Help Wanted

A Look at America's Changing Job Market

"A clue about what's been happening in the U.S. job market is help-wanted advertising."

Roughly 8 million people are unemployed in America. This number is surprising not because it is so high but because it is so low. More than 1 million American workers separate from their jobs every month—nearly 12 million every year. Yet between 1981 and 1993, the U.S. economy expanded by 20 million jobs, or 20 percent, and U.S. employment continues to hit new highs. Clearly, unemployment would be much higher had the economy not been quietly gaining new jobs to compensate for the plant closings, business failures and layoffs of the past two decades.

Recent U.S. employment data raise some intriguing questions. Who are the unemployed and when can they expect to regain employment? Where are the new jobs coming, and how can a worker help prepare for them? What long-term labor market lessons are contained in the recent data?

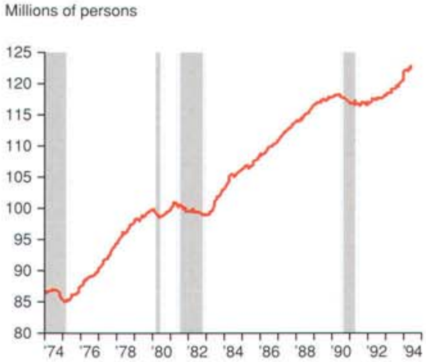
Job growth after the 1990–91 recession has been slower than in previous recoveries, and the people hired for new jobs often have had different occupations, ages and educational backgrounds from the people who lost their jobs. These differences point to structural changes in the American economy that are the focus of this article.

What's Different About Current Employment Trends

Ups and downs are the stuff of business cycles. Though never affable, recessions and recoveries are expected in a free enterprise economy as abrupt changes in aggregate demand or supply reverberate through markets. One common story, for example, is that a slump in aggregate demand creates oversupply, which begets layoffs, which further reduce aggregate income and demand, and so on. Whether or not this view is a true characterization of the typical U.S. business cycle, by and large, that is *not* what's been happening for the past five to six years, including the 1990–91 period of recession.

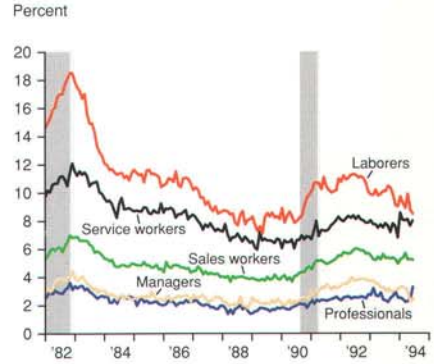
Though the U.S. has regained the roughly 2 million jobs lost during the 1990–91 recession, the new jobs came slowly and are much different from those they replaced. Chart 1 shows U.S. employment since 1974. The shaded areas of the chart indicate periods of recession (falling GDP), with spans of recovery and expansion in between. In most recoveries, growth in the number of jobs coincides with rising GDP. But as Chart 1 shows, job growth did not resume until well after the 1990–91 recession.

Chart 1
Employment
(Household survey)



SOURCE OF PRIMARY DATA: U.S. Bureau of Labor Statistics.

Chart 2
Unemployment Rates by Occupation



SOURCE OF PRIMARY DATA: U.S. Bureau of Labor Statistics.

A clue about what's been happening in the U.S. job market is help-wanted advertising. Help-wanted ads remained higher during the 1990–91 recession than during the one in 1981–82. During the 1981–82 recession, firms advertised only two to four positions for every 10 unemployed people. For every 10 people unemployed in the 1990–91 recession, firms advertised openings for four to six positions. The higher number of job openings per unemployed person in 1990–91 suggests a mismatch between the jobs workers sought and the workers employers needed.

Who's Working and Who's Not

A second clue about today's job market can be found in the data on unemployment rates by occupation. Chart 2 shows unemployment rates among five types of occupations—laborers, service workers, sales workers, managers and professionals. Typically, the highest unemployment tends to be among laborers (such as machine operators, construction workers, movers, packers and assemblers) and the lowest among professionals (lawyers, teachers, engineers, physicians, brokers and so forth). This pattern is generally constant throughout the 1982–93 period.

Also, laborers and—to a lesser extent—service workers typically suffer the brunt of unemployment during recession. During the 1981–82 recession, for instance, unemployment rates hit 19 percent among laborers and 12 percent among service workers, but unemployment among sales workers, managers and professionals rose only slightly. The 1990–91 recession, however, was again different. Though it was a relatively mild recession *overall*, sales workers and managers suffered just as badly as they did in 1981–82.

Unemployed workers today are likely to face longer periods between jobs than workers laid off in earlier business cycles (*Chart 3*). The median period of unemployment for today's jobless individual is about nine weeks; in other words, half the unemployed have been without jobs for less than nine weeks and half for more than nine weeks. This compares to a median duration of unemployment of roughly only seven weeks at a similar stage during the previous economic expansion.

Also unlike previous business cycles, displaced workers' time between jobs has continued to grow after the recession. Almost four years after a relatively mild recession, people still are having difficulty finding work. About 2.5 percent of the labor force has been unemployed for 15 weeks or longer, compared with about 1 percent at this point in the 1975–80 expansion and 2 percent at a similar point in the 1982–89 expansion—which both followed much more severe recessions.

Who are the long-term unemployed? Clearly, they are not the 20- to 24-year-olds, and they are not so much the 16- to 19-year-olds. They are the middle-agers—those between 35 and 54. Table 1 shows the age distribution of the long-term unemployed, those who have been out of work 27 weeks or more. Forty-four percent of those without a job for six months or more are between 35 and 54 years old, compared with only about 30 percent following the 1975 recession and 33 percent following the 1982 recession.

