides a monthly picture of the Nation's labor force, employment, and the unemployment rate. Beginning in January 1994, that picture is being taken through a new lens. For the first time since 1967, the CPS has undergone a major redesign. Changes in the patterns of employment by industry, the increased labor force participation of women, and several other factors have made the pre-1994 survey less accurate as a guide to the Nation's work force. The new survey includes new and revised questions that reflect these changes and incorporates new procedures (including the use of portable computers to conduct the survey rather than pencil and paper) designed to lead to more-accurate and consistent responses.

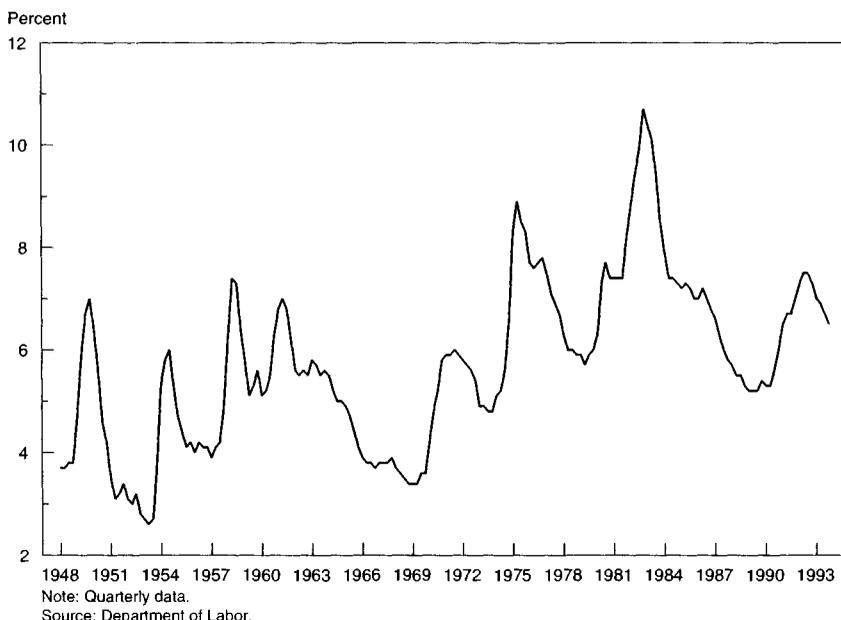
Between July 1992 and December 1993, a pilot version of the new survey was conducted in parallel with the old CPS to determine the effects of the new questions and data collection procedures. Results of the parallel survey indicate significantly different estimates for key statistics, including the unemployment rate. Specifically, the unemployment rate as measured by the parallel survey averaged a half a percentage point higher than the estimates from the old CPS. In addition, the use of new population weights increased the measured unemployment rate another 0.1 percentage point. The unemployment rate is expected to rise for all demographic groups, but particularly for women, since the old CPS questionnaire may have tended to classify women who were unemployed as out of the labor force.

The new survey is expected to produce several other changes as well. For example, measured labor force participation rates and employment-to-population ratios are expected to rise for women and fall for men. Changes in the questions defining discouraged workers and people working part-time for economic reasons are expected to lead to a decline in numbers of discouraged workers of 60 percent and part-time workers for economic reasons of 20 to 25 percent.

21.7 percent of all unemployed workers. There is still a sense, however, that long-term unemployment is unusually high today. The peak share of long-term unemployed workers during the current recovery was higher than during most previous postwar recoveries (Chart 3-4). In addition, the share of long-term unemployment is high given the overall unemployment rate (Chart 3-5).

**Chart 3-3 Civilian Unemployment Rate**

Unemployment rate peaks and troughs have been higher since 1973.



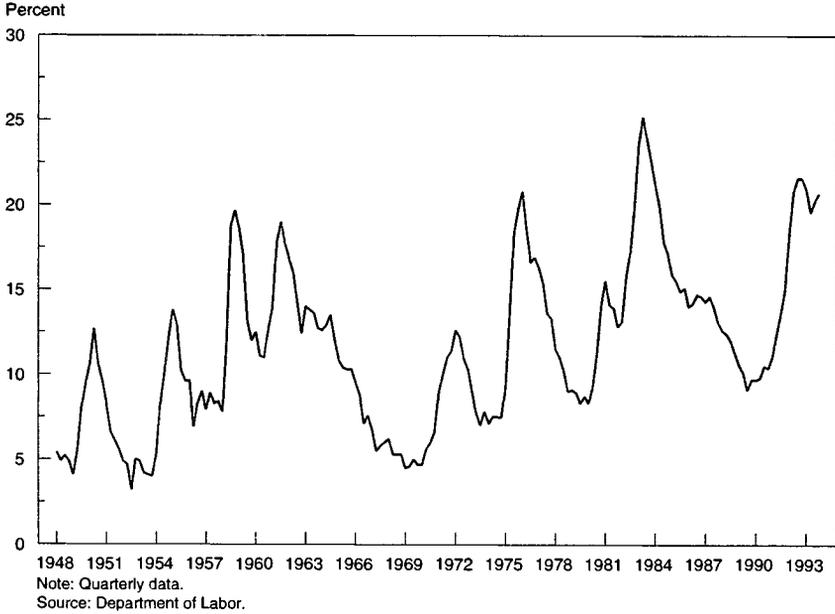
While average unemployment rates have risen, they have risen more for some groups than for others. The unemployment rate for women, which used to be consistently above the unemployment rate for men, is somewhat lower (6.2 percent for women, 6.5 percent for men in December 1993). In contrast, the black unemployment rate has risen more than the white unemployment rate (1.5 percentage points for whites between 1970 and 1993, and 3.5 percentage points for blacks and others).

Employment-to-population ratios show some of the same patterns of relative distress for different groups. While black women had a higher employment ratio than white women in the 1970s, the reverse is now true (Chart 3-6). Both black and white men have had falling employment-to-population ratios since the early 1970s; but the decline for black men has been larger than for white men (10 percentage points for black men from 1972 to 1993; 6 percentage points for white men).

The unemployment rate for teenage workers (aged 16 to 19 years) has always been higher than the rate for all workers, and the current situation is no exception. While the unemployment rate for all workers during 1993 averaged 6.8 percent, the rate for teen-

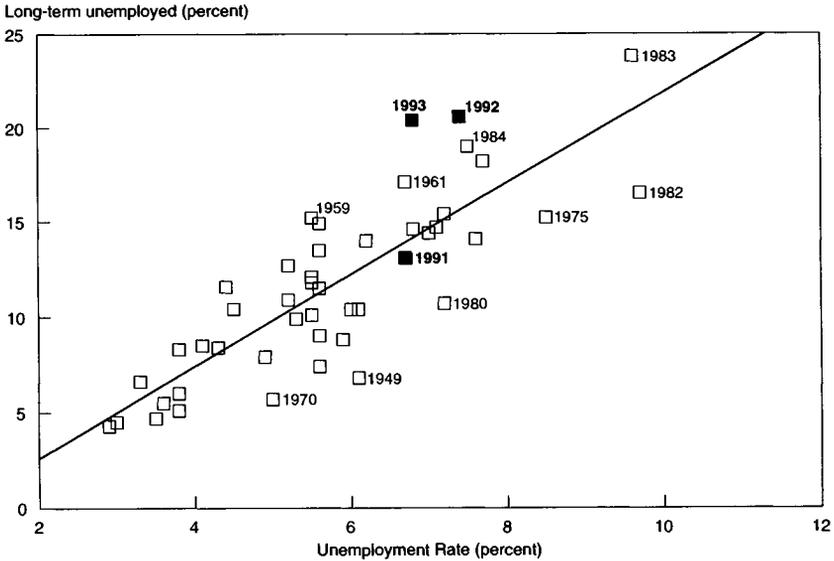
**Chart 3-4 Long-Term Unemployment as Share of Total Unemployment**

The share of the unemployed who have been out of work 27 weeks or more approached historical highs in the last downturn.



