

# Where Are the Jobs? The U.S. Labor Market Experience, 2001-2004

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Cathy E. Minehan

The Philadelphia Fed Policy Forum  
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Federal Reserve Bank of Boston

## What's wrong with this picture?

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- \$11 trillion economy growing at 3+% pace
- 2.2 million jobs created since September 2003
- Unemployment 5.5%
- Inflation growth moderating
- Productivity 4+% (last 2 years)

## Two things

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- Living beyond our means
  - Personal saving rate
  - Fiscal deficit
  - Trade deficit
- Where are the jobs?
  - Payroll employment is still 475,000 jobs below its pre-recession level after 3 years of recovery.

# What is the Jobs Problem All About?

## Jobs start to flow again for MBA students

he smiles may be returning with the job offers but the recent hard times should ensure an end to complacency, says Della Bradshaw

With an enormous sigh of relief US business schools mirrored this summer that a dearth of jobs for graduating Master of Business Administration students is coming to an end. Behind the scenes is the sober realization that neither MBA students nor US business schools can treat the employment market with such arrogance ever again.

Although employment statistics are still patchy, the programs are reporting stellar results. At Harvard Business School between 91 per cent and 92 per cent of the graduating students had offers on graduation, and 89 per cent of them had accepted a job. At Massachusetts Institute of Technology more than 90 per cent of students had offers on graduation, up from 82 per cent last year. At MIT, campus recruiting by companies is up by 15 per cent and postings - where companies

WASHINGTON - Long-tenured workers haven't escaped the pain of the weak job market of recent years, U.S. government data show.

A Labor Department report released Friday found that 5.3 million workers who had been at their jobs for at least three years lost those jobs in 2001 to 2003.

That amounts to 6.3% of all long-tenured workers, above the 6.2% figure for

Merrick, managing director of MBA career services, says that the strong numbers reflect both the uptick in the market and the effort of students and staff. "Students did a fantastic and worked really hard being focused." Rather than looking at 20 industries, students did a fantastic and worked really hard being focused. "Rather than looking at 20 industries, students did a fantastic and worked really hard being focused."

Graduating students were particularly open to search strategies suggested by the school, he says. For example, IBS has launched a career coaching programme and this year between 70 per cent and 80 per cent of MBAs participated in it. This involved seven Harvard staff and alumni of the school being coached in how to coach.

"Students are not collecting offers. Whether they have 20 or whether it's

## Longtime Workers Aren't Immune to Job Loss

the Economic Policy Institute, a research organization.

Furthermore, of those displaced workers who found new jobs, 57% were at lower pay than the jobs they left, compared with 47% in 1991 to 1993, the EPI said. About a third of those who lost their jobs in the latest period experienced wage losses of 20% or more.

## White-collar jobs may be next to move overseas

By Etelka Lehoczky, GLOBE CORRESPONDENT

White-collar workers are starting to look over their shoulders as offshore outsourcing gathers steam.

Information technology has been the sector hit hardest by the export of skilled jobs by American companies to up-and-coming economies like India, Russia, and the Philip-

...more on how to do more are out-lustries, bridge's hat 3.3 ry jobs s. to curb Which re out- arch re.

## Marsh & McLennan, Squeezed By Charges, Will Lay Off 3,000

By IAN McDONALD

Marsh & McLennan Cos., girding for a costly settlement of bid-rigging charges and a steep decline in its insurance-brokerage business, said it will lay

off 3,000 jobs, July was either bleak or promising depending on two very different employment reports issued by the Bureau of Labor Statistics.

by the Bureau of Labor Statistics, since January 2001, seasonally adjusted.

Household survey +1.87

## A Job Picture Painted With Different Brushes

By FLOYD NORRIS

July was a poor month for job creation in the United States. July was an excellent month for job creation in the United States. That tale of two empires, and it goes on.

Divergent reports used to

## Delta to Reduce Workforce by 10% Airline Hopes Cuts Will Avert Bankruptcy

By KEITH I. ALEXANDER, Washington Post Staff Writer

Delta Air Lines Inc. will cut up to 7,000 jobs, or about 10 percent of its workforce, as part of a restructuring aimed at avoiding a slide into bankruptcy, Gerald Grinstein, the airline's chief executive, said yesterday.

Under the plan, Delta will close its hub at Dallas-Fort Worth International Airport, thin its management ranks by 15 percent and trim employees' pay—all in an effort to slash costs by about \$5 billion a year by the end of 2006. About 2,100 Delta job losses will come at the Dallas-

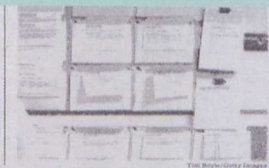
is unable to secure \$1 billion in concessions from its pilots, Delta's only unionized work group. The nation's No. 3 airline also is trying to slow the rash of early retirement requests from pilots who are seeking to avoid possible cutbacks in their pension and pay and benefits. "We're working hard and fast to avoid bankruptcy," Grinstein said, "but if the pilot early retirement issue is not resolved before the end of the month, or if all of the pieces don't come together in the near term, we will have to restructure through the courts."

Delta is reeling from the same pressures faced by other traditional carriers.

## Limited prospects Finding work proving a tough course for college grads

College graduates and jobs Compared to other recent economic downturns, the current job market has been especially tough for people 25 and older with degrees.

THE DOWNTURN Percentage of graduate grads ages 25-35, with jobs



The Bank/County Bankers



\* 9 months ended June 30 2004/03 company reports

the Internet. The low-cost airlines on the Internet have sparked brutal competition in the airline industry and forced the carriers to reduce their operating costs.

United Airlines, struggling to cope with bankruptcy protection costs, under bankruptcy protection nearly two years, plans to eliminate jobs and seek additional concessions from its employees in a bid to survive. Chamber 11 (US Airways) have

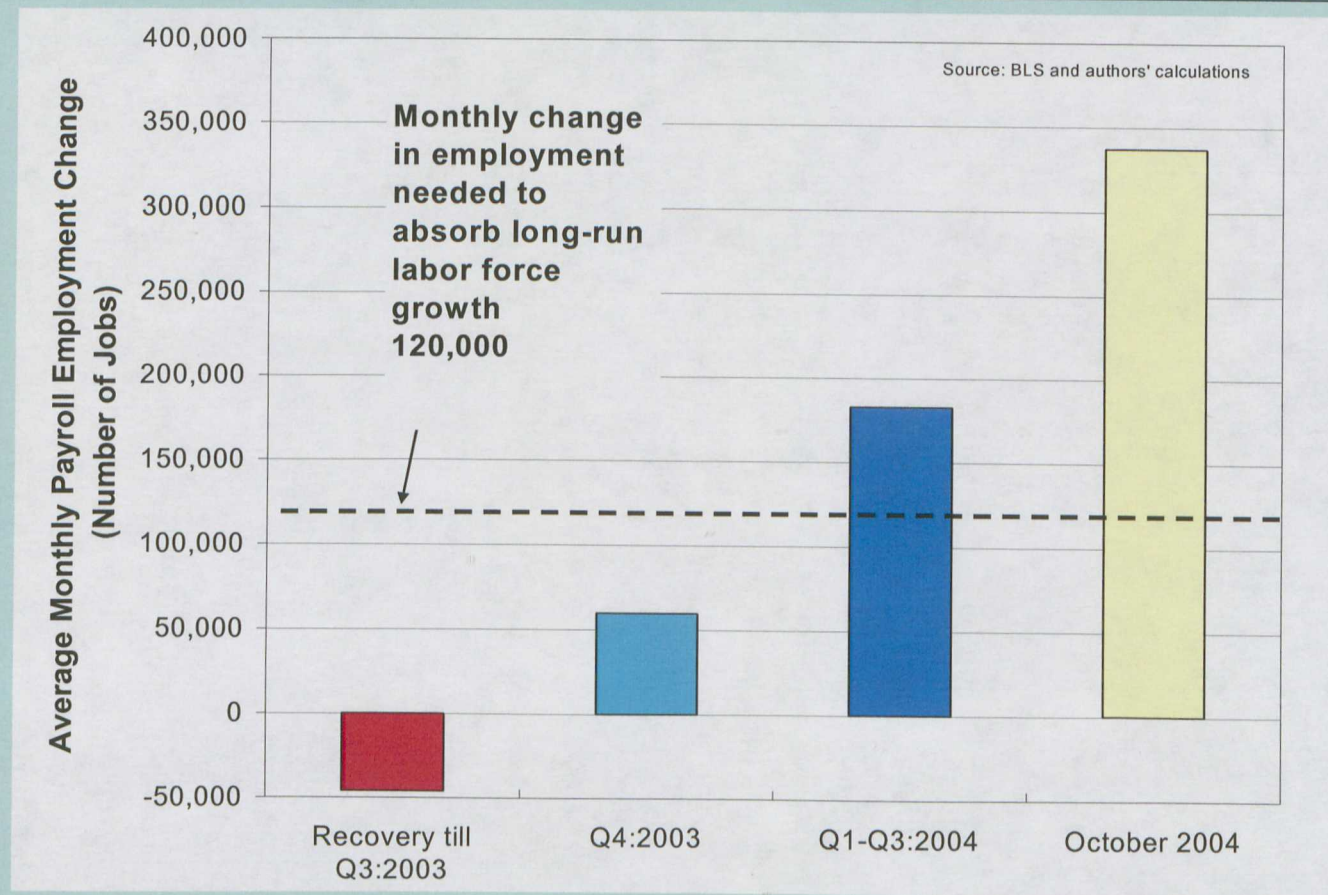
ILLUSTRATION BY MICHAEL McDONALD

## Where Are the Jobs?

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- Employment growth sluggish until 2004

