

Dallas Fed Economic Summit
June 27, 2016

Monitoring the Dual Mandate: What Ails the Labor Force?

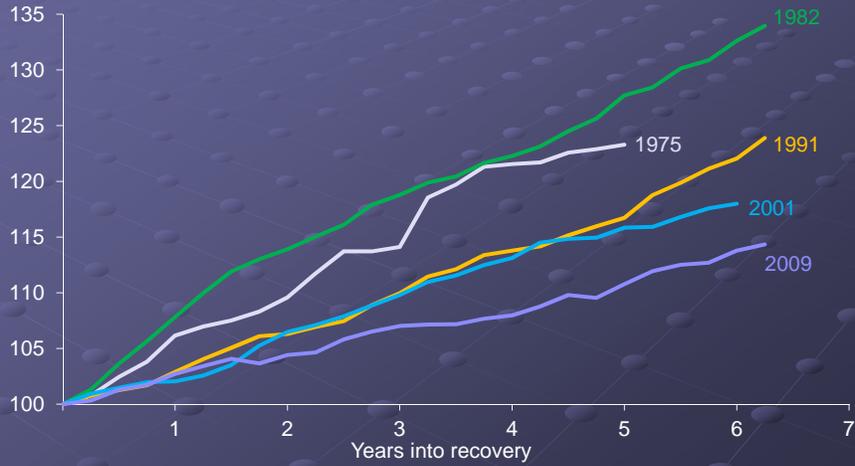
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Disclaimer: The views expressed here are those of the presenter and do not reflect those of the Federal Reserve Bank of Dallas or Federal Reserve System.

A SLOW RECOVERY

Judging by real GDP growth, the current expansion has been unusually weak

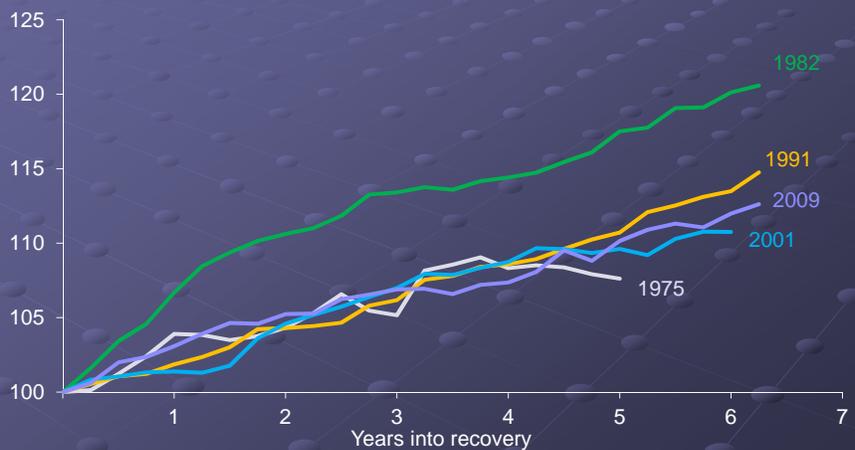
Index, business cycle
trough = 100



SOURCES: Bureau of Economic Analysis; National Bureau of Economic Research; authors' calculations.

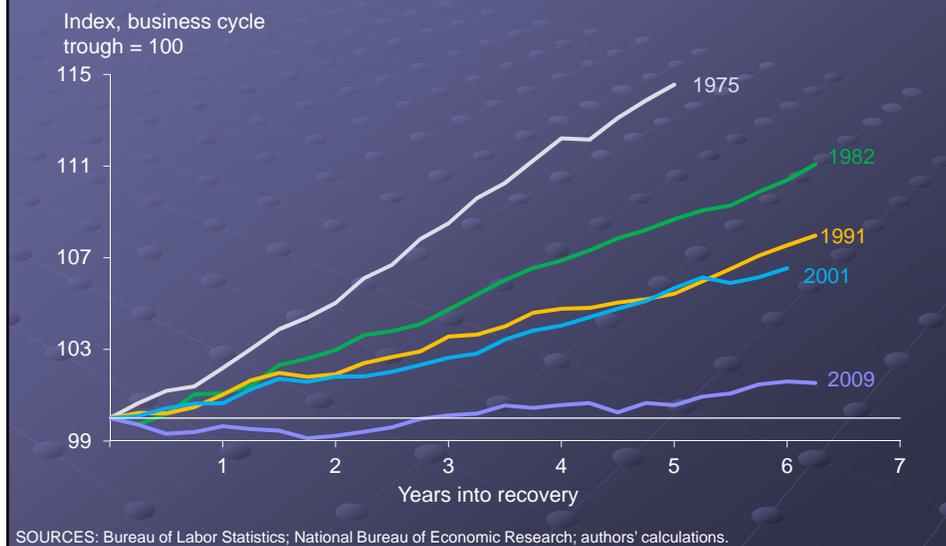
But divide GDP by the size of the labor force, and this expansion looks ordinary

Index, business cycle
trough = 100



SOURCES: Bureau of Economic Analysis; National Bureau of Economic Research; authors' calculations.

The explanation for sluggish recovery: Labor-force growth has been exceptionally slow

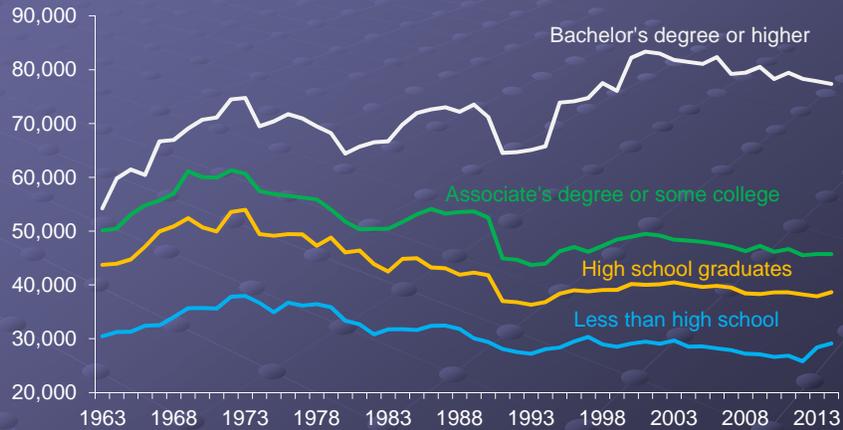


What ails the labor force?