**Chart 3-5 Long-Term Unemployment and the Unemployment Rate**

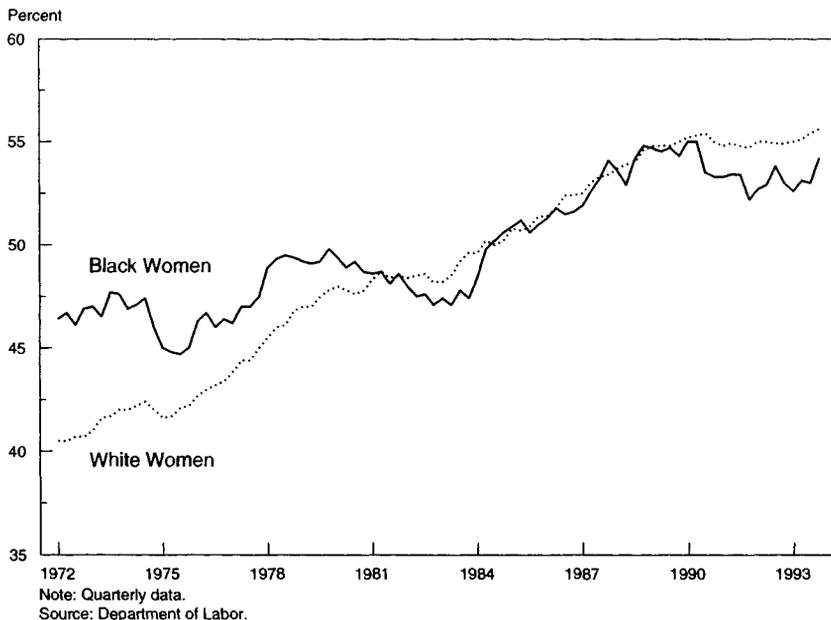
The share of long-term unemployment in total unemployment has been high recently, given the unemployment rate.



Source: Department of Labor.

Chart 3-6 **Employment-to-Population Ratios of Women**

The employment rate of black women fell below that of white women in the last recession.

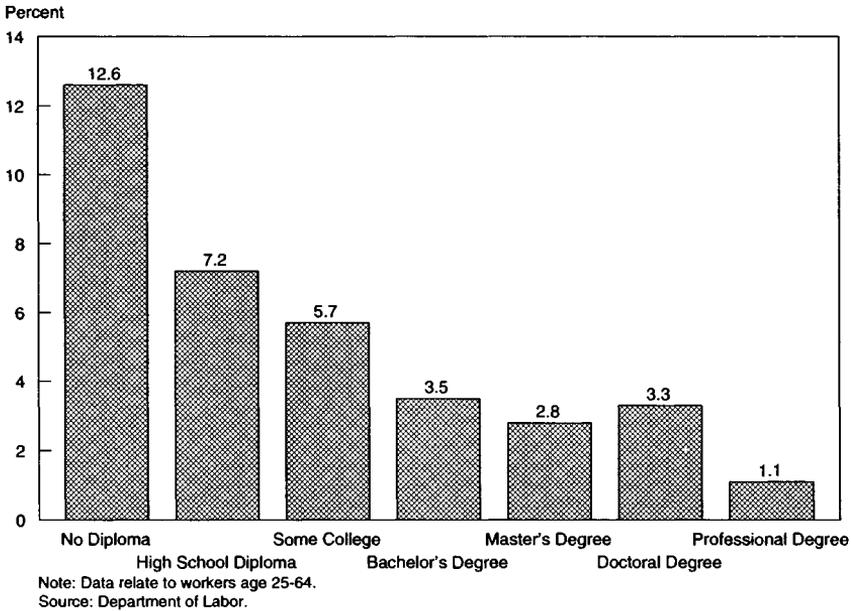


agers was nearly three times as high at 19 percent. Teenage unemployment rates were 17.6 percent and 14.6 percent for white males and females, respectively. The unemployment rates for black teenage workers were more than twice as high at 40.1 percent for males and 37.5 percent for females. Over the last 20 years, the teenage unemployment rate rose along with the overall unemployment rate. Unemployment rates also differ by education. Chart 3-7 compares the unemployment rates of those without a high school diploma, high school graduates, those with some college, college graduates, and those with advanced degrees.

According to popular accounts, another distinguishing feature of recent labor market developments is the "white-collar recession." That expression implies that the recent unemployment experience of white-collar workers relative to that of blue-collar workers has been significantly worse than in past recessions.

In fact, as in the past, the unemployment rate among white-collar workers has been significantly below that of blue-collar workers in the most recent recession and recovery (3.2 percent versus 9.9 percent in 1992). However, the white-collar unemployment rate *relative* to the blue-collar rate has been rising (Chart 3-8). The ratio

**Chart 3-7 Unemployment Rates by Educational Attainment, March 1993**  
 Unemployment is generally lower for more-educated workers.

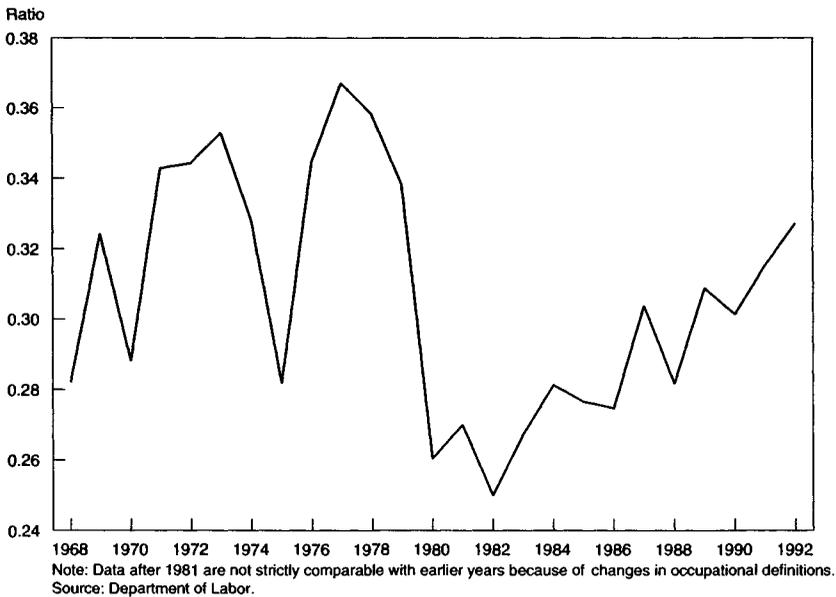


of the two rates in 1992 was 0.33, the highest since 1979. The ratio of the *number* of unemployed white-collar workers to the number of unemployed blue-collar workers has been rising since 1982, the first year for which we have consistent occupational estimates. By 1992, the ratio of the number of white-collar unemployed to that of blue-collar unemployed was about one-third, compared with only one-fifth in 1983. This happened both because the *ratio* of the white-collar to the blue-collar unemployment rate has increased, as already noted, and because white-collar workers now make up a larger fraction of the work force than they did before.

Just as the rate of overall employment growth is not out of line with past experience given output growth, the level of unemployment in the most recent recession is within the bounds of what we would expect given GDP growth. Further, as already noted, unemployment has fallen by 1.3 percentage points from its June 1992 peak, with nearly a percentage point of the drop coming in 1993. However, three concerns are raised by trends and recent experience.

