Ominous Job Trends in the US Economy

Howard F. Rosen discusses his latest research showing that jobs being added in the United States pay less on average than the jobs lost in the Great Recession.

Transcript of interview recorded May 3, 2012.

Steve Weisman: The employment numbers come out every month, but here at the Peterson Institute for International Economics, Howard Rosen, resident visiting fellow, is diving more deeply into the numbers to show some surprising patterns underneath the monthly numbers. This is Steve Weisman. What is the change of the structure of employment in America?

Howard Rosen: We've been experiencing structural change in our labor market for the last 20 years. That gets camouflaged by downturns in the business cycle, which is what we have just come through. We had a big recession and unemployment went up. But now that unemployment is starting to come down, we're going back to the normal structural problems that we've been experiencing over the last 20 years -- a movement out of high-wage jobs and into low-wage jobs. The first indicator of this is when we look at the average earnings or wages. We've been having very mild improvements in average wages. That immediately gives us an indicator that something is going on.

One thing that could be happening -- and that is exactly what we're experiencing now -- is that we've got a large pool of people looking for jobs and not many jobs. That puts downward pressure on wages. But what we also find is a continuation of a 20-year trend in the changes in the composition of those jobs that were both terminating and then creating.

Steve Weisman: See if you can be more specific about the trends that you found in the last year or two in terms of the kinds of jobs created and their wage structure.

Howard Rosen: When we look at the actual jobs terminated during the recession, we see — although people had tended to believe that the recession affected everyone across the boards – it affected some industries and sectors more than others. About two-thirds of the total job losses during the recession were concentrated in five industries.

Steve Weisman: Relatively high wage?

Howard Rosen: Three of those five industries were high wage. They are construction, manufacturing, business, and professional services. And the other two were in low-wage industries, which are retail trade and leisure and hospitality.

Steve Weisman: Those were the jobs that were lost. What about the jobs that have been created?

Howard Rosen: Let me just say that the jobs that were lost in low-wage sectors are kind of connected to the downturn in the business cycle. I'll call them "cyclical jobs," meaning that when the economy is well, people have more money to spend so they buy more, so retail sales go up, and leisure and hospitality. What we want to concentrate on are the job losses in construction, manufacturing, and professional business services, which tend to be high-wage jobs.

If we look at the two years in the recovery thus far, we see that about 60 percent of the job gains—not net job gains, but total job gains—have again been in four industries. But three of them are the low-wage industries, which are retail trade, education and health services, and leisure and hospitality. In only one industry, professional business services, have we experienced significant job gains and they are high wage jobs. What we're seeing overall is that the recession tended to disproportionately hurt high-wage industries and the recovery seems to be disproportionately concentrated in the low-wage industries.

The next part of this is really critical. This gets lost in the discussion when we look at these general trends. There's an implicit assumption that individuals just move around to match up with those new trends, but that's not the case. The people who lost their jobs from high-wage industries now have to find jobs in the growing sectors, which tend to be low wage industries. There's an adjustment process, and individuals have to go through that process. It depends on what jobs are available, which location those jobs are in. People may have to move, and things like that. But what we're seeing is that the vast number of people came from high-wage sectors and the vast number of jobs being created are in the low-wage sectors.

Steve Weisman: This would appear to explain the salience of the issue of equality in America. Is this a possible explanation for the general wage stagnation and inequality in American life?

Howard Rosen: First, most people get their incomes from their jobs. It's not returns on their wealth. I mean, that's a minority of people. So, for most people, their wealth and income is coming from their salaries. The fact that we've had a change in the composition of jobs and that that composition of jobs has reflected changes in earnings, does help us understand why there would be shifts in the distribution of income. But more directly, this trend that I'm referring to has actually been taking place over the last 20 years, where on average the wages associated with the jobs that we have been terminating have been about 2 percent greater than average wages.

And the jobs that we have been creating, on average, have been only 1 percent higher than the average. Again, over the last 20 years, we have seen—contrary to the conventional wisdom -- the high-wage jobs are being terminated and the low-wage jobs are being created. Again, since most people are getting their wealth and income from their salaries, this helps us understand that the shift in income distribution is less of an anomaly.

Steve Weisman: You say this runs counter to the conventional wisdom. The conventional wisdom also is: "If we could only educate people, then they would be able to take these new high end, high wage, high education, high skill jobs." You're saying that they may not be able to do that because those jobs are proportionately diminishing in their availability.

Howard Rosen: That takes us to the next level of questions, which is: what determines the jobs that we create in the economy?

Steve Weisman: Right.

Howard Rosen: Part of it is what you just suggested. We need obviously to have the supply of workers with those skills to match those jobs. Quite often we hear these anecdotes about mismatched jobs.

Steve Weisman: There are all these CEOs who say they can't hire high-skilled people.

Howard Rosen: Right. I'm not denying that that phenomenon is not taking place, but it certainly doesn't explain the vast amount of activity that's going on in the economy. Yes, if we had a greater supply of more educated workers, it's possible that we would attract more of those high-skilled jobs back to the United States. And like I said, we are starting to do that. We are starting to see US companies bringing back some of their manufacturing to the United States. But again, relative to the total picture, it's not very large.

The other side of the equation, I would call the supply side of the creation of these jobs, is going back to basic investment and plant equipment. It reinforces that same story, which is that our investment in plant and equipment is near the lowest it has been since 1964. It is just above 10 percent of GDP. The lowest it has been is about 9.2 percent of GDP, which it was about a year ago. Again, the last time it was that low was back in 1964. So, business investment in plant equipment has improved. It has increased by 1 percentage point in a short period of time, which is a great improvement. But it is still relatively low -- not only low historically in the United States, but low when you compare it to what it is in other countries. In emerging countries, the share of investment and plant equipment in GDP can be something like 30 to 40 percent.

Steve Weisman: Especially China and others.

Howard Rosen: We're getting hit on both sides. On the supply side, we're not investing. We're not creating those jobs here in the United States. On the demand side, we also aren't preparing people to have the kinds of skills that those jobs would require. This is not just a statistical phenomenon. This really reflects the frustration that we feel in the economy because individuals are facing this reality and they have to make this adjustment. If you don't have the right skills, but you were fortunate enough to have come from a high wage industry before the recession, there are very high chances that you're going to have to take a cut in pay in order to get re-employed. Or if you're skilled, let's say, and we're creating some high-wage jobs, but not as many as the low-wage jobs, you may have to move in order to take those jobs. So there is a significant adjustment cost that is associated with this.

I mentioned before about that the average earnings of the job losses has been greater than the average earnings of job gains over the last 20 years, except in two years, and that was in 1997 and 1998, again going back to that "golden period" for the labor market where we saw the things were working the right way. Investment was going up, we were creating more high-wage jobs, and terminating less high-wage jobs. For a couple of years, we did get it right.

The reason I've raised this is because getting back to those kind of good times, it's not impossible. We know what it takes to do that, which is raising enough capital domestically, investing it in plant and equipment, and raising the skills of our workers, and then making sure that there is a match between these, the workers and those jobs. For those people who say that the US economy is in decline, we have done this and we did it just 15 years ago. Certainly we can do it again, if we get the match right.

Steve Weisman: Thanks, Howard.