- Wages
 - Stagnation
 - Rising wage inequality, labor market polarization
- Other trends with implications
 - Aging
 - Diversity
 - Immigration
- Policy responses
 - Beware of unintended consequences

Stagnating wages...

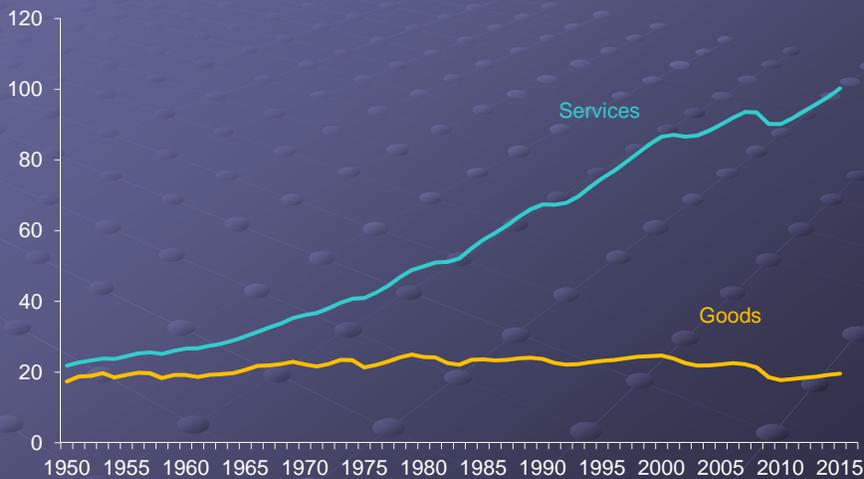
Total wage and salary income by education (2014 dollars)



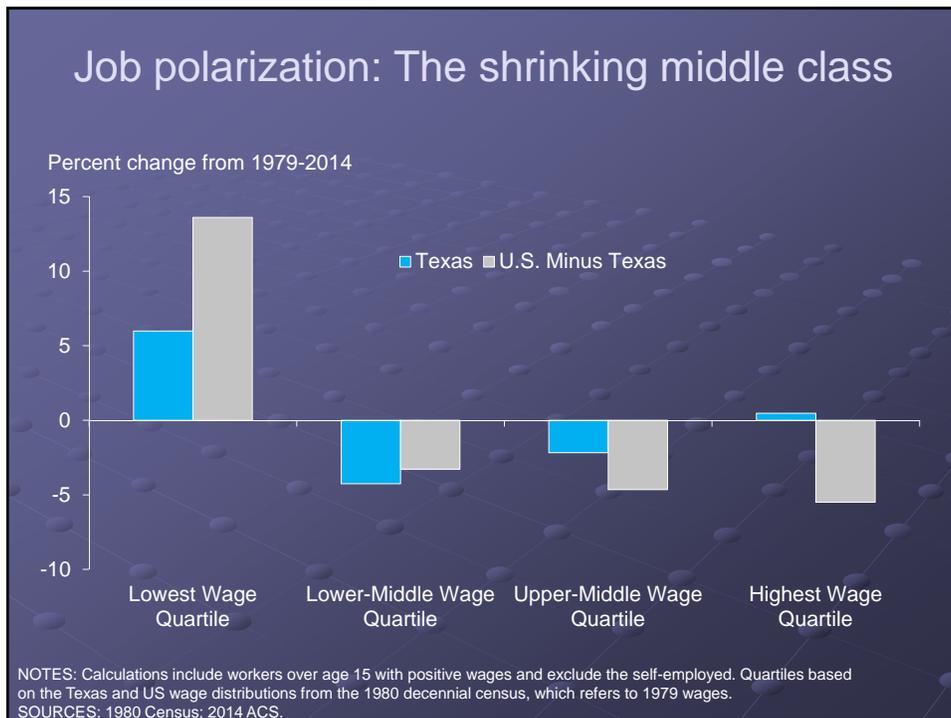
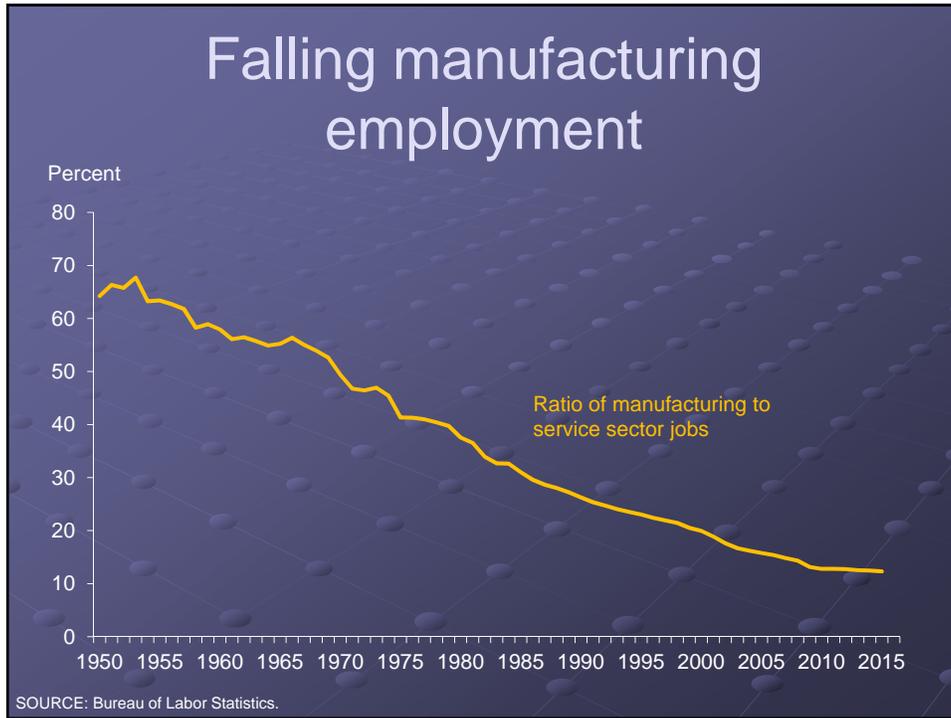
NOTES: Calculations are for full-time workers ages 25-65 who worked 50-52 weeks in the calendar year. Education groups are defined by a recoded education variable and is comparable across all years. Incomes are deflated using the CPI-U.
SOURCE: March Current Population Survey, 1964 - 2015.