The first problem is increasing disparities between black and white rates of both employment and unemployment. These changes

**Chart 3-8 Ratio of White-Collar to Blue-Collar Unemployment Rates**  
 The ratio of white-collar to blue-collar unemployment rates has been rising but is still below historical highs.



are linked to equally disturbing changes in the distribution of income and job security, discussed later in this chapter. The second concern is the long-term increase in the average level of unemployment. The third concern is that recent high levels of long-term unemployment suggest that we may be seeing an increase in the share of unemployment caused by mismatches between workers' skills and job demands. If this is the case, it is argued, it may be difficult to lower the unemployment rate much further without causing labor market bottlenecks. As we will see below, little evidence can be found that skill mismatches have contributed much to recent increases in unemployment, but they do seem to have been a major cause of growing income inequality.

### IS THE NATURAL RATE OF UNEMPLOYMENT INCREASING?

How would we know if there had been an increase in what economists call the natural rate of unemployment? A sustained increase in long-term unemployment might be one indication, an increase in the number of people who have given up looking for work might be another, and an increase in the fraction of job losers among the

unemployed yet another. These are all indirect indicators of an increase in the natural rate of unemployment. The problem is that these indicators also respond to cyclical conditions—they increase when the economy is in recession, and they can be slow to decline, or may even increase, in periods of slow recovery.

Not surprisingly, therefore, concerns that mismatch unemployment is increasing are likely to develop in recessionary times. Less skilled workers are more likely to find themselves unemployed than better skilled workers. During recessions, labor market slack makes it easier for employers to find better qualified employees, allowing them to raise job qualifications without raising compensation. Thus recessions may create the appearance of increasing mismatch unemployment. Once a recovery is under way, however, more jobs of all types are created, and the unemployment rate for the less skilled usually declines. Thus indirect indicators of increasing skill mismatch are not enough to determine whether the natural rate is increasing. We must consider additional evidence.

If most new jobs require skills that many workers do not have, they might experience lengthening periods of unemployment as they wait for jobs appropriate to their skills to become available. On the other hand, the available statistical evidence does not rule out the possibility that relatively slow output growth since the recession trough in 1991 is the major reason why recent levels of long-term unemployment have been so high. Since high levels of overall unemployment have persisted for so long, the number of people looking for work for a long period of time has also increased. A statistical analysis relating the percentage change in the number of workers unemployed for 27 weeks or more to the percentage change in output indicates that the behavior of long-term unemployment in the most recent period of recession and recovery is not statistically different from that during previous recession-recovery cycles. Although the recent behavior of long-term unemployment may not be different, it is worth noting that the average number of long-term unemployed increased substantially during the 1970s and has remained high since then.

Another possible indicator of worsening mismatch unemployment is the number of discouraged workers. Because they have given up looking for work, they are not counted as unemployed. Yet large increases in the number of discouraged workers might be taken as indirect evidence that many people are having a very difficult time finding jobs. Again, however, the slow speed of the recovery could also explain such an increase. Although the number of discouraged workers is up, reaching 1.1 million in the fourth quarter of 1993 compared with fewer than 800,000 in the first quarter of 1990, the percentage increase in the number of discouraged workers is less

than would be expected given its historical relationship with output growth.

In summary, after taking into account the effects of slow output growth, neither recent high levels of long-term unemployment nor recent increases in the number of discouraged workers suggest that there has been an abrupt worsening of mismatch unemployment or an abrupt increase in the natural rate of unemployment in the most recent period of recession and recovery.

A third indirect indicator of a changing natural rate of unemployment is the share of permanent job losers in total unemployment. If unemployment is truly cyclical, firms lay off workers for a while, but recall them when conditions improve. However, if mismatch is increasing, one might expect to see more permanent job losers among the unemployed rather than individuals on temporary lay-off. Indeed, the share of permanent job losers among the unemployed hit an all-time high of 43.9 percent in the second quarter of 1992, and has fallen only slightly since then. However, this number must be interpreted with caution. Despite the image of cyclical unemployment as due to temporary layoffs, the fact is that the share of permanent job losers among the unemployed rises in every recession. Recessions bring not only temporary interruptions in employment due to slack demand, but also business failures and forced restructurings that cause permanent job loss at a higher rate than during normal times.

A statistical analysis relating the number of permanent job losers to output growth indicates that the relatively large number of permanent job losers in the most recent period of recession and recovery can be explained by relatively slow output growth. Thus there is little evidence of any recent increase in the natural rate of unemployment in this relationship, either. The predictions of this analysis for earlier periods do suggest that there was an abrupt increase in the number of unemployed permanent job losers in the early to mid-1970s, compared with what would have been expected given business conditions. This is consistent with other data which suggest an increase in the natural rate around that time.

## DIRECT MEASURES OF THE NATURAL RATE

Traditionally, economists have used two methods to identify the natural rate, and two additional methods for evaluating how it might be changing. The simplest way to identify the natural rate is to look back and see at what unemployment rate the last acceleration of inflation began. Alternatively, a statistical model of inflation that embodies the assumption of a natural rate (an accelerationist "Phillips curve") can be used to estimate the natural rate.

Changes in the natural rate have been identified in two ways. Since different demographic groups have different unemployment rates, it has become a common procedure to assume that the natural rate changes whenever the composition of the work force changes. More recently, several authors have looked at the relation between unemployment and proxies for job vacancies. If increases in the natural rate are caused by an increasing mismatch of workers and jobs, then the job vacancy rate should be rising along with the unemployment rate.

All these approaches have serious shortcomings. Many factors other than the tightness of the labor market influence the rate of wage and price inflation. Taxes, raw material prices, exchange rates, expectations, and a host of other factors all come into play. Thus, determining the natural rate by looking back to see what the unemployment rate was the last time inflation picked up works only if inflation was caused by labor market tightness.

Some economists argue, however, that the principal causes of inflation since the early 1970s have been factors other than tightness in the labor market—for example, oil and other commodity price increases in the 1970s and the falling value of the dollar in the late 1980s. If this is true, estimating the natural rate by estimating models of inflation is a misleading exercise unless all causes of inflation besides tightness in the labor market are adequately controlled for. Moreover, even estimates of the natural rate obtained in this manner may be very sensitive to assumptions about the form of the Phillips curve relation. Without direct evidence of a rapidly increasing rate of inflation below a particular unemployment rate, estimates of a changing natural rate from statistical models of inflation are suspect at best.

Determining how the natural rate has changed by looking at demographic changes also poses problems. In the 1970s, the apparent increase in the natural rate was attributed in large part to increasing labor force participation of women and teenagers—both of whom had higher than average unemployment rates at the time. However, as women have changed their attachment to the labor force, their unemployment experience has also changed. In the recent past, women have had a lower unemployment rate than men. Should we therefore believe that the increased labor force participation of women has tended to decrease the natural rate below what it was prior to the surge in their participation? The share of teenagers in the labor force has also fallen in the last decade, and this too should have reduced the natural rate.

Further, why focus on these particular demographic changes to the exclusion of others? Black male labor force participation rates have been falling over the last two decades. Since black men have higher unemployment rates than white men, should we conclude

that the natural rate is falling? More important, people with college educations have a much lower rate of unemployment than those with less education, and their share of the labor force has increased considerably over the last two decades. Again, this would suggest that the natural rate should be lower today than in 1970, before the ratcheting up of the unemployment rate.

Finally, although the U.S. Government does not collect the data on job vacancies that would allow us to examine directly whether there is an increasing mismatch of jobs and workers, the Conference Board does publish an index of help-wanted advertising. The relationship between this index and the unemployment rate has changed over time, but there is no evidence of any increase in the level of help-wanted advertising, given the unemployment rate, in the last decade. There is, however, a higher level of help-wanted advertising at all levels of unemployment since the early 1970s.

