



Challenges for the American Workforce

Howard Rosen explains why traditional approaches to helping the unemployed need to be overhauled in light of recent trends in globalization, technology, and business management.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. It's my pleasure today to welcome Howard Rosen, resident visiting fellow with the Institute, who will talk about the unemployment trends and the stimulus package. Welcome, Howard.

Howard Rosen: Thank you very much, Steve.

Steve Weisman: This week, Congress is passing a temporary extension of unemployment insurance. What is going to be the impact of that?

Howard Rosen: Actually, this is the second extension that Congress has passed since earlier this year in March. In both cases, the standard unemployment system only provides assistance for 26 weeks. In times of an economic slowdown, that's just not enough. And unfortunately, the triggers that are built into the program to extend the system during periods of economic slowdown are broken. In fact, they weren't working in the last two recessions. And instead of fixing the triggers, Congress has opted instead to temporarily extend the program. They did it first in March and they're doing it again now this week. Probably the way things are going, they're going to have to do it again next year as well.

Steve Weisman: How many people is it going to affect and what's the cost?

Howard Rosen: The problem is that on the one hand, it's necessary to do these extensions because the program is only for a short period of time. But on the other hand, because of structural problems in the program, it only benefits a minority of people. Only about a third of the unemployed people in this country actually receive unemployment insurance.

Currently, there are about 10 million unemployed, of which only a little bit less than four million people are getting unemployment insurance. Of that, a third basically exhaust their unemployment insurance before they find a new job, meaning it takes longer than 26 weeks for them to find a new job. So that means that extending unemployment insurance helps only about a tenth

of the unemployed and in terms of the economy, that's just a palliative. The act that Congress is now considering this week is estimated to cost something like \$6 billion, a far throw from the kind of numbers we were hearing before in terms of stimulating the economy.

Steve Weisman: Now, as I understand your argument, this difficulty illustrates a larger change in the American labor-market situation that has left the program obsolete.

Howard Rosen: The basic problem is that unemployment insurance, as it currently exists, is just broken. It just doesn't fit current labor-market conditions.

Steve Weisman: What are the current labor-market conditions that are particularly noteworthy?

Howard Rosen: What we've seen over the last, let's say, 40, 50 years, is that unemployment rates have been relatively stable. You know, they go up during economic slowdowns, they come down during recoveries. But they tend to be pretty stable.

Steve Weisman: Stable over a period of how many...

Howard Rosen: Forty, fifty years, and we're talking about somewhere in the range of 5–6 percent. That's really pretty much where they've been.

Steve Weisman: Even during recessions?

Howard Rosen: No, of course they go up during recessions and come down after the recessions but if you kind of flatten out the business cycle and look over the 60-year period, unemployment has been relatively stable.

Steve Weisman: So what's changed?

Howard Rosen: Back in the 1970s, when unemployment numbers were so high, people asked, "Was this going to be a ratcheting up of unemployment rates?" My point is we came down off of those high rates and we've come back to this kind of level plane of where unemployment rates are. But at the same time, we've seen the duration of unemployment go up.

In the past, the average person may have been unemployed for something like 10 weeks and then gone back to a job. Also there was a good possibility that they went back to their previous job or their previous occupation. Now, we're seeing that people are unemployed on average for 20 weeks—meaning that there are people unemployed for much longer than that—and they're probably not going back to their previous job and also probably not coming back to their previous occupation.

This places an incredible burden on the worker to adjust to that situation. Put it in another way, the probability that someone would be unemployed in this economy is not much greater today than it was 50 years ago. But if you are unemployed, the cost of that unemployment to you is much greater than it ever has been in the past. That perceived cost is what's getting people very anxious.

Steve Weisman: And has this not also had an effect on the wages as well?

Howard Rosen: Exactly. We find that when people go back to work—in fact, a third of seriously displaced workers don't even go back to work after one or two years—about a quarter of those people who do find jobs have no wage loss or maybe even do a little bit better but the rest of them actually experience serious significant earnings losses, which are not just short-term earnings losses. These losses could stay with these workers for the rest of their careers. So an unemployed person faces prolonged unemployment, the prospect of having not only just changed their job but also their occupation, meaning they must acquire new skills, and if they find a new job, they experience long-term earnings losses.

These are all new phenomena in our labor market. Meaning in the last, let's say, 10 to 15, 20 years.

Steve Weisman: What are the factors at work here?

Howard Rosen: The primary thing of course is productivity gains. Productivity gains can be influenced by international competition and also by changes in technology, changes in management, and reorganization, and those kinds of things.

Steve Weisman: In other words, productivity gains of the workforce at large leads to fewer workers needed to do the same work.