Rising service sector employment

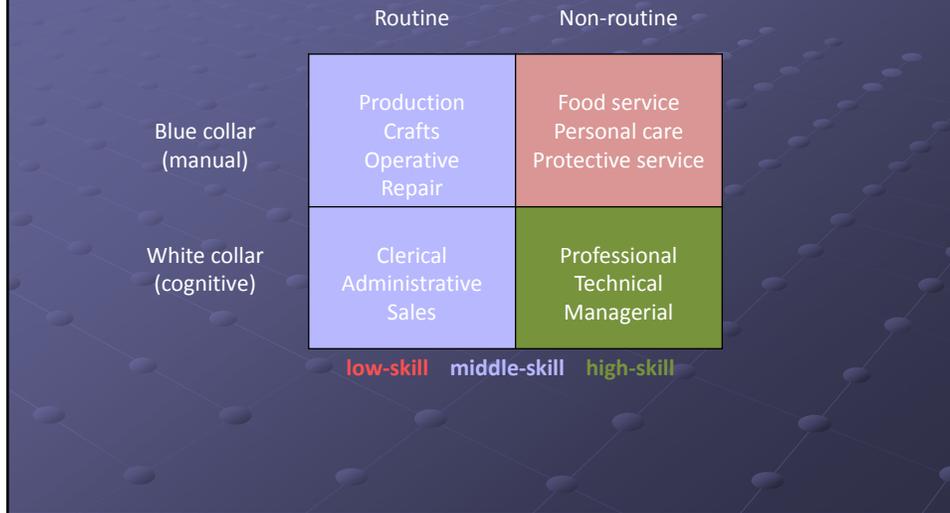
Millions of jobs



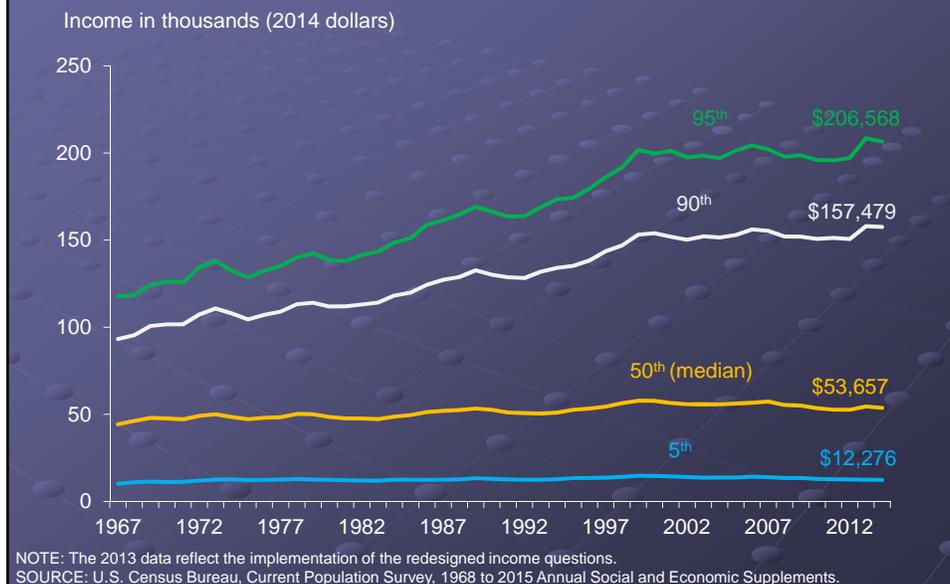
SOURCE: Bureau of Labor Statistics.



Technology replaces routine tasks, which most affects middle skill jobs



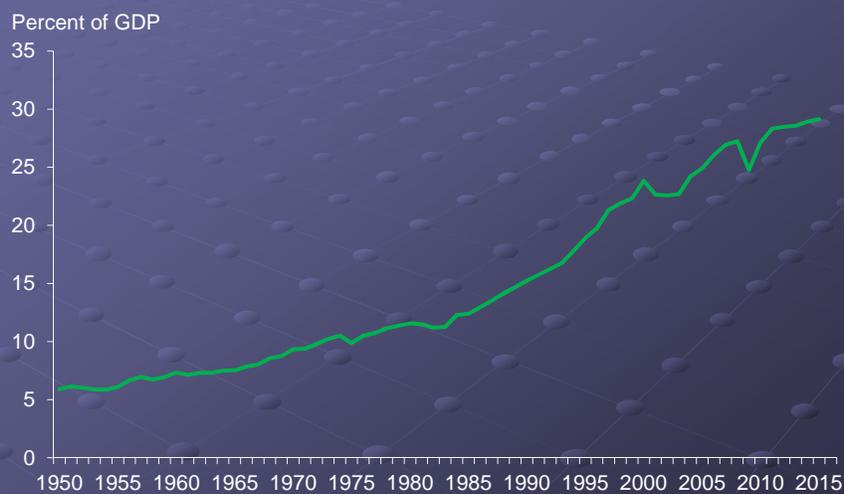
Rising income inequality...