The increase in help-wanted advertising could be interpreted as evidence of an increase in mismatch unemployment, but many other things affect the level of help-wanted advertising. Different types of employers advertise in different ways for different types of jobs. Changes in the industrial and occupational mix of employment make an advertising index a questionable measure of long-term changes in job vacancies. Changes in advertising prices, the structure of media markets, and legal requirements for advertising certain jobs also change the relationship between vacancies and advertising in ways that call into question the meaning of any long-term changes.

Altogether, the various pieces of statistical evidence examined in the preceding discussion suggest that the increase in the unemployment rate since 1989 has been largely cyclical in nature. There is some evidence of an increase in the natural rate—possibly due to an increase in mismatch unemployment—in the early 1970s, but little evidence of any increase since then. The evidence also suggests that today's unemployment rate exceeds the natural rate by a significant amount. Therefore, wage-push price inflation is unlikely to be a factor constraining economic growth in the near future.

## THE MAGNITUDE AND COSTS OF JOB LOSS

The U.S. economy is constantly in flux, and while there is no evidence that the rate of churning in the labor market has increased in recent years (see the discussion of job stability below), normal rates of structural adjustment are quite high and impose significant costs.

Estimates of the number of jobs created and destroyed each year in the United States are staggering. Data from various sources suggest that on average more than 10 percent of all jobs disappear

every year, while even more new jobs are created. Luckily, not every job that is lost forces someone to become unemployed. Companies reducing the size of their operations can often do so using normal attrition—quits and retirements. When they cannot, workers given advance notice of an imminent layoff can sometimes find work before they lose their old job, allowing a seamless transition with no unemployment. But for the many workers who do not make such easy transitions, the costs of dislocation can be high.

Between 1981 and 1990, about 2 million full-time workers per year lost their jobs. These workers spent an average of nearly 30 weeks unemployed, and of those who found new employment, about a third suffered earnings losses of more than 20 percent.

Wage losses were most severe for those who had been with their employers the longest. For example, those with 10 or more years of tenure on their previous job were nearly four times as likely to see their earnings fall by 20 percent as to see them rise by 20 percent in their new jobs. They were also less likely than other displaced workers to find new employment at all. One set of surveys asking about job loss found that 73 percent of all job losers had obtained new jobs, but only 65 percent of those with 10 or more years of job tenure had found new work.

The special problems of workers with long job tenure are understandable. Those who work for the same employer for a long time build up skills that are most valuable to that employer. Further, many employers reward long job tenure with higher wages as a way of motivating employees and ensuring their loyalty. The loss of a job when one has obtained the privileges of long tenure can be particularly devastating.

## **SLOWING WAGE GROWTH AND WIDENING INEQUALITY**

In the last two decades, family income growth has stagnated and incomes have become more unequally distributed. In fact, the real incomes of the bottom 60 percent of American families were lower in the early 1990s than for the analogous families at the end of the 1970s. Underlying the rising disparity in the fortunes of American families has been a rise in labor market inequality that has shifted wage and employment opportunities in favor of the more educated and the more experienced. Less educated workers suffered substantial losses in real earnings during the 1980s. Here we consider the dimensions, and some likely causes, of slow income growth and widening inequality.

## SLOW INCOME GROWTH

Income trends have been discouraging for about two decades—the median family today has virtually the same real income as the median family 20 years ago. This stagnation is a marked departure from the substantial income growth that occurred over previous generations.

From 1947 to 1973 the real income of the median American family increased by a robust 2.8 percent a year, more than doubling. In contrast, from 1973 to 1992 the income of the typical American family was essentially stagnant, rising by only 0.1 percent a year after adjusting for inflation. (The trend from 1979 to 1989—roughly equivalent years in the economic cycle—is similar.) At the pace of income growth from 1973 to 1992, it would take centuries for real median family income to double.

Although the labor force participation decisions of women and changes in the composition of families have affected family income, the major trends in family income are dominated by trends in real wages. Chart 3-9 shows the changes in wages and total hourly compensation, adjusted for inflation, since 1948. Both wages and compensation suffered abrupt slowdowns in growth rates around 1973.

## GROWING INEQUALITY

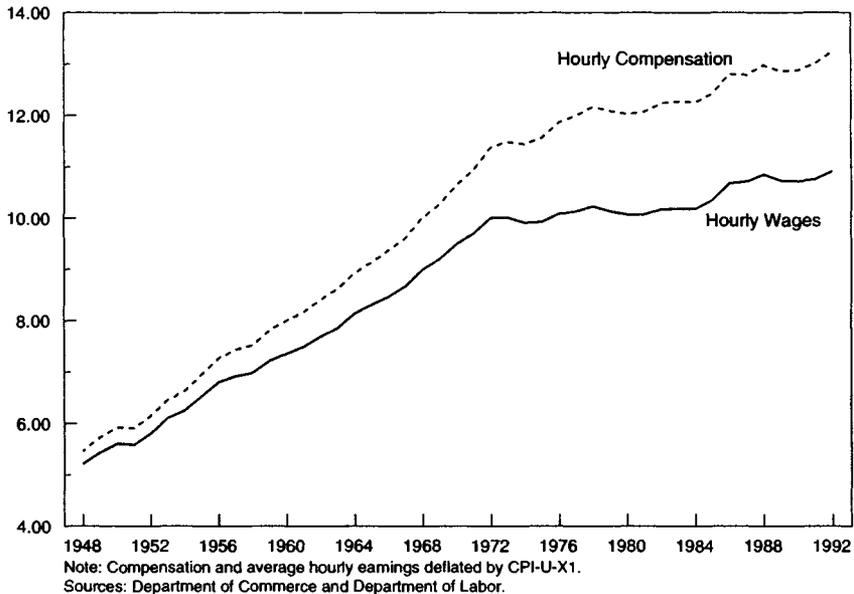
Families have been affected unevenly by recent income trends. Real incomes at the top have increased smartly, real incomes at the middle have essentially stagnated, and real incomes at the bottom have fallen. Box 3-2 discusses the implications of these developments for employment and unemployment.

From 1973 to 1992, the average real income of the upper 20 percent of families rose 19 percent, or about 1 percent per year. This is well below the rate for the 1950s and 1960s, but far better than for the rest of the population. Between 1973 and 1992, the average income of the middle 20 percent of families rose a paltry 4 percent in real terms. Lower income families fared even worse. Among the bottom 20 percent of families, mean real income fell by 12 percent from 1973 to 1992. Chart 3-10 shows the growth of mean family incomes for different income groups over the periods before and after 1973. It makes clear just how abrupt the changes in the distribution of income growth have been. A trend toward greater equality in the 1960s and toward greater inequality in the 1970s and 1980s is apparent in both income and consumption measures of economic well-being. Rising inequality of family incomes during the 1980s is apparent in both pretax and posttax income measures.

### Chart 3-9 Real Hourly Compensation and Wages

The growth of real compensation per hour and of real hourly wages has declined since 1973.