# Job Growth Sluggish Until 2004

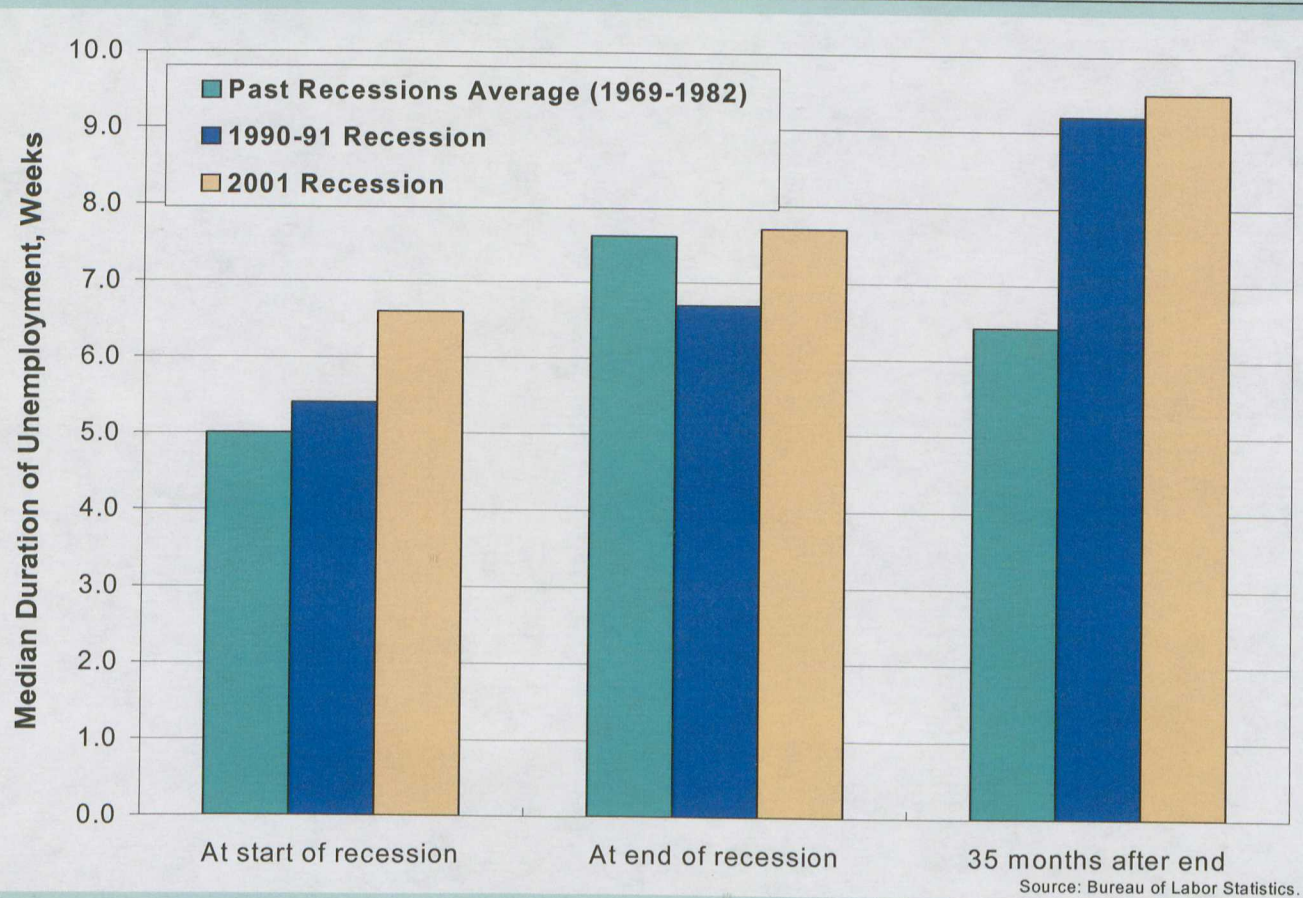


## Where Are the Jobs?

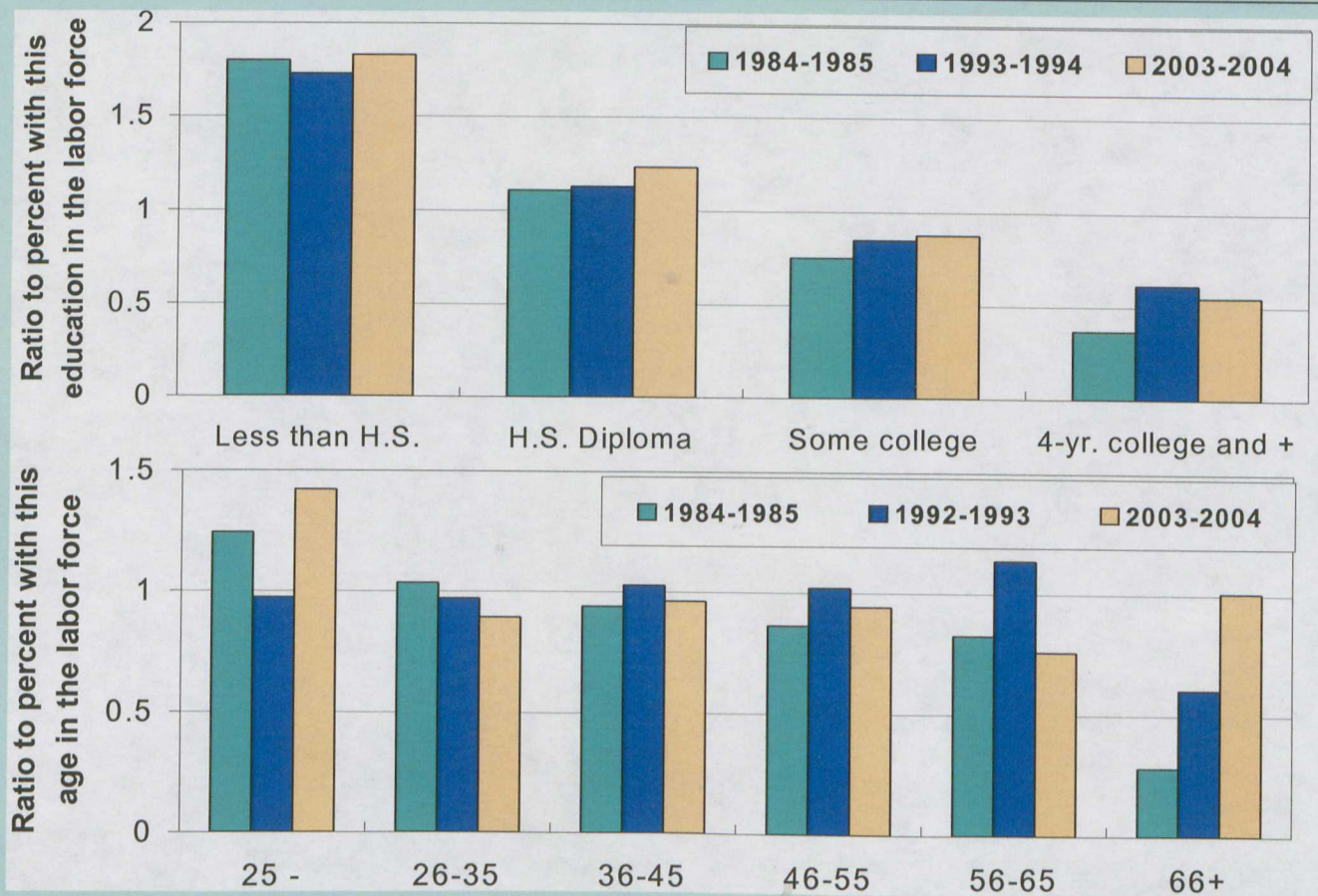
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- Employment growth sluggish until 2004
- Unemployment longer in duration and different demographically