Who/what gets blamed?

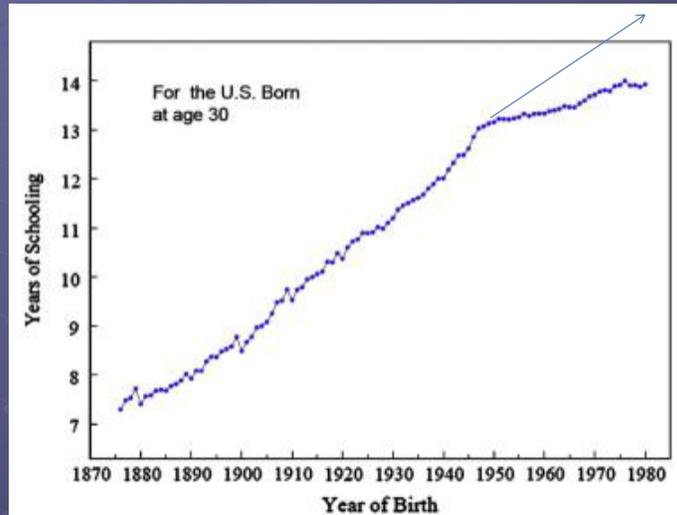
- Technological change
 - Routine tasks are automated
- Globalization: Offshoring, trade, immigration
 - Production moves overseas
 - Trade increases access to foreign suppliers
 - Immigration
- Slowing educational attainment
- Changing labor market institutions
 - Decline of unions; falling real minimum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

Exports and imports as a percent of GDP



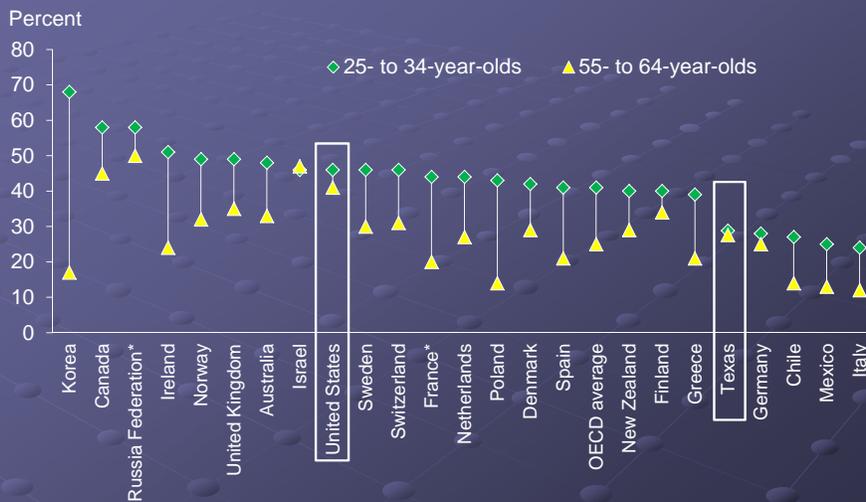
SOURCE: Bureau of Economic Analysis.

The slowdown in educational attainment



SOURCE: Goldin and Katz "The Race Between Education and Technology" (2008).