1982-84 dollars



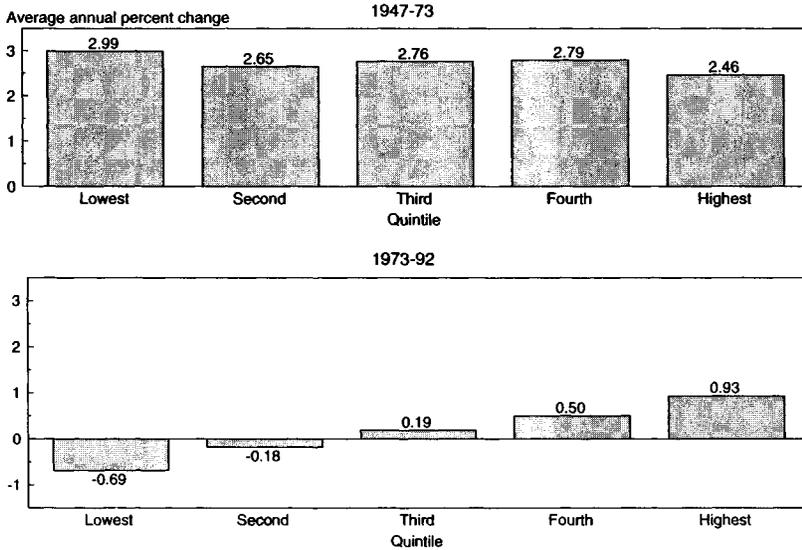
#### Box 3-2.—Growing Inequality of Employment and Unemployment

The falling relative wages of those with less experience and schooling may explain, at least in part, some of the observed changes in employment-to-population ratios for certain demographic groups. The black and teenage populations tend to have less schooling than the average for all Americans. Consequently, the wages they command have fallen, making work less attractive. To the extent that the shift in demand away from less-educated workers is manifest in fewer available jobs instead of lower wages, these groups face higher unemployment rates as well.

### EXPLAINING SLOW WAGE GROWTH

Stagnant wages and slow total compensation growth since the early 1970s largely reflect a substantial slowdown in productivity growth. From 1947 to 1973 productivity rose at a compound annual rate of 3.1 percent, and inflation-adjusted compensation per hour

**Chart 3-10 Average Annual Growth of Mean Family Income by Income Quintile**  
 Family incomes in all income groups grew more or less evenly, but slightly faster for lower income groups, before 1973.



Source: Department of Commerce.

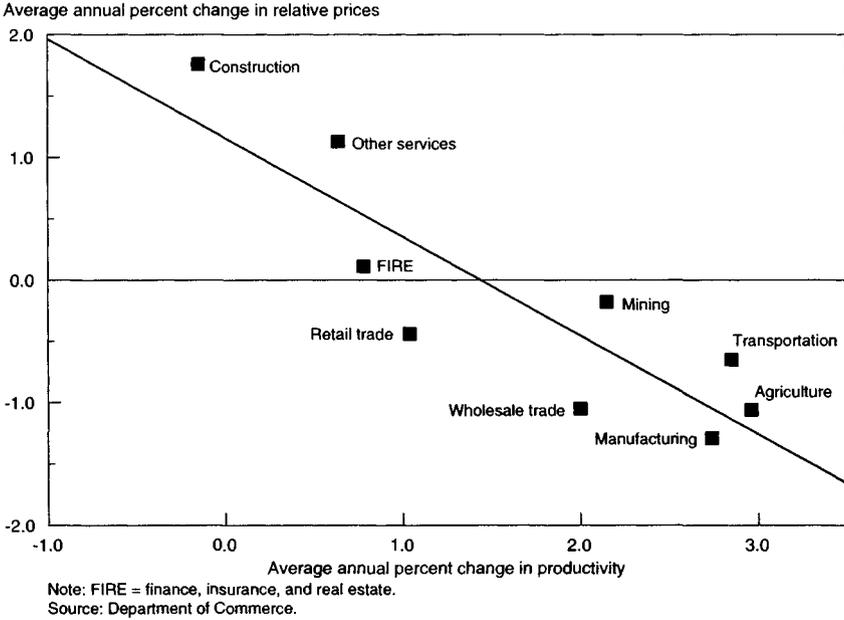
grew at a similar rate. From 1973 to 1979 the rate of productivity growth fell to an average of 0.8 percent a year, and compensation growth fell with it. Since 1979 the productivity growth rate has picked up only slightly, averaging 1.2 percent on an annual basis. Chart 3-11 shows the close relation between productivity and real compensation. Boxes 3-3 and 3-4 discuss some of the other effects of productivity growth.

The productivity slowdown has been intensely studied. Many partial explanations have been given, but no complete accounting has been made.

### EXPLAINING THE GROWTH OF INEQUALITY

Several factors have contributed to widening inequality. One major factor is increasing returns to education and experience. The college-high school wage premium increased by over 100 percent for workers aged 25 to 34 between 1974 and 1992, while increasing 20 percent for all workers 18 years old and over (Chart 1-8). In addition, among workers without college degrees, the average wages of older workers increased relative to those of younger workers. Since the relative supply of educated workers has increased at the

Chart 3-11 **Productivity Growth and Price Reductions, 1950-90**  
 Productivity growth in an industry leads to lower relative prices.



same time that wage disparities have grown, the demand for educated workers must have increased faster than their supply. Some have suggested that increasing trade has undermined demand for less educated workers in the United States, since they are plentiful elsewhere in the world. So far, however, several studies have been unable to discern any substantial impact of trade on wage inequality, however. If increased trade were the cause of growing wage inequality, the relative prices of goods that use highly educated labor would be rising relative to those of goods that use less highly educated labor. But studies have found no evidence of such a change in relative prices. Similarly, if increased trade were responsible for increased wage inequality, the growth of wage differentials would lead firms in all sectors to substitute less educated labor for more educated labor. Instead, studies find that virtually all manufacturing industries have increased their relative use of educated labor despite growing wage differentials. Rising wage differentials with greater use of educated labor suggest that demand for skilled labor has been rising broadly in the economy. Thus it appears that most of the demand shift toward highly educated workers must have originated domestically.

### **Box 3-3.—Consequences of Productivity Growth**

Rising productivity has been shown to have a variety of beneficial effects:

- *The prices of goods produced by industries that have had rapid productivity growth have fallen relative to those of goods from industries with slower productivity growth.* Chart 3-11 shows average productivity growth and price changes by industry for the 1950-90 period.
- *Periods of rapid productivity growth have been accompanied by increases in real wages.* The prices of products in industries experiencing productivity growth also decline relative to wages. This decline in product prices means that real wages tend to rise during periods of rapid productivity growth.
- *Periods of rapid productivity growth have also been periods of low inflation.* Productivity growth allows nominal wages to increase without putting pressure on prices.
- *Periods of rapid productivity growth have not been associated with large increases in unemployment.* In periods when productivity growth was more rapid, such as the 1960s, unemployment rates have tended to be low. In contrast, periods with slow rates of productivity growth, such as the 1970s, have been periods of relatively high unemployment.

Since the use of more-educated labor has increased in all industries, a logical explanation of this trend is technical change. For example, one study shows that people who work with personal computers earn a substantial wage premium over those who do not, and that this can account for half of the increasing gap between the wages of college and high school graduates.

Although changes in labor demand induced by changes in the composition of trade do not appear to explain much of the increase in income inequality, the internationalization of the U.S. economy may affect wages in other ways. For example, the threat of increased import competition or of the relocation of a factory to another country may undermine worker bargaining power or cause a decline in the number of workers employed in unionized firms. At this time, no reliable studies have properly quantified how important such effects have been. In addition, there is no guarantee that the future will resemble the past. Trade could become a more important factor in bringing down the wages of less educated workers in the future. On the other hand, technical change could move in

**Box 3-4.—Why Productivity Growth Does Not Cause Unemployment**

Productivity growth need not cause an increase in unemployment because, as productivity rises, more goods can be produced with the same number of workers. This means a cost saving, which must result in either increased profits, increased wages, or lower prices. If profits or wages increase, those benefiting from the increase will increase their spending. If prices fall, consumers' incomes will go further and they will buy more. In any case, the increased spending will lead to the purchase of more goods and services, which will create new jobs offsetting losses from the productivity increase. If the new jobs created are not equal in number to the jobs lost, there will be a tendency for wages to change to equate supply and demand for labor. Nonetheless, in the short run some workers are likely to have to change jobs. As the discussion of the costs of job loss makes clear, this can be a traumatic experience for the established worker.

the direction of economizing on educated labor and making better use of less educated labor.