# Unemployment Durations Unusually Long



## Less Educated Workers and Younger Workers Over-Represented in the Long-Term Unemployed



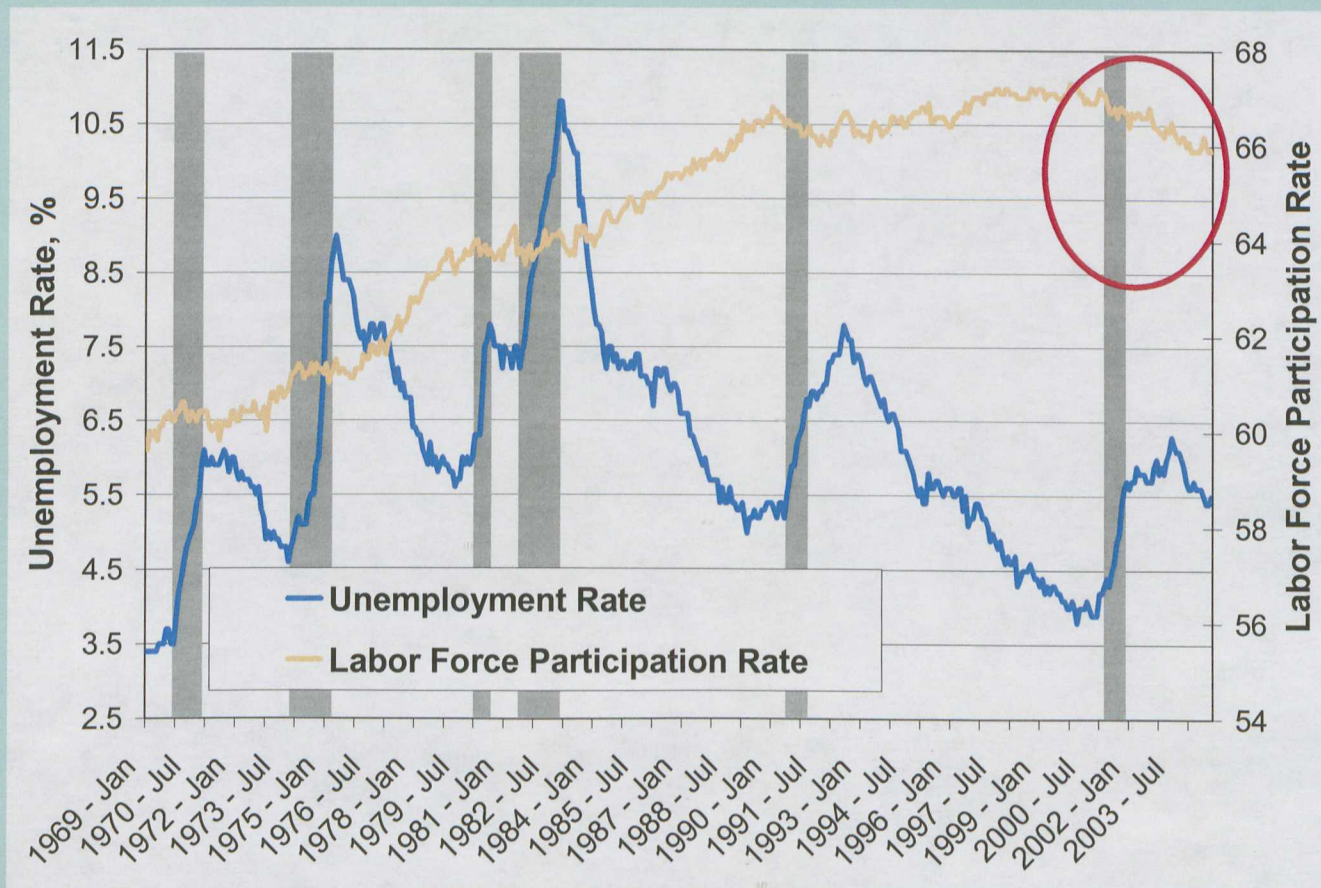
Source: Bureau of Labor Statistics

## Where Are the Jobs?

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- Employment growth sluggish
- Unemployment longer in duration and different demographically
- Labor force participation down

# Labor Force Participation Fell



Source: Bureau of Labor Statistics

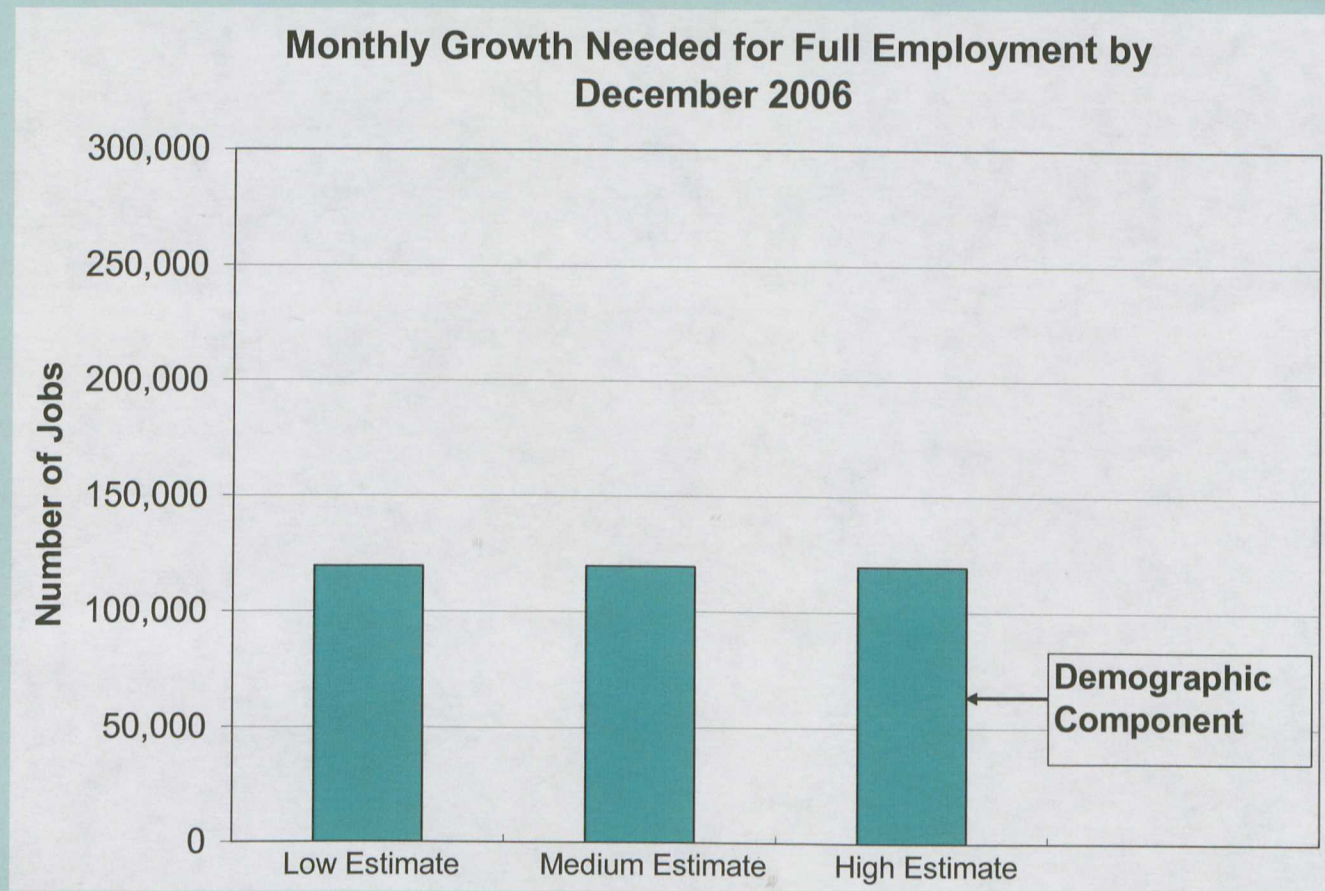
## How Much Employment is Enough?