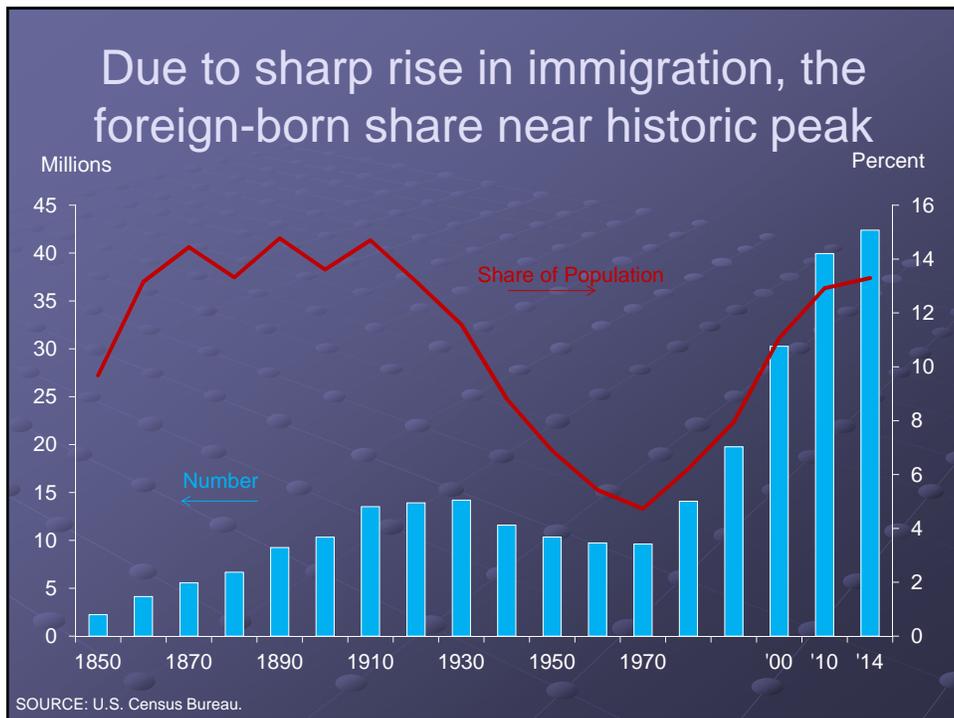
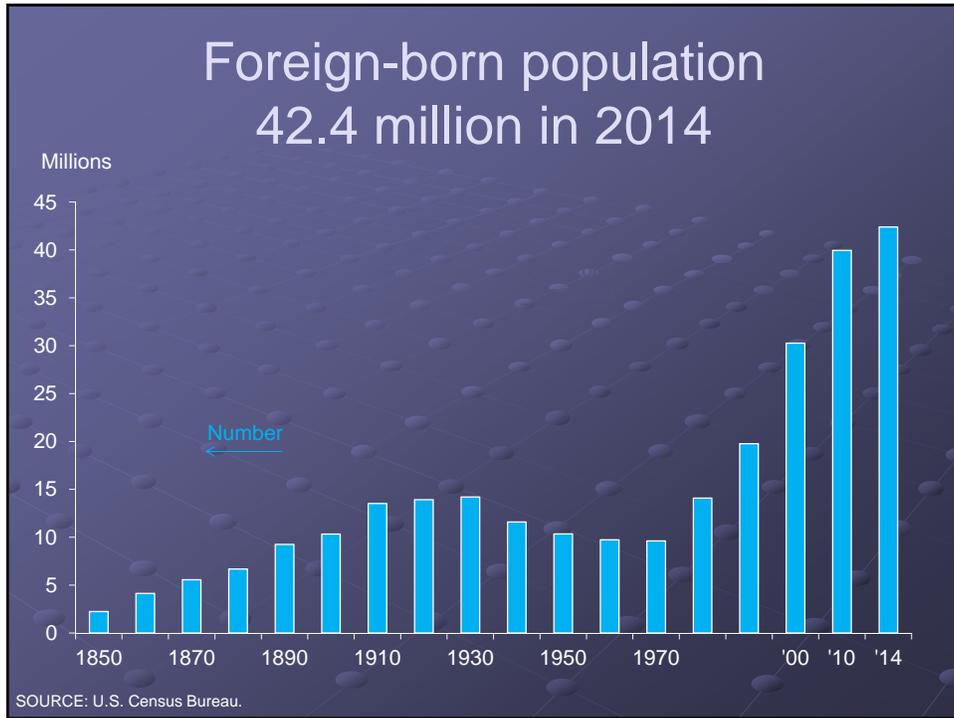
Population with a Bachelor's Degree or higher: Small gap means education gains dissipating

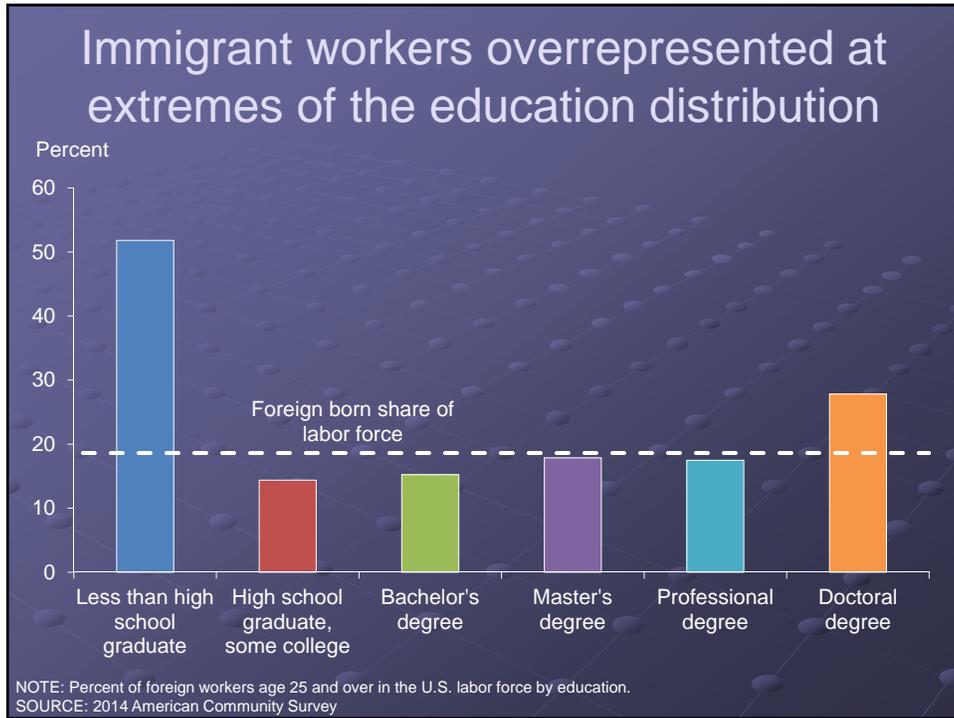


*Year of reference: 2013.

NOTE: Texas is based on 45- to 64-year-olds.

SOURCES: Organization for Economic Cooperation and Development Table A1.4a (www.oecd.org/edu/eag2015); Texas data: American Community Survey, 2014 one-year estimate.