In addition to rapidly increasing demand for educated labor, two institutional factors seem to have contributed to rising wage inequality: the decline of unions and the erosion of the minimum wage by inflation. In the early 1970s, 27 percent of the work force were union members. By 1990 that fraction had declined to 16 percent, and it has probably fallen further since. Several studies conclude that this decline can account for about 20 percent of the increase in wage inequality.

In 1970 the minimum wage was 50 percent of the average hourly wage of private production and nonsupervisory workers. By 1992 it had fallen to 40 percent of the average. This erosion of the minimum wage has allowed a substantial fattening of the lower tail of the wage distribution and contributed to increasing wage inequality. The effect of the minimum wage on the distribution of income is less obvious, since it is possible that the decline in the inflation-adjusted minimum wage may have caused an increase in employment of low-wage workers.

Immigration has increased the relative supply of less educated labor and appears to have contributed to the increasing inequality of income, but the effect has been small. A study of the effects of immigration between 1980 and 1988 found that it explains less than 1 percent of the change in the college-high school wage differential. Although immigration flows were considerably larger in the late 1980s than the early 1980s, this study makes it seem un-

likely that immigration could explain more than a few percent of the total change in this differential.

## JOB QUALITY

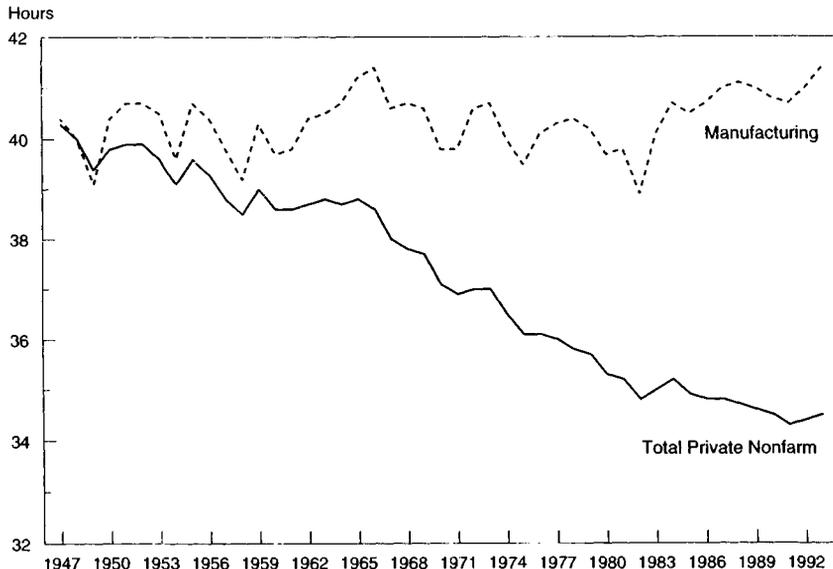
The Administration is concerned about increasing the quality as well as the quantity of jobs in the American economy. Job quality encompasses a number of factors beyond wage levels—including job security, employer-provided benefits such as pensions and health insurance, and hours of employment.

## HOURS OF WORK

Average weekly hours in manufacturing were consistently higher through December 1993 than during most previous recoveries since 1958 (excluding the short recovery in 1980–81), and they reached a post-World War II high of 41.7 hours per week in November 1993. This was slightly above the previous peak of 41.6 hours per week reached in February 1966 (Chart 3–12). Factory overtime hours also reached a record in November at 4.4 hours per week, the highest level since the data series began in 1956.

Chart 3-12 **Average Weekly Hours of Production and Nonsupervisory Workers**

Average weekly hours in manufacturing are at a postwar high, while average hours for all industries show a long-term decline.



Source: Department of Labor.

In contrast, over the past half-century, average weekly hours worked by production and nonsupervisory employees on nonfarm private payrolls have declined significantly from 40.3 hours per week in 1947 to 34.5 hours per week in 1993. The patterns of average weekly hours of all private sector workers and those in manufacturing have diverged over the last 50 years.

In keeping with their long-term trend, average weekly hours of all private nonfarm workers have been lower since the trough of the last recession than during comparable periods following the three previous recessions after 1970. Average hours typically rise during recoveries, as employers respond to rising demand by using their existing work forces more intensively before they begin significant hiring of new employees. The increase in average hours since the 1991 recession trough has generally been in line with previous recoveries since 1970—although in recent months the increase in hours has been higher than in recent recoveries.

Popular accounts have suggested that Americans are working more. How can this be if hours worked on the average job are declining? The answer is that women's labor force participation is up, so that average hours of paid work *per person* are up. How do workers feel about their hours of work? Most studies find that, on average, people would like to work more hours if they were paid their hourly rate for the additional hours.

## JOB STABILITY

The slow pace of job creation and the relatively high unemployment rate in the current recovery, along with continuing corporate downsizing and increased use of part-time and temporary workers, have led to the perception that employment is becoming less stable than in the past. The fear is that a decline in permanent employment will lead to a largely "contingent" work force, meaning that there will no longer be an understanding between worker and employer that a job will last for a long time. Is the current sense of less stable employment the result of the recent recession, or are long-term forces at work?

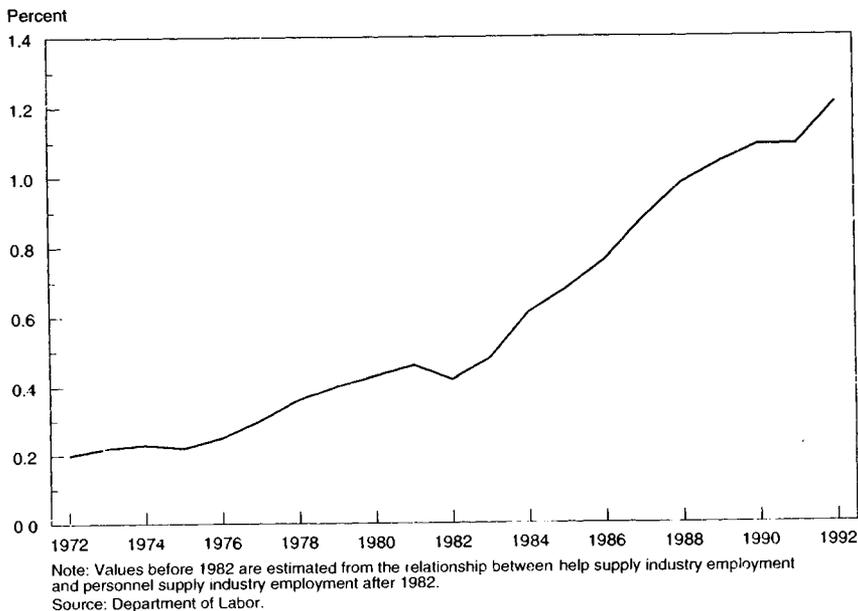
There are several different approaches to measuring the stability of employment. To some extent, growth of the contingent work force can be measured directly. We can also look at how likely individuals are to stay with an employer, at the dynamics of firm size, and at changes in the industrial composition of employment.

No official statistics are kept on the number of workers employed on a contingent basis. One study that examined employment practices at a number of large firms in 1985 found that slightly less than 1.5 percent of the labor they used was explicitly hired on a temporary basis.