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That depends on estimates of:

- Population growth (including immigration)

# How Much Employment is Enough? (by December 2006)



Source: Bureau of Labor Statistics and Authors' computations

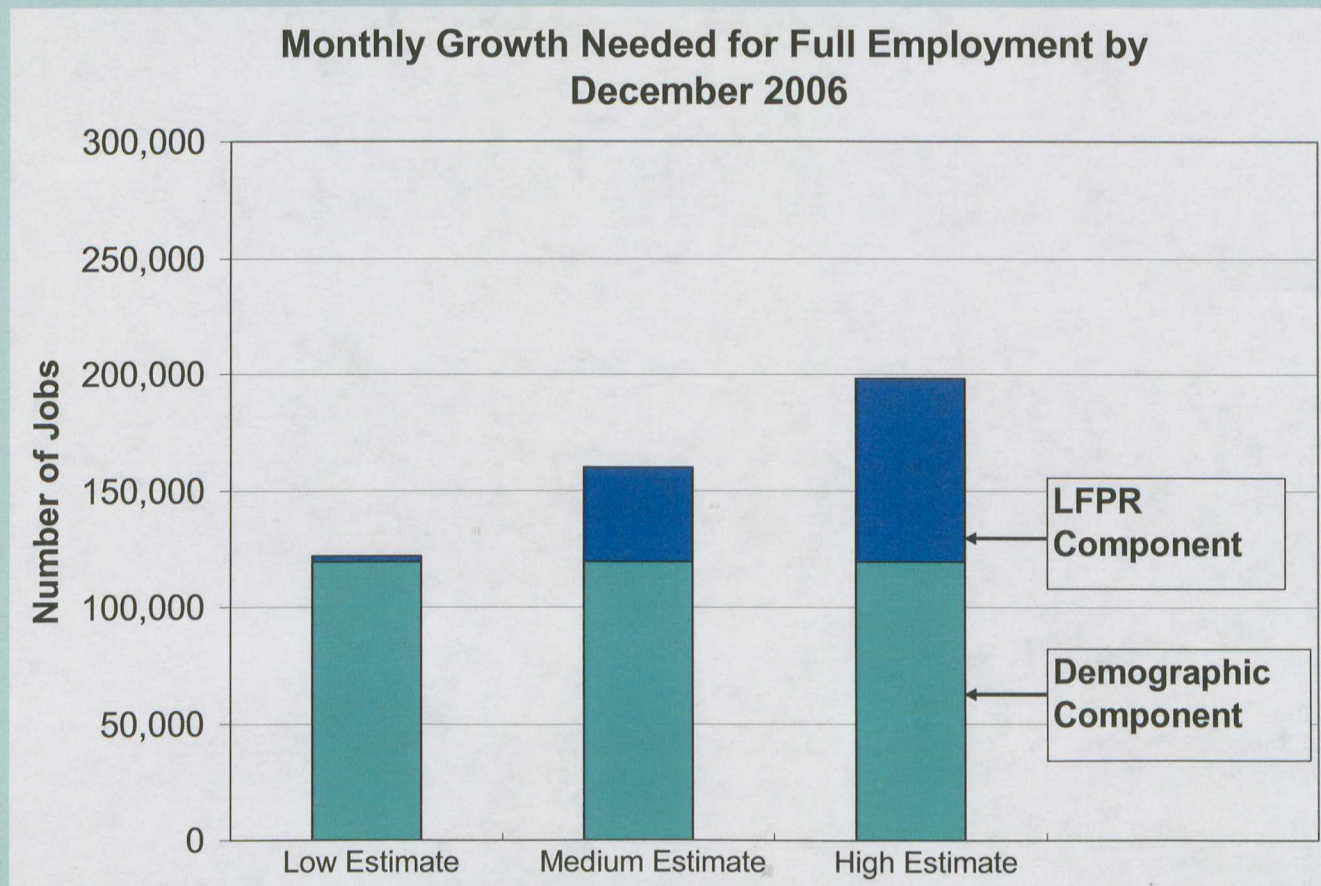
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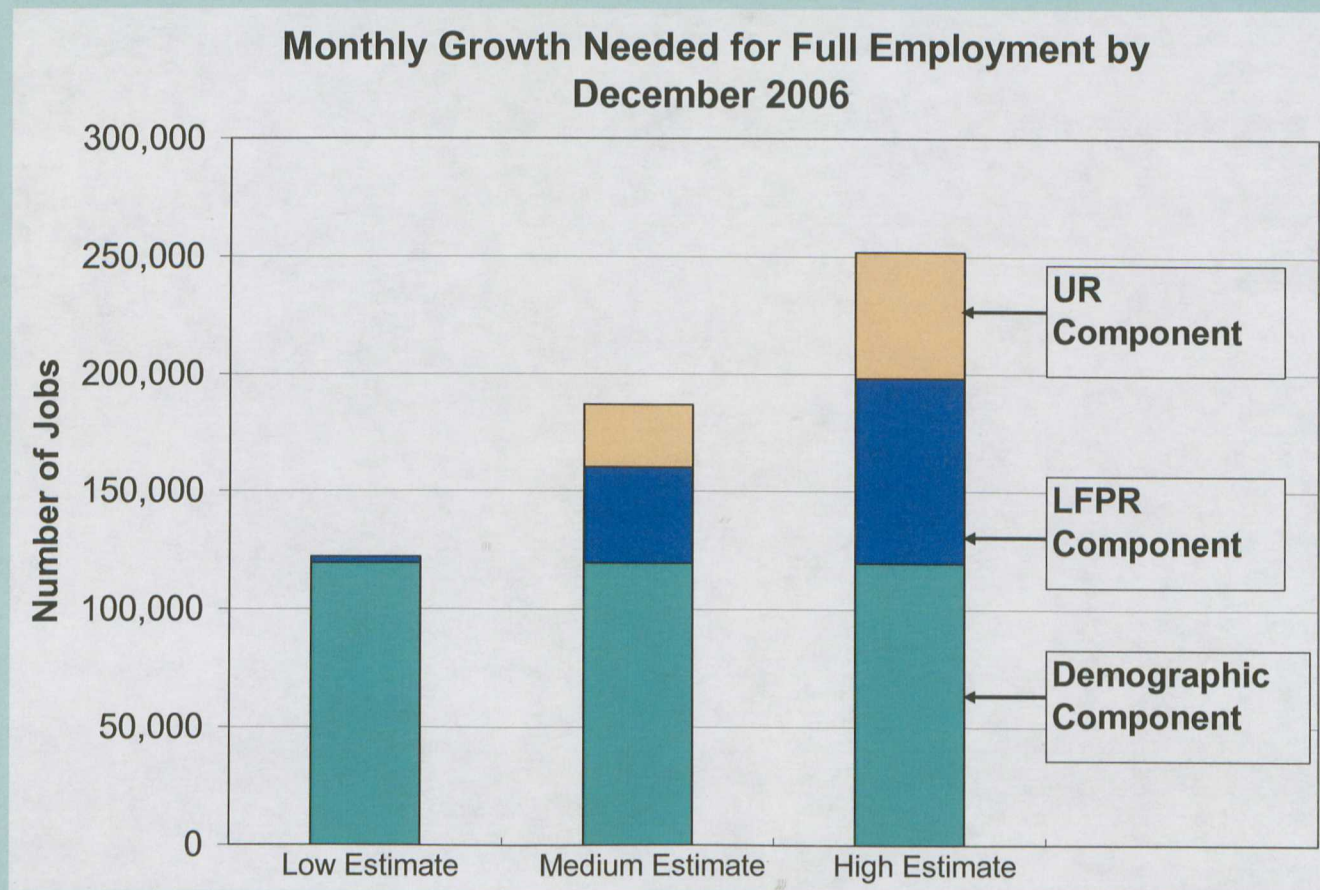
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- Population growth (including immigration)
- The “normal” labor force participation rate
- The non-inflationary unemployment rate

# How Much Employment is Enough? (by December 2006)



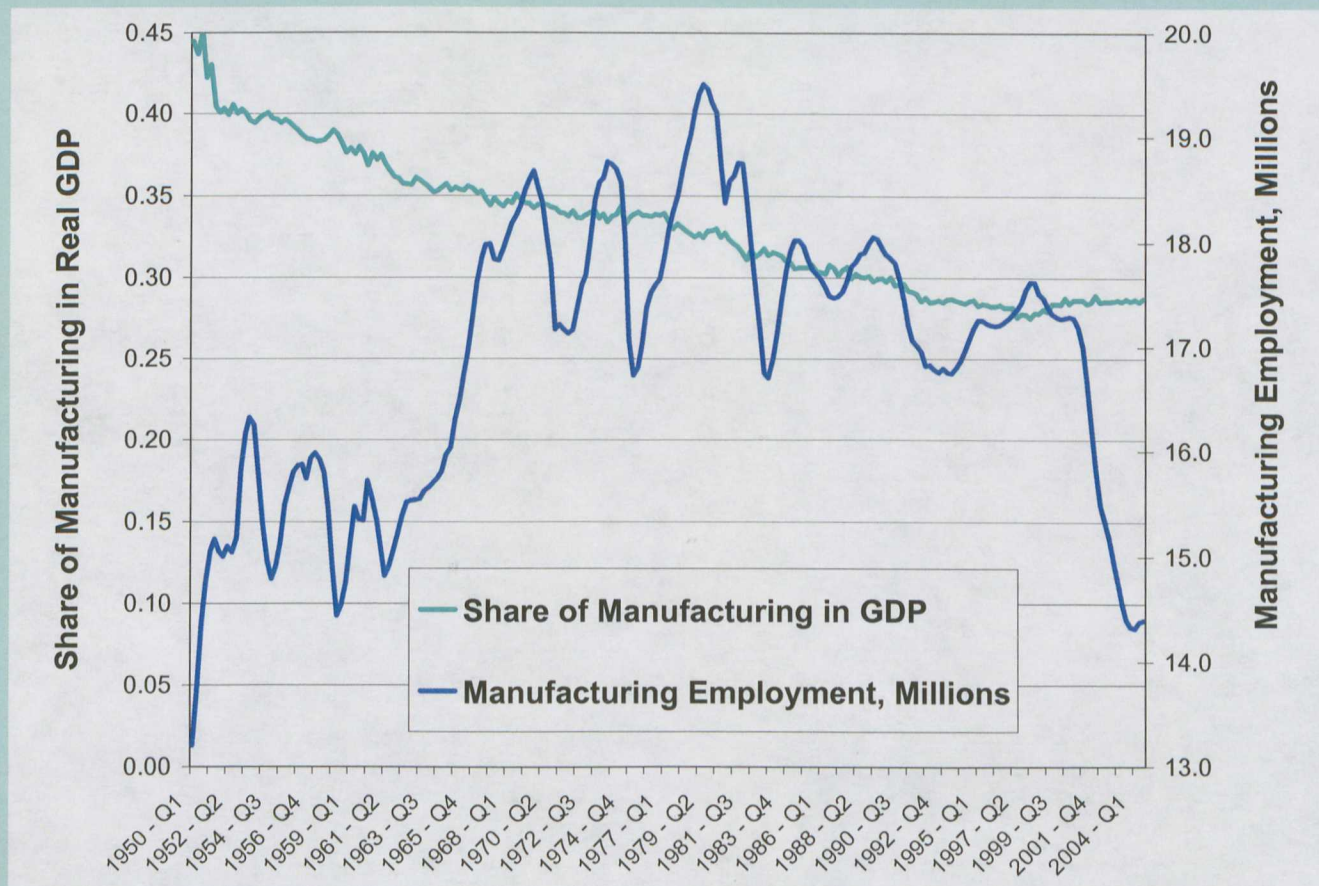
Source: Bureau of Labor Statistics and Authors' computations