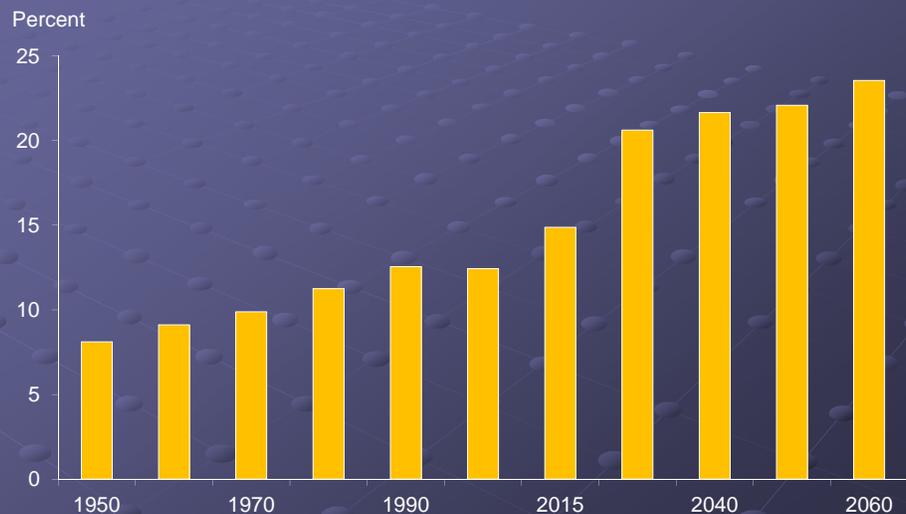


A CHANGING LABOR FORCE

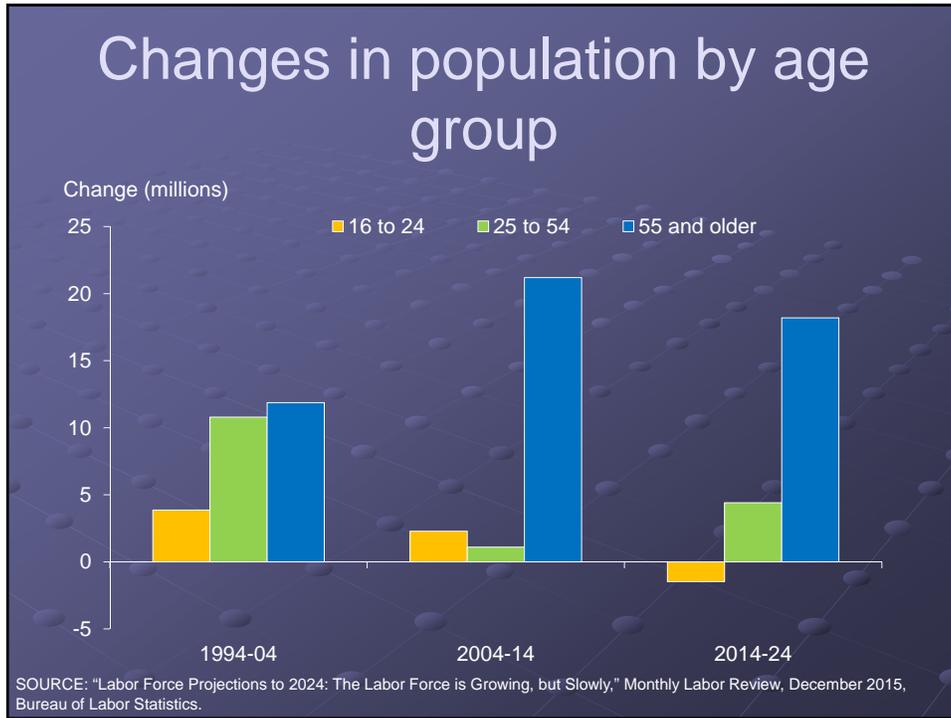
A changing native labor force

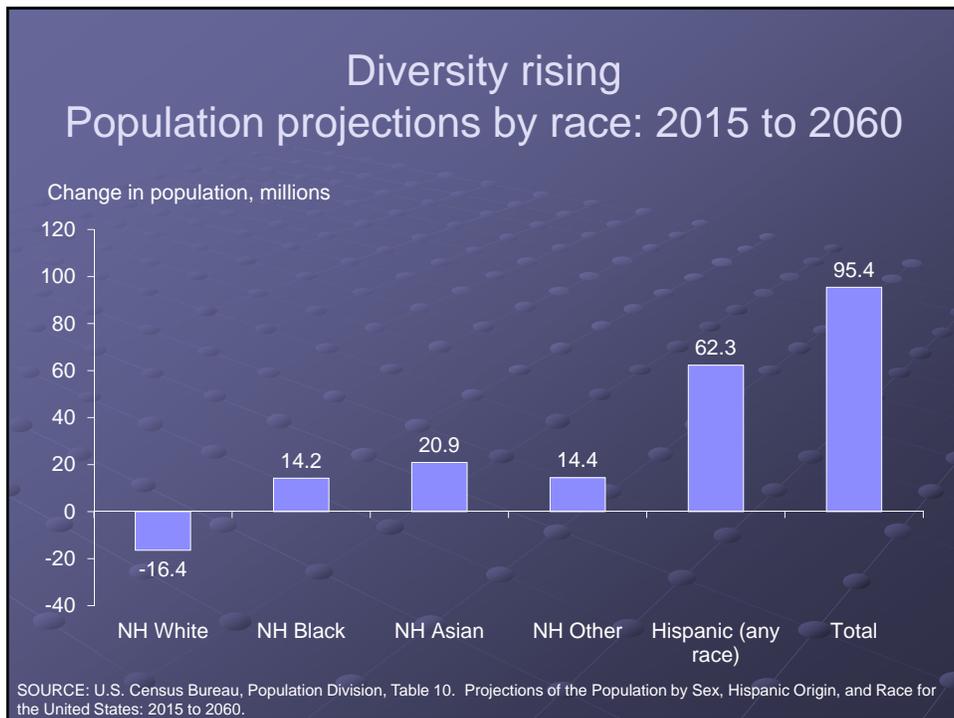
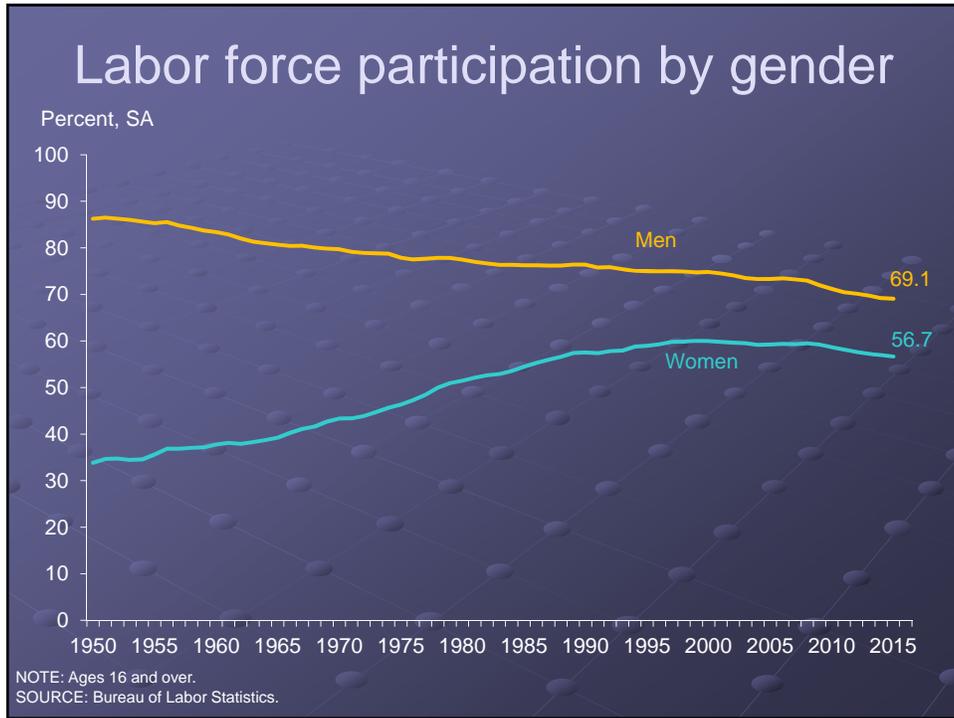
- Aging
- Diversity
- Immigration