We do, however, know how many workers are employed in the personnel supply industry (largely temporary workers). This number has increased dramatically since the early 1970s, and particularly rapidly in the current recovery. From the trough of the recession in March 1991 to December 1993, employment in the personnel supply industry grew by 687,000 workers. This was 26 percent of all employment growth over this period.

Taking a longer perspective, employment in the temporary help industry has grown from less than one-third of 1 percent of total employment in the early 1970s to nearly 1.3 percent today (Chart 3-13). While growth has been explosive, the fraction of the work force employed on a contingent basis is probably still less than 3 percent.

**Chart 3-13 Help Supply Industry Employment as Share of Total Employment**  
Temporary workers are a small but increasing share of total employment.



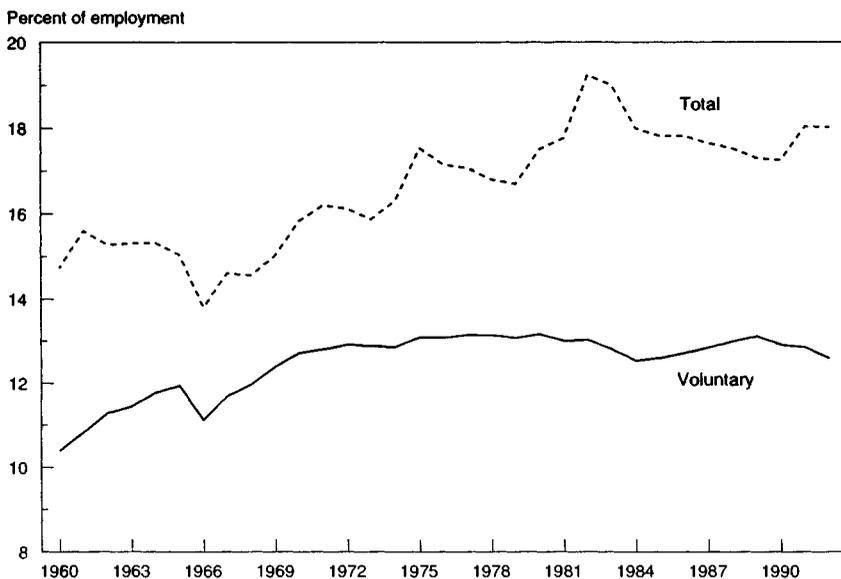
Another potential indicator of declining job stability is the growing use of part-time workers. Like temporary workers, part-time workers usually do not receive pension and health benefits and tend to have a weak attachment to their firms. Several authors have included them when enumerating the contingent work force.

Between August 1990 and December 1993, part-time employment increased by 6.4 percent, compared with only a 1.7-percent

increase for full-time employment. But part-time employment always expands during recessions, and the increased use of part-time workers during this recession is not significantly different from the pattern of past recessions, given sluggish output growth. Over the last several decades, however, there has been a small secular increase in the fraction of the labor force working part-time, but it has not been a steady increase. The fraction grew considerably from the late 1960s through the early 1980s, reaching a peak in 1983. It then declined through the rest of the 1980s and increased moderately in the 1990 recession. The fraction of workers working part-time by choice has remained nearly constant since the early 1970s (Chart 3-14).

**Chart 3-14 Part-Time Employment: Total and Voluntary**

Since the late 1960s the use of part-time workers has grown, but the number working part-time by choice has not.



Source: Department of Labor.

What accounts for the secular shifts toward temporary and part-time employment? One possibility is that the underlying demand for goods and services has become more volatile, leading firms to desire less permanent work forces so that they can more easily respond to shifting needs. If this were so, we should observe greater volatility in the industrial composition of employment or in firm size. Such evidence is lacking, however. Data from the Census of Manufactures show no long-term increase in variability of firm

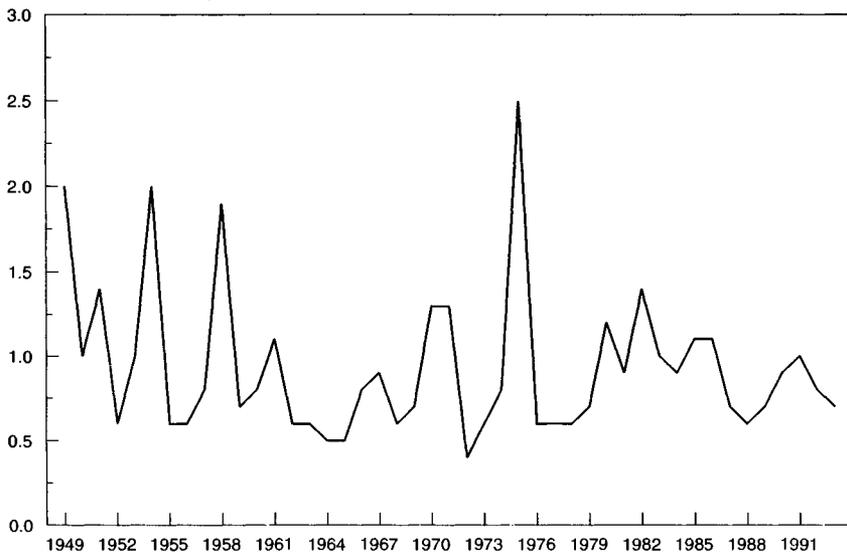
size. No data are available on volatility of firm size in the rest of the economy.

A simple measure of the amount of reallocation of labor between industries is the sum of changes in the share of each industry's employment in total employment for those industries that are increasing their employment share. (This is equal to the absolute value of the sum of the decreases in the share of employment in each industry with a shrinking share.) When total employment is constant, this measure is simply interpreted as the fraction of the work force being reallocated between industries. According to this measure, the rate of change in the industrial structure across all industries increased in 1990 and 1991, which is typical for a recession. The rate of change in industry composition typically declines during recoveries, and the current recovery fits this pattern, with churning declining in 1992 and 1993 (Chart 3-15).

**Chart 3-15 Reallocation of Employment Between Industries**

The rate of reallocation of employment between industries follows business conditions but shows no upward trend.

Percent of nonfarm employment



Note: The series measures one half the sum of the absolute value of changes in industry employment shares.  
Source: Department of Labor.

Has the rate of change of the industrial composition of employment trended upward over time? Chart 3-16 shows that the answer is no. There is a big spike in 1975 after the first oil shock, but no trend. Over the entire 1949-93 period, the average rate of reallocation was 0.9 percent per year. Recent experience appears

consistent with the past. Since 1980, the average rate of reallocation has also been 0.9 percent per year.

How are we to reconcile what we know to be major changes in the industrial composition of employment (such as those due to defense cutbacks) with the fact that there has been no apparent increase in the rate of industrial change? Evidently the economy is typically experiencing significant changes in its structure. Just as horseshoes gave way to tires and mechanical adding machines gave way to electronic calculators, industries today continue to grow and die.

If job instability is increasing, it does not appear to be because of changes in the volatility of firm size or industry demand. If there are significant changes in job stability, apparently they are happening at the individual level. If individuals' attachments to their jobs are becoming more tenuous, we should observe a drop in the length of time workers spend with each employer, and an increase in the probability that a worker will leave his or her firm in any given year. But analysis of the Current Population Survey shows the fraction of workers holding jobs for 8 years or more to have been 30 percent in 1979, and 31 percent in 1983, 1987, and 1991.

A constant fraction of workers holding long-term jobs might hide changes in the experience of individuals. For example, older workers are more likely than young workers to stay with the same employer. The aging of the work force might therefore have brought about an increase in average job tenure, even if individuals at any particular age were experiencing greater job instability. Two studies that have attempted to examine this question provide mixed evidence. Both find that employment for nonwhites and college graduates has become less stable, but both also find that employment stability for some groups has increased. No strong trend toward increasing overall instability can be found in either study. It is impossible to rule out increasing overall instability on the basis of these studies, but if there has been an increase it is either too recent or too subtle to be reflected in the aggregate tenure statistics discussed in the previous paragraph.