# Why?

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- Long-term loss of manufacturing jobs
- Foreign outsourcing

# Long-Term Loss of Manufacturing Jobs



Source: Department of Labor; Bureau of Labor Statistics

# Foreign Outsourcing Has Received Extensive Media Coverage, Particularly for Services

## Offshoring of jobs reveals new risks to tech industries

By JON CHESTO

Nearly two years ago, FBI agent Nenette Day helped arrest a man in India thought to have stolen millions of dollars worth of software code from Concord-based SolidWorks Corp. while working for the firm's overseas contractor. But Day said she expects the suspect, Shekhar Verma, will likely get off easy because the laws in India don't provide the same protections for intellectual prop-

him," said Day, who nabbed Verma before the code was sold to a SolidWorks rival. "(But) odds are good he will avoid doing prison time."

The SolidWorks case is just one example of the risks associated with moving white-collar jobs to other countries, a trend that a report Forrester Research re-

### GLOBAL CUSTODY

attraction comes with certain risks, and computer security is certainly one.

JON OLTSIK, ANALYST

"The economic attraction comes with certain risks and computer security certainly one of them," says Jon Oltsik, an analyst at Enterprise Storage Group, Milford.

Concerns about outsourcing have sparked a flurry of bills in Washington aimed at limiting the pro-



CASE STUDY  
F&C MANAGEMENT

## Why outsourcing made good sense

As with most other fund managers, Robert Jenkins, head of F&C Management, a subsidiary of Euroko, a pan-European financial services group, thought long and hard about outsourcing the administration of a €600 million fund business. There were pros and cons.

On the one hand, fund administration was not one of F&C's specializations - it was something that had to be done. On the other, it was an important service that, if wrong, could upset clients.

In the end, Mr. Jenkins elected to outsource for three main reasons: "One was to convert a fixed cost to a variable cost," he

allow us to focus on our core competency, which is managing money." Few fund managers regard fund administration as a differentiator. So, by having it over to specialists who do, F&C's management was able to devote valuable extra time to the business of portfolio investment.

Having established the rationale, Mr. Jenkins then embarked on the tricky business of selecting an appropriate custody bank. He drew up a list of eight to start with. "We had the full list of suspects," he recalls. Then, he whittled this down to two: the Ban of New York and Mellon Financial. "They were ally competitive in terms of price and the quality of the bid," he says. "I wouldn't have gone with either one. It's a close call."

See some debate, F&C opted for Mellon, even though it was smaller than NY. Mr. Jenkins says the bank, which already had a good relationship with ABN Amro, then appeared to be committed to the European market. For a 200-based company with a European outlook and Dutch connections, was important. Also, he had an existing date to provide fund uniting services for something that had in place since 1989. F&C entered exclusive in July last year. For

ness with Richard Free, managing director of the European central administration, says it felt like through a classic merger and acquisition - with all the usual "follow-up" if the deal

## 'Benedict Arnold' CEOs

Greg Mankiw, chairman of the President's Council of Economic Advisers, is getting a tiny taste of the inanities of the political season. Mr. Mankiw, a noted economist, ventured to repeat what all economists and businesspeople know: Trade is good.

to shift the product. Even better, it makes it possible to clock, add in. The immedi-

Keeping your company competitive is now treasonous

Specifically, Mr. Mankiw dare not point out the potential economic benefits of the production of goods or services in wage countries. "Outsourcing is a phenomenon," he said this week, "but something that we should realize is prob-

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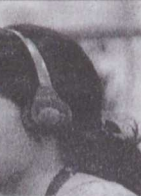
for the economy in the long run." Wham! Bam! Faster than you can galore, Senator John Kerry was all on the front-runner for the Democratic Presidential nomination is smart enough to under the law of comparative advantage, but to ignore it by declaring that "My economic policy is not to export American jobs. . . . Unlike the Bush Administration, I want to repeal the tax break and loophole that rewards any Benedict Arnold CEO or corporation for shipping American jobs overseas."



Comparative advantage means that if country X does or makes something with relatively less cost than country Y, then country X should do it. Country Y is thus released to earn higher returns on something else. The magic is that both countries are better off through this arrangement. In the current trade debate, country X stands for India and country Y is the U.S. By moving some data entry, customer service and software engineering activities to the economies of both countries -

ers becau-

The impetus for this move comes from cheaper communication labor.



BY SHREVA CRASID - REUTERS

A call center worker in Bangalore, India, provides service support to international customers in March.

## Implored to 'Offshore' More

U.S. Firms Are Too Reluctant to Outsource Jobs, Report Says

By PAUL BLUSTEIN  
Washington Post Staff Writer

A report by an influential consulting firm is exhorting U.S. companies to speed up "offshoring" operations to China and India, including high-powered functions such as research and development.

In blunt terms, the report by the Boston Consulting Group warns American firms that they risk extinction if they hesitate in shifting facilities to countries with low costs. That is partly because the potential savings are so vast, but the report also cites a view among U.S. executives that the quality of American workers is deteriorating.

"The largest competitive advantage will lie with those companies that move soonest," the report states. "Companies that wait will be caught in a vicious cycle of uncompetitive costs, lost business, underutilized capacity, and the irreversible destruction of value."

Boston Consulting, which counts among its clients many of the biggest corporations in the United States, admonishes them that they have been too reluctant rather than too eager to outsource production to "LCCs," or low-cost countries.