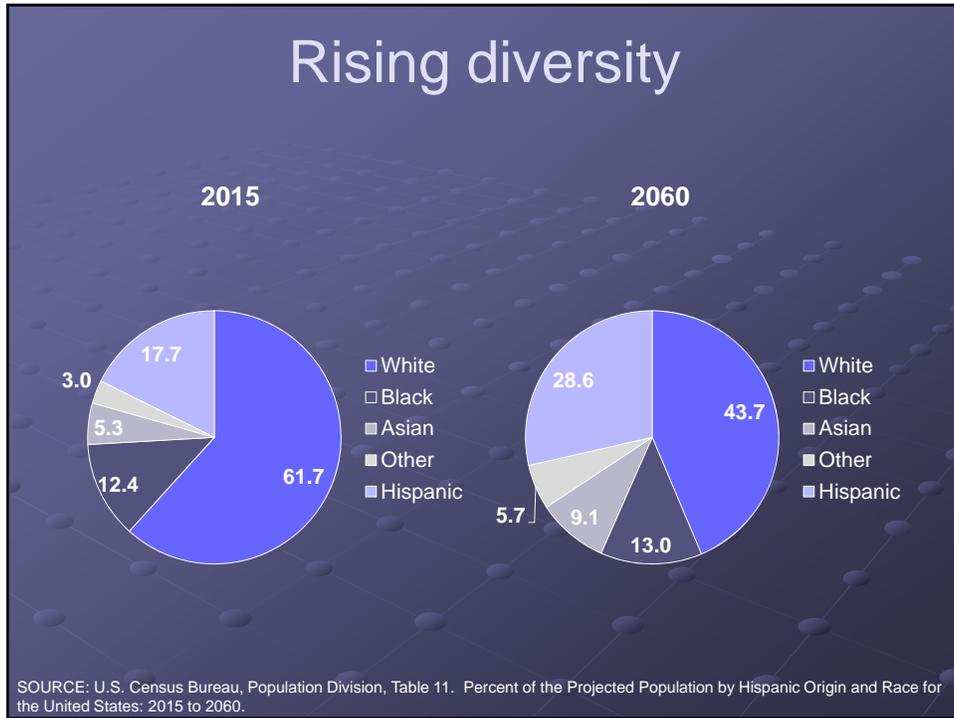
Aging underway: seniors will be 20% of U.S. population by 2030