Whether or not job security is decreasing, two things are clear. First, there has always been a great deal of instability in the U.S. labor market. Second, there is no question that there is a *perception* that job security is decreasing. This may be due entirely to the normal increase in job losses during the recent recession, to media accounts of mass layoffs at companies that used to offer unusually stable jobs, or to increases in job instability that simply are not reflected in aggregate statistics. Alternatively, a constant rate of job loss combined with greater income inequality has meant an increase in *income* (as opposed to employment) insecurity.

## BENEFITS

One of the concerns raised by the growing use of contingent workers is that fewer workers will be covered by employer-provided health insurance and retirement income programs. In fact, there is some evidence that this has occurred, at least for some recent periods. The timing of these changes, however, does not appear to correspond to the timing of increases in temporary or part-time work, but the changes are troubling nonetheless.

After rising for several decades, the fraction of workers covered by employer-provided health insurance has fallen since the mid-1980s. However, it is likely that this fall represents less than 10 percent of all workers. Nonetheless, since 1985 the fraction of the population covered by job-related health insurance has remained roughly constant (around 60 percent). Evidently the decline in coverage per worker is being offset by the increase in the number of households with more than one person working.

Retirement income is another area where different surveys suggest different conclusions. Business tax records show no decline in the fraction of workers covered by retirement income programs; however, studies examining defined-benefit pension coverage find a decline in the late 1980s. The difference is at least in part due to the growth of tax-exempt retirement savings plans provided by employers. These tend to be less generous than defined-benefit retirement plans, so that there has at least been a decline in the *quality* of retirement security plans, if not in the quantity. Even here the story is mixed. At least one recent study finds that pension coverage has begun to increase again in the 1990s.

## TOWARD A COMPREHENSIVE WORK FORCE POLICY

The labor market has changed. Although there is little evidence of any recent abrupt changes in the fundamental behavior of the labor market, three aspects of the longer term picture are worthy of concern: (1) the slow growth of incomes and increasing income inequality; (2) increasing unemployment and nonemployment, particularly for certain groups; and (3) the high rates of job loss and dislocation that are normal for our economy.

Real income has grown very slowly since the early 1970s, and the real incomes of the least well-off have actually fallen. The Administration's policies address these problems at four levels.

First, the primary source of income growth is productivity growth. To increase productivity growth, we must invest more in research and development of new technologies. To take advantage of technical progress, we must invest more in new plant and equipment. Second, U.S. employers have learned new ways to organize

work that make better use of the vast pool of talent in our work force. These participatory techniques are particularly effective in organizations adapting to rapid technical change but have wider applicability as well. Third, to deal with the problems of income growth and inequality, we must invest more and invest more equitably in education and training for our work force. Finally, in order to promote investment and to ensure that incomes grow with increasing productivity, the Administration's macroeconomic policies aim to encourage full employment built on a sound fiscal foundation.

The Administration's main vehicle for encouraging investments of all sorts has been to reduce Federal borrowing so as to make room in credit markets for private borrowers. As noted in Chapter 2, deficit reduction has resulted in much lower interest rates, making it easier for firms and individuals to undertake productivity-enhancing investments. As the recovery continues, we expect to see more individuals and firms taking advantage of these opportunities. Funding for research is also a high priority for this Administration.

In addition to promoting capital formation and technical change, the Administration aims to increase the productivity of the work force by helping employers make better use of their workers through increased worker participation. Numerous studies have now demonstrated that cooperative techniques increase productivity substantially in a wide range of enterprises. By helping to disseminate information on what successful firms have been able to accomplish, the Administration hopes to speed the adoption of these practices throughout the economy.

Improvements in education and training to boost the skills and enhance the flexibility of the U.S. work force are top priorities. To this end, the Administration is increasing spending and reorganizing programs to increase effectiveness. From increasing funding for Head Start to proposals for developing "lifelong learning," the Administration hopes to address education and training needs everywhere in our society. The Administration's Goals 2000: Educate America Act and the Improving America's Schools Act aim to ensure a quality education for all students, first by guaranteeing all students a safe environment for learning, and then by setting national standards for students and teachers. To ensure that all post-secondary students have access to the means to finance their higher education, the Congress has passed legislation proposed by this Administration establishing a direct lending program where the rate at which the loan will be paid back will depend on the recipient's income.

Recognizing the need to coordinate education and job training, the Departments of Education and Labor have joined in an unprec-

edented partnership to develop a number of new programs. Government programs have traditionally provided extensive support for those going to college. The School-to-Work initiative of the Departments of Education and Labor will help those who begin their careers with a high school diploma to obtain meaningful work-based training. This training will go hand in hand with a new system of skill standards and certification, which will make the skills workers learn more portable and consequently more valuable. The Administration's Workforce Security Act will provide training and job search assistance to dislocated workers who are having difficulty finding new work. The aim is to transform our unemployment system into a reemployment system. The Administration's proposed welfare reform plan will provide funds for training to some of the most disadvantaged in our society: mothers and fathers with children in poverty.

Another part of the Administration's answer to the problem of growing inequality is the substantial increase in the earned income tax credit that has been put in place. This tax credit, primarily for low-wage workers with children, along with the full range of other government transfer programs, will lift many families with a full-time worker out of poverty. It is described in detail in Chapter 1.

Increased productivity growth is the answer to stagnant real wages, and improved training and education—particularly for the least advantaged—is a major part of the solution to growing inequality. But we cannot expect firms to purchase new equipment unless there is demand for more products, and we cannot expect workers to train for jobs that do not exist. Therefore, an integral goal of the Administration's economic policies is the return to full employment.

Maintaining a high rate of economic growth is also essential for dealing with the second major labor market trend of the last two decades: increased unemployment. The analysis presented above suggests that most of the increase in average unemployment over the 1970s and 1980s was due to slack aggregate demand. There is also some indication of a permanent increase in the natural rate of unemployment in the 1970s. Whatever the cause of the increase in the natural rate, the Administration's Workforce Security Act should help reduce the natural rate by facilitating a more efficient matching of workers and employers.

An initial step toward the establishment of a reemployment system was taken last fall with the passage of legislation extending Federal emergency unemployment benefits. That legislation put in place for the first time a system of worker profiling to help identify workers who are likely to experience long-term unemployment, and to provide them with a package of job search assistance services. Several controlled experiments have now shown such services to be

effective in reducing the duration of unemployment. Once fully in place, the Workforce Security Act will provide both job search assistance and long-term training to those who lack the skills necessary to secure good employment. This will help reduce mismatch unemployment and the natural rate of unemployment.

Existing training programs for dislocated workers have been criticized as ineffective. The new programs proposed by the Administration address this problem by emphasizing long-term training and continuing postsecondary education. The large human capital literature shows substantial potential benefits from this approach to increasing worker skills.

Dislocated workers have always faced problems with income security and health care. With growing income inequality, the normally high rates of dislocation in our economy mean greater income insecurity. The Administration is moving to make job transitions easier for displaced workers in a number of ways. The Workforce Security Act will help ease transitions and help those who need it with retraining for a new career. The Administration's health care plan will provide universal coverage, relieving one of the major worries of a dislocated worker—what to do if a family member becomes ill after health coverage from the lost job has lapsed.

Overall, the labor, education, health, and welfare programs proposed by the Clinton Administration hold out the hope of lower unemployment rates, reduced inequality, and stronger income growth for American workers and their families.