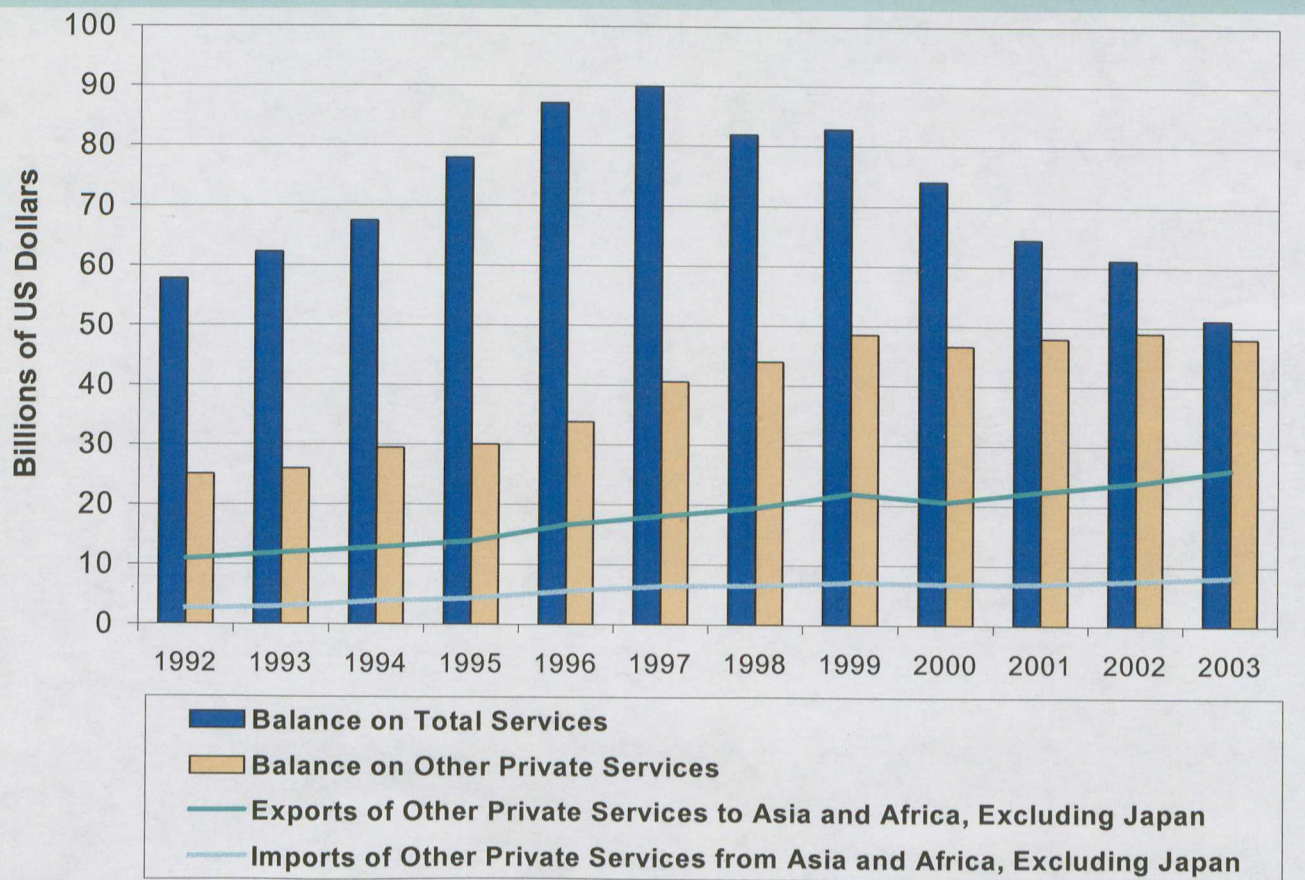
Measure seeks to ban state outsourcing

considering similar provisions this year in response to the loss of jobs to cheaper foreign labor markets. Backers of the amendment say Massachusetts already has state contracts with firms that are using workers in Massachusetts to enter Medicaid data and customer queries.

Christopher Rowland that landed on the week

practices is unknown. A spokesman said yesterday the governor is not prepared to discuss his position on the particular provisions. Democratic state Senator Jack of Boston, Senate chairman of the Committee on Commerce and I introduced the measure as a last amendment. A key state er amendment, the National Association of Employees, support

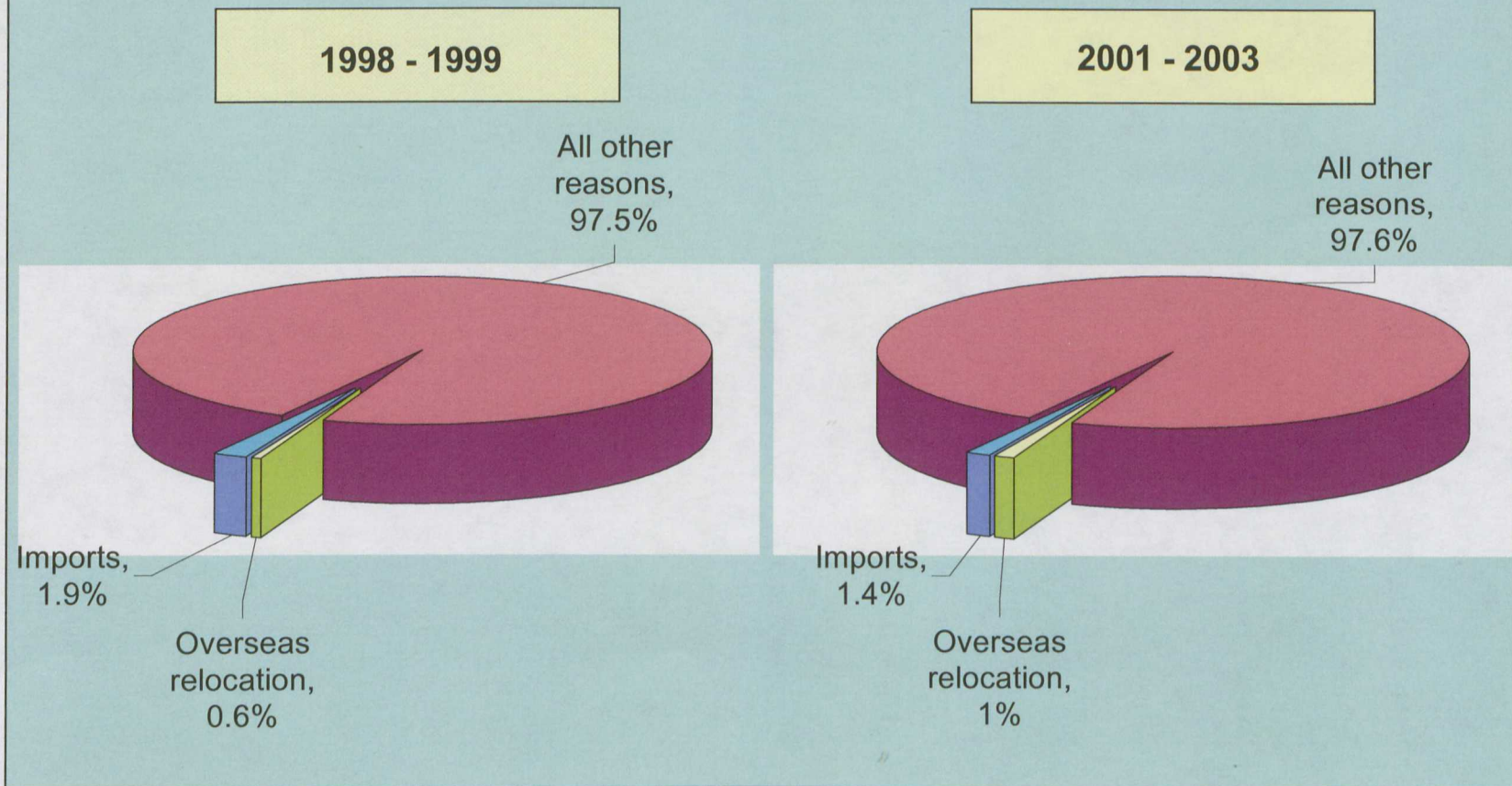
## But Net Export of Services is Strong



Source: Bureau of the Census

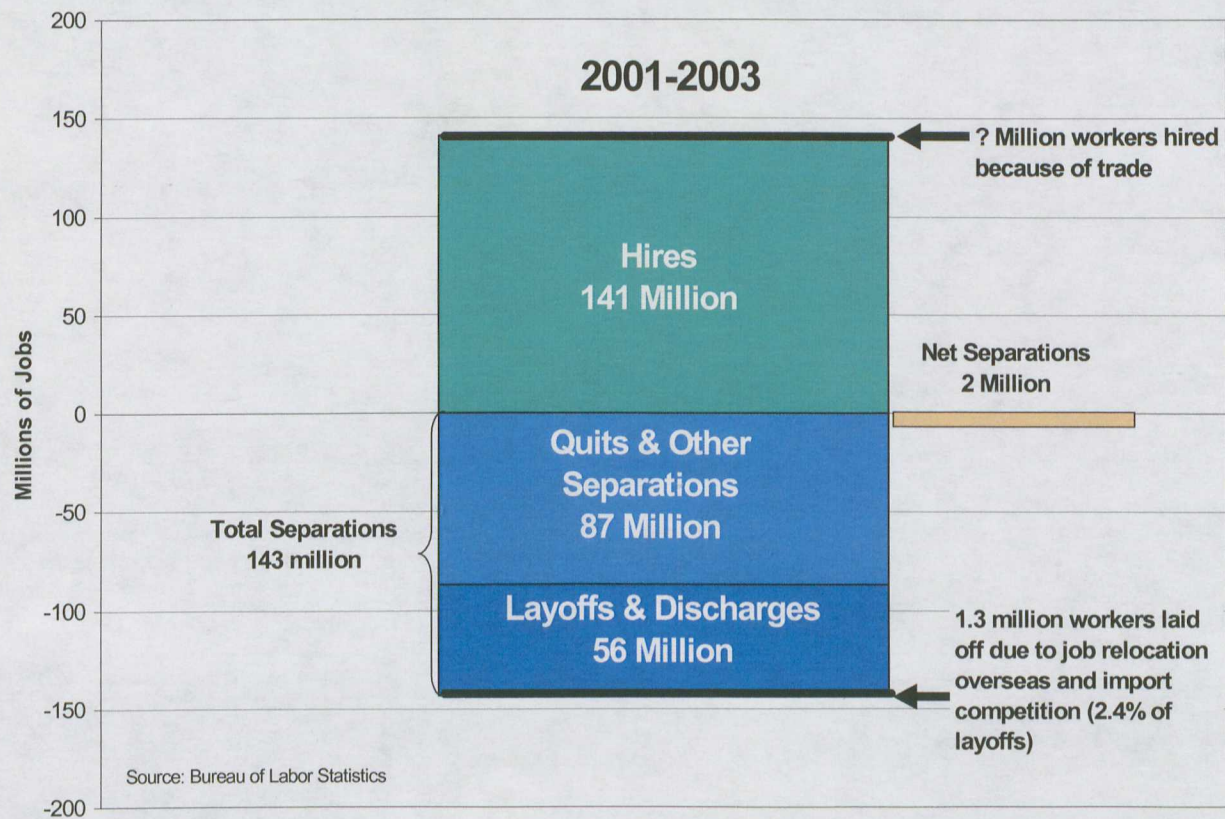
# And Employers Don't See Outsourcing as a Major Reason for Layoffs