Howard Rosen: Exactly. It doesn't mean that we need fewer workers in the entire economy. It just means we need fewer workers to produce that one good that we were producing before, because obviously if we can reinvest and capitalize on those productivity gains, we would obviously be producing more things and doing it more efficiently.

Steve Weisman: Okay, so you've said that three of the factors are globalization, technology changes...

Howard Rosen: Management changes, reorganization...

Steve Weisman: These probably can't be stopped and maybe shouldn't be stopped. What can the United States do to cope?

Howard Rosen: The reason why we like productivity increases is because it is the necessary condition for sustainable long-term improvements in living standards. That's how we increase people's wages. So we don't want to do things that are going to discourage productivity gains. We want to encourage productivity gains and as you mentioned, factors like international competition and domestic competition, as well as management restructuring, doing streamlining or management process and new technologies—all these things contribute to productivity. On the other hand, productivity also has kind of a downside, which is as you mentioned, you need fewer workers to do the same kinds of activities. And that then leads to the question, how do you take care of the worker who's being adversely affected by the productivity gains and put them in a situation where they can then reap the gains from productivity?

Steve Weisman: Okay, now that you've framed the question, what's the answer?

Howard Rosen: That's the challenge that I think a lot of the industrialized countries have been facing; some doing it a little bit better than others.

Here in the United States, our unemployment insurance system, our social safety net programs were designed for a different period. The first thing they need to do is to be updated to meet the needs of the current workforce. No. 1, only in the United States do we have strict eligibility requirements for our labor adjustment programs; in other countries these are universal programs. Here in the United States, we make people apply for them. They have to meet certain criteria. We need to relook into those criteria and we need to update them and change them. For example—some states do this a little bit better than others—overall, temporary part-time workers are not eligible for unemployment insurance. Someone who loses their job, let's say, to give you an example, a woman who loses her job a month before she gives birth to a child; once she gives birth, she's not being unemployed, she's at home raising a child, she loses her unemployment insurance. So our system is not very family friendly and then also, it doesn't meet the new changes in our labor market. So that's the first thing.

The second is that unemployment insurance is virtually disconnected from re-employment. It doesn't lead to re-employment. It's basically giving income maintenance to those people who have lost their jobs. And again, that's different from other countries where there is kind of a linkage with you getting unemployment insurance and you're also getting training. So first of all, the training that we provide in this country not only is inadequate and underfunded, but we kind of distribute it in an ad hoc way. It's not distributed to who needs it the most. It's not distributed based on people's skill needs. It's distributed basically by state demand for funds, the money is divided up by the states and the states decide who gets training funds or not.

So that's kind of a haphazard system and we need to kind of coordinate both the unemployment insurance and the training aspects of this.

Let me give you another example of a way that you would integrate the adjustment process to re-employment. There is a new program called wage insurance. As I mentioned before, there's a high probability that people going back into the labor force will experience an earnings loss in their new job. So let's gear our assistance towards that fact; wage insurance provides assistance to those workers who accept a job that pays less than their previous job. And currently this is in existence under the trade adjustment assistance program and only for older workers over the age of 50. The way the program works is if someone takes a job that pays less than the previous job, then the government will reimburse that worker 50 percent of the difference between the new and old wage for up to two years. What this does is encourage the worker to get back into employment as soon as possible. We like that first of all because it's good just from a society standpoint. Second, there's probably some possibility that the new employer will provide some kind of pension and healthcare assistance so we've taken care of another problem. Also we hope that the new employer will provide some training—and on-the-job training is always much more effective than just classroom training. So there's an example of the kinds of innovations that can be implemented due to the new changes in our workforce.

Steve Weisman: I take it you also feel that the United States needs to do more generally to educate, train, and prepare people to cope with these forces.

Howard Rosen: Right. You know, there are two big things that differentiate countries around the world: that's their investment in capital and their investment in people. I think right now we have a deficit in both sides. We don't invest enough in plant equipment and research and development, and we also don't invest enough in our workers. Other countries are investing more in both of those things. That's where the competition comes, because we're basically staying where we've always been and they're getting better, and so the gap between us is closing. I don't believe it's because Americans somehow are stupid or don't have skills. It's that we need to do better because the competition is catching up. What we always need to do is not just be complacent with the skill levels that we have but also always be encouraging people to learn new skills and to keep educating themselves further. That's why we talk about lifelong learning, so that it's a continual process that people have to engage in because of this competition that's constant.

Steve Weisman: On that note, Howard Rosen, thank you for contributing to the lifelong learning of those who may be listening to Peterson Perspectives, and we'll have you back soon. Thanks again.

Howard Rosen: Thank you, Steve.