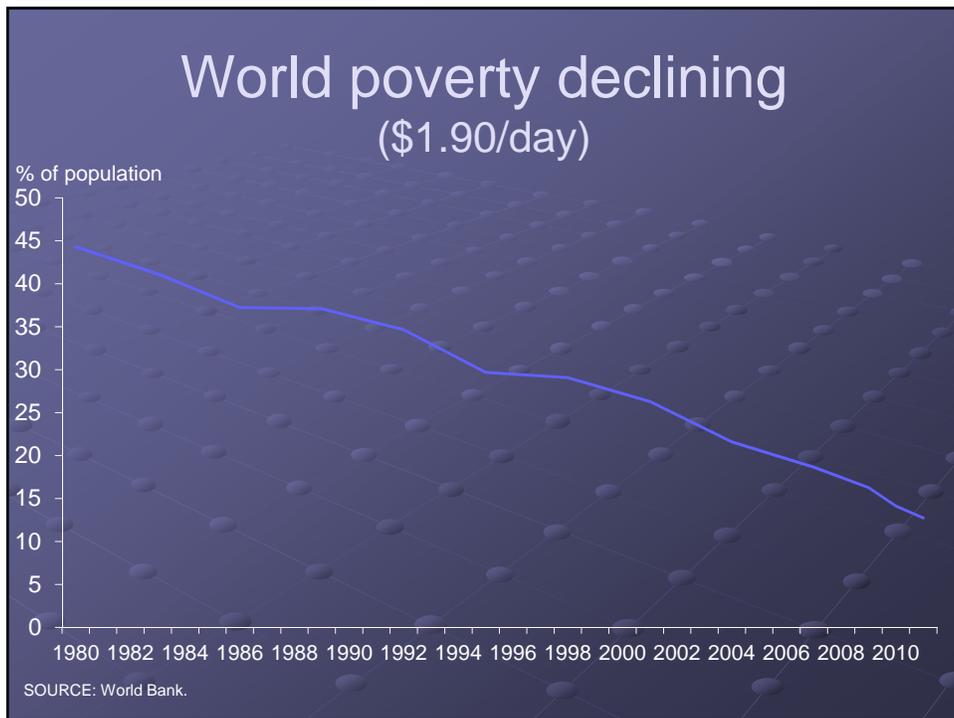
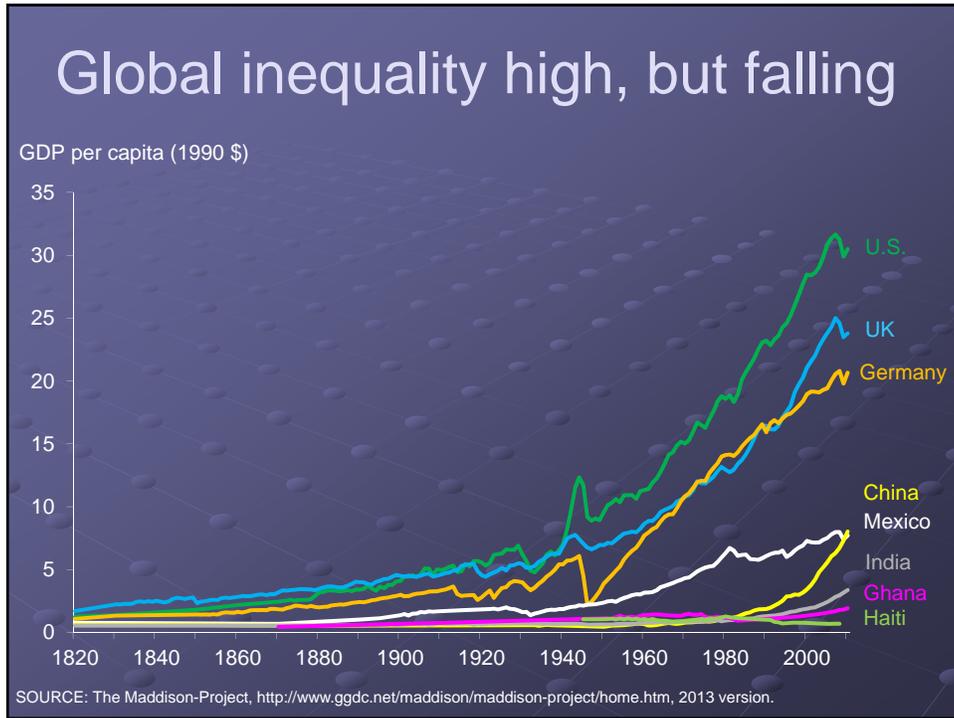
SOURCE: U.S. Census, various years; U.S. Census Bureau 2014 population projections 2015- 2060.

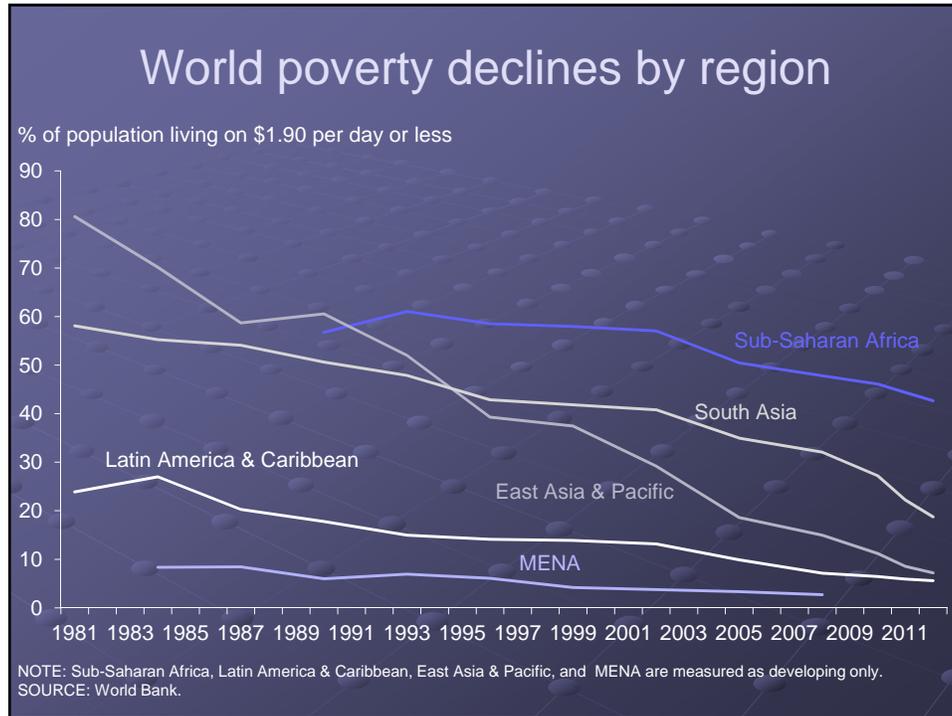






POLICY RESPONSES





What can we hope to fix with policy?

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