## Reasons for Large Extended Layoffs: Survey Data



Source: Bureau of Labor Statistics

# International Component of Job Loss Relatively Small

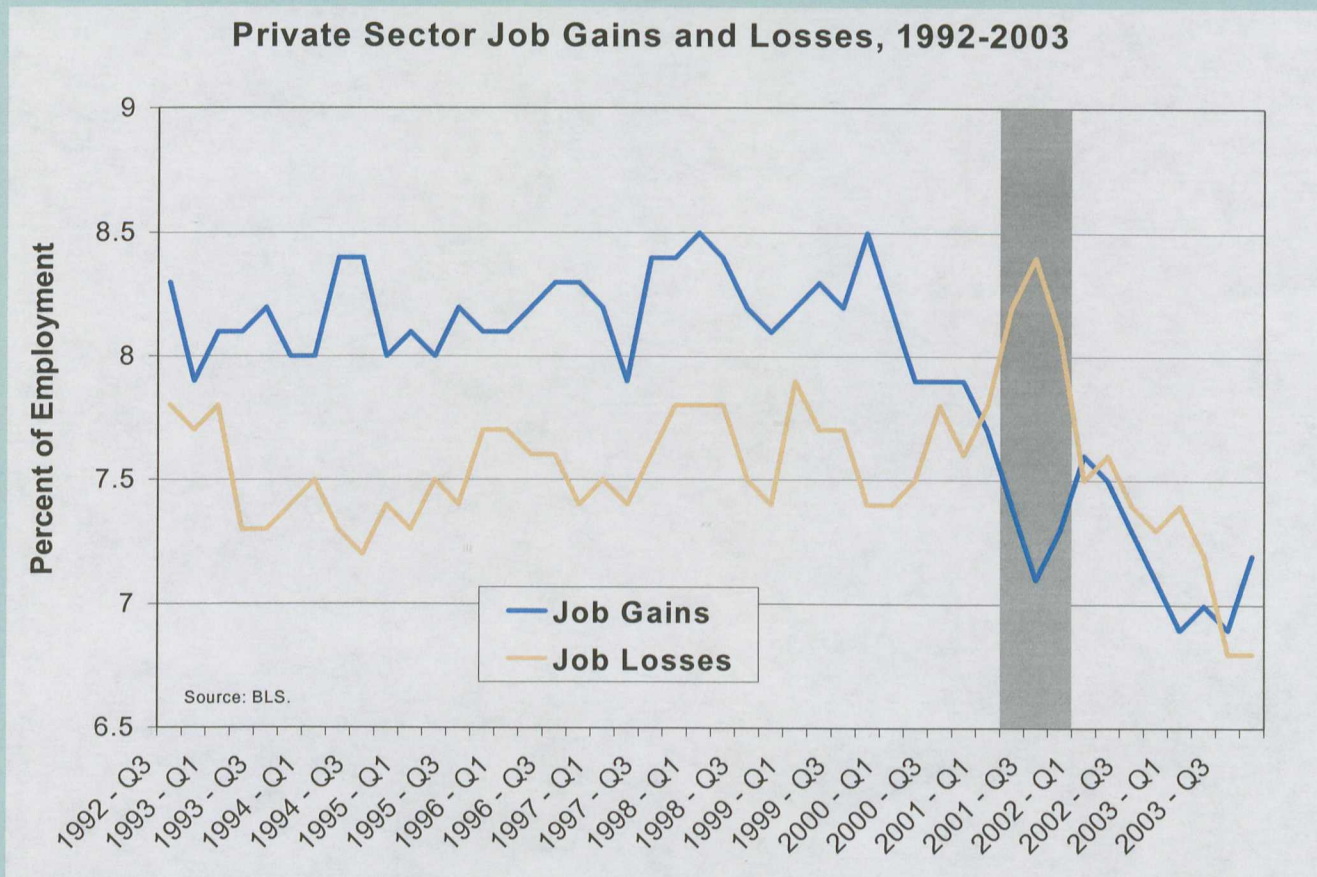


## If Not Outsourcing, Then What?

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- Reduced labor demand
  - Structural change?

# Rate of Job Creation Unusually Low



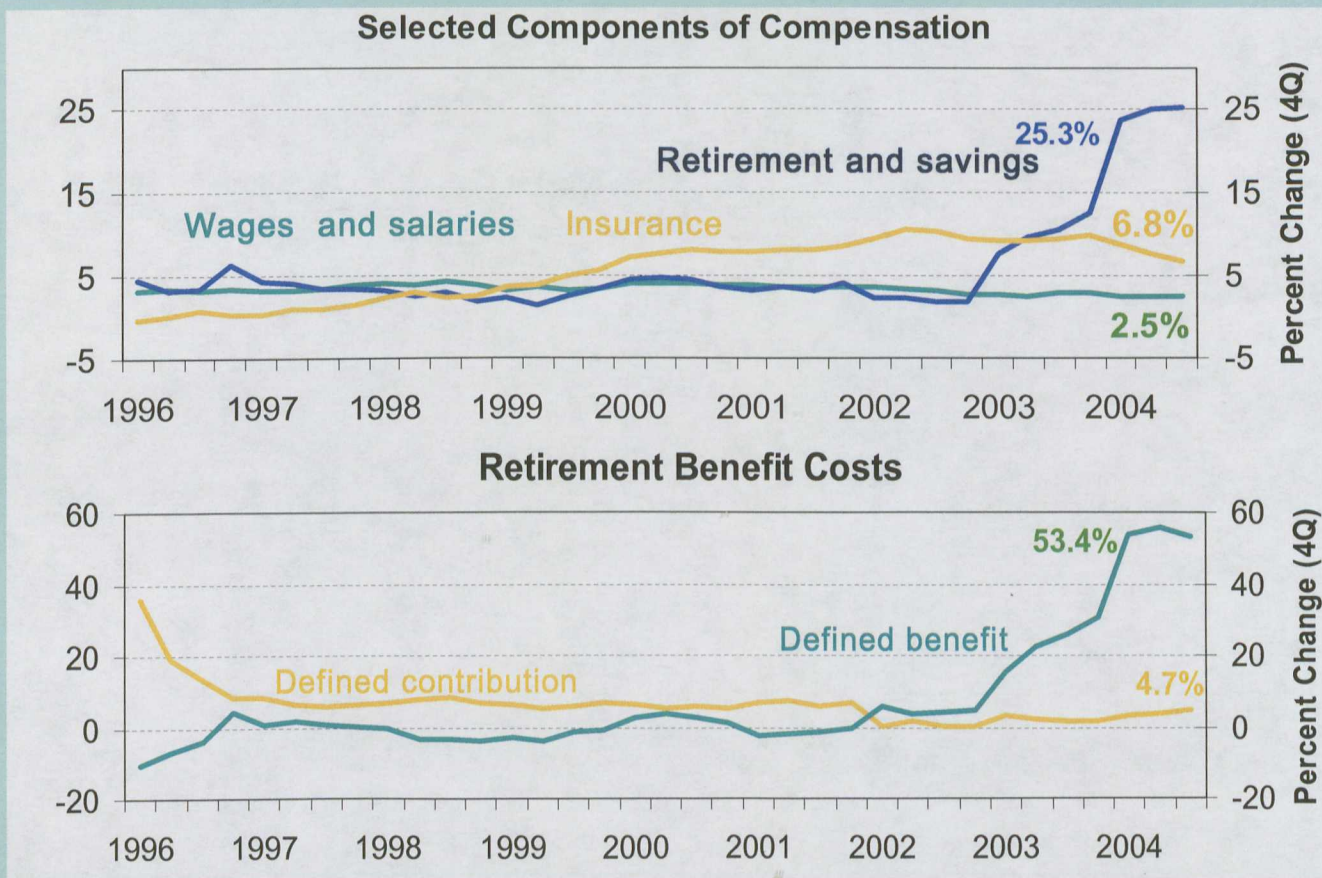
Source: Bureau of Labor Statistics

## If Not Outsourcing, Then What?

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- Reduced labor demand
  - Structural change?
  - High costs?

# Wage Growth is Tame, but Benefit Costs Have Increased



Source: Bureau of Labor Statistics Unpublished Data. Estimated variances have not been calculated so there is no basis for asserting precision. Sample size is small and non-response may affect estimates.

## If Not Outsourcing, Then What?

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- Reduced labor demand
  - Structural change?
  - High costs?
  - Uncertainty?

## Is the Outlook Unusually Uncertain?

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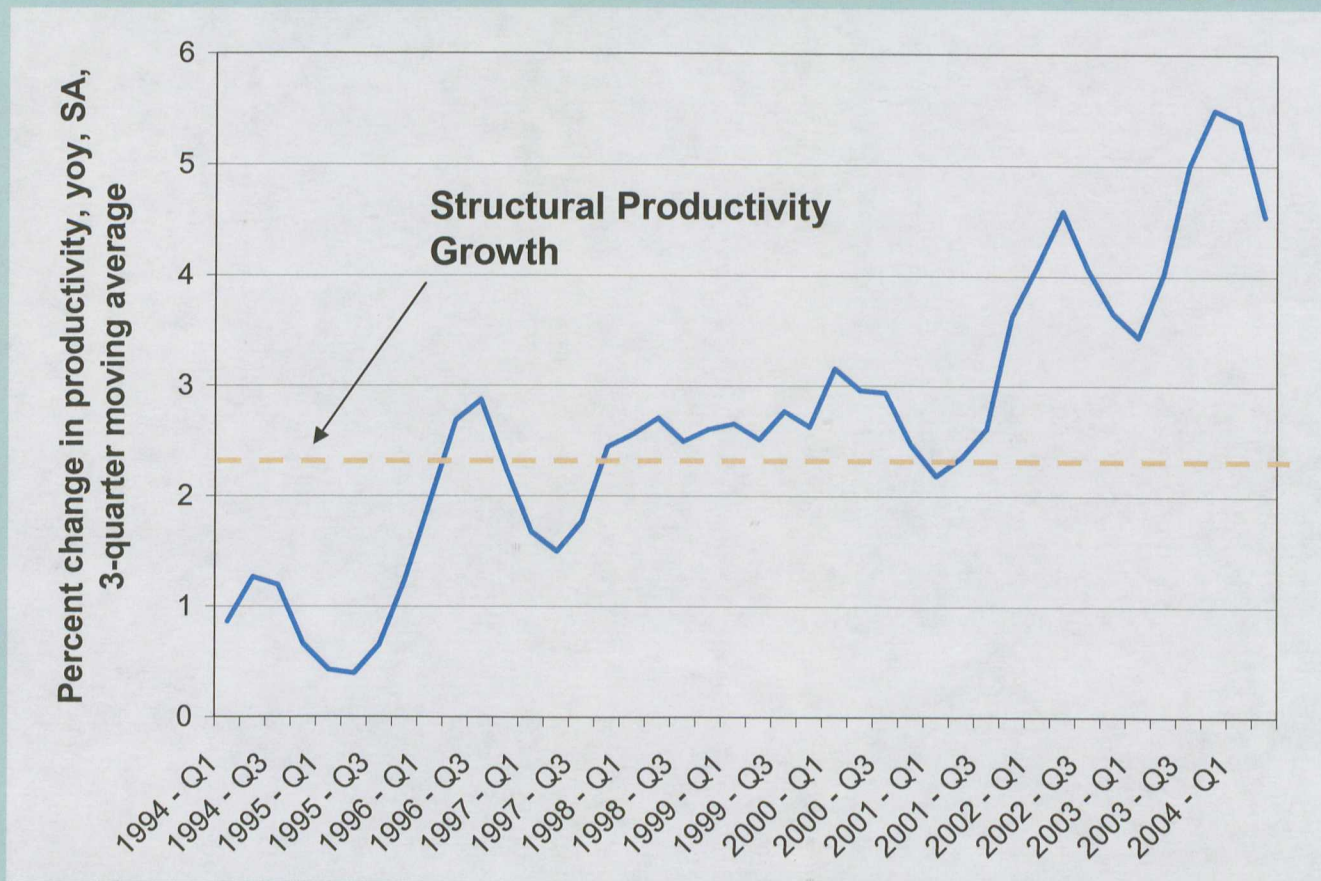
- Geopolitical factors
- Energy prices
- Future labor costs
- The “twin deficits”
- Corporate governance issues

## If Not Outsourcing, Then What?

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- Reduced labor demand
  - Structural change?
  - High costs?
  - Uncertainty?
  - Other side of productivity coin

# U.S. Productivity Growth



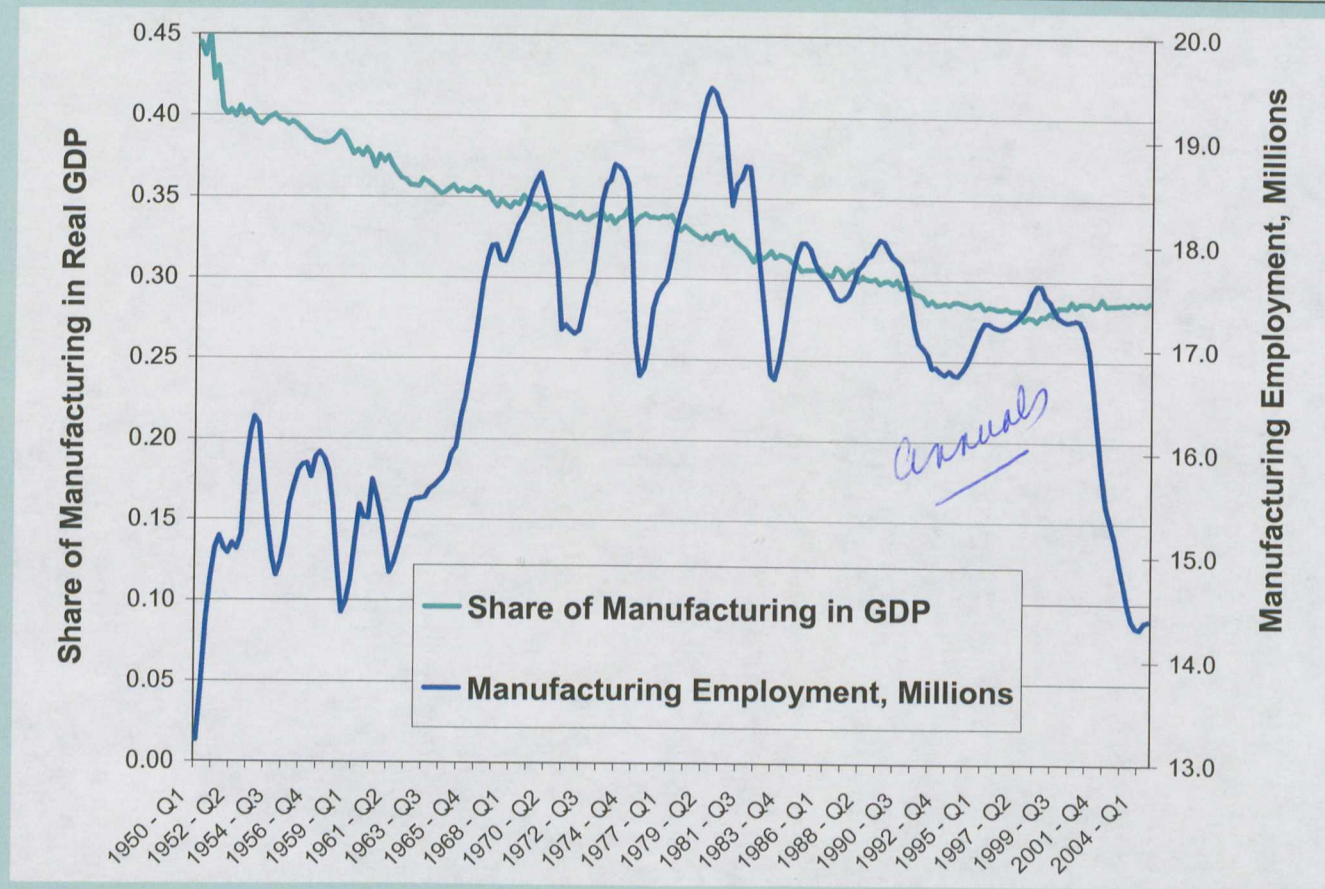
Source: Bureau of Labor Statistics

## Policy Takeaways

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- Don't adopt any trade or tax regime to solve the outsourcing problem.
- Do remain patient.
- For the long-run, concentrate on creating work force that can fill the high value added jobs being created.

# Long-Term Loss of Manufacturing Jobs



Source: Department of Labor; Bureau of Labor Statistics