Those unemployed by the recent downturn also tend not to be on layoff; many do not expect to regain their old jobs as the economy improves. As the 1973–74 and 1981–82 recessions indicate (*Chart 4*), business cycle downturns are typically characterized by substantial layoffs. The 1990–91 recession, however, was again not typical in that people weren't laid off but were let go permanently. Outright job loss accounted for nearly all the increase in unemployment, with little increase in temporary layoffs.

In short, the 1990–91 recession separated many workers from their jobs forever. The economy is undergoing a restructuring that is paring jobs in some occupations, such as secretaries, telephone operators, managers and supervisors, assemblers and packagers, while adding jobs in others. Without retraining for different careers, some workers may have difficulty finding new jobs.

The structural changes at work in the economy are creating opportunities for new kinds of workers to fill new kinds of jobs. Firms now want employees who can work more independently, without a lot of costly supervision (but usually with a computer). Further reductions in the unemployment rate will likely come only as the long-term unemployed acquire new skills to qualify themselves for new occupations.

What Structural Changes Mean for U.S. Workers

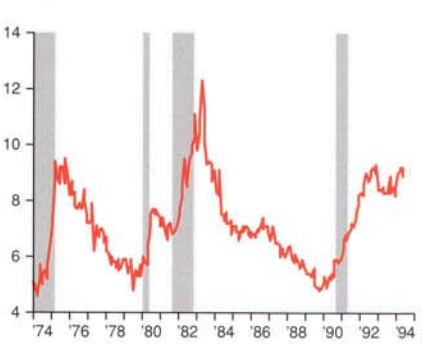
More than ever, education is the decisive factor in determining who finds a job and who remains unemployed. The gap between the unemployment rate of a high school dropout and that of a college graduate has grown from roughly 3 percentage points in the 1970s to more than 8 percentage points in recent years. Over their lifetimes, high school dropouts will spend about

Table 1
Distribution of Long-Term Unemployment by Age

Age	1976 (Percent)	1983 (Percent)	1992 (Percent)
16–19 years	9.1	6.8	4.7
20–24 years	19.7	17.7	9.3
25–34 years	25.1	32.2	28.4
35–44 years	14.3	19.7	25.4
45–54 years	16.3	13.2	18.5
55–64 years	12.2	9.3	11.2
65 years and older	3.3	1.2	2.4
Total, all ages	100	100	100

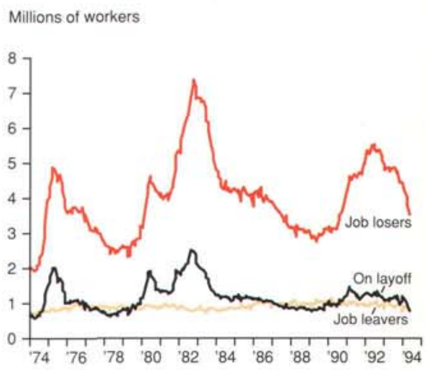
SOURCE: U.S. Bureau of Labor Statistics.

Chart 3
Duration of Unemployment



SOURCE OF PRIMARY DATA: U.S. Bureau of Labor Statistics.

Chart 4
Reason for Unemployment



SOURCE OF PRIMARY DATA: U.S. Bureau of Labor Statistics.

Table 2
Weeks Unemployed by Educational Attainment

Education	Age of worker 22	23	24	25	26	27
Less than high school	36.2	40.4	43.3	46.5	50.6	52.3
High school graduate	23.7	26.6	29	30.9	32.6	34.7
Some college	17.8	20.4	22.1	23.5	25	26.4
College graduate	11.7	13.7	15.1	16.6	17.4	18.5

SOURCES: Adapted from Jonathon R. Veum and Andrea B. Weiss, "Education and the Work Histories of Young Adults," *Monthly Labor Review*, April 1993, Table 5, p. 19; U.S. Bureau of Labor Statistics.

three times longer unemployed than college graduates. By age 27, the average high school dropout will spend 52.3 weeks unemployed, compared with 18.5 weeks for the college graduate (*Table 2*).

More often than not, the opportunities workers can expect to find are in the service sector—engineering, computer programming, banking and brokering, accounting, teaching, sales and government, among other occupations. The shift toward service employment isn't the first upheaval in the American labor market. At one time, 95 percent of all Americans worked on farms. As technology advanced—first to the steam engine, then to electricity and beyond—American manufacturing employment expanded and eventually peaked at 29 percent of the work force. Today, fewer than 17 percent of U.S. workers have manufacturing jobs, and more than 75 percent work in service occupations.

In this changing labor market, employers soon may face even greater competition for workers if several trends now evident curtail growth of the labor pool. Since the 1960s, U.S. employment has grown to absorb the women, baby boomers and immigrants seeking entry into the labor force. Now, more than half of all American women work outside the home, the number of youth coming of working age is subsiding and rates of immigration, although high in recent years, may decline. From 1982 to 1989, employment growth averaged nearly 224,000 jobs per month. In the 1990s, with lower potential growth in the labor force, a reasonable average employment gain is 150,000 jobs per month.

The U.S. Employment Picture In Perspective: Historical And International

In sum, the 1990–91 recession is best viewed not as a short-term business-cycle phenomenon but as a phase in American economic development during which business moved from the machine age to the information age. Though painful for many workers displaced from their jobs, the current upheaval in labor markets is not the first. On the contrary, it repeats a centuries-old pattern that demonstrates how free enterprise economies grow. Labor market turnover, in fact, is a source of strength in the long-term U.S. employment outlook. International comparisons support this conclusion.

Despite the changing composition of the U.S. job market, job growth in the United States has surpassed that of every other industrialized nation over the past 12 years. While the U.S. economy added 20 million jobs, other Group of Seven countries—Japan, Canada, Germany, the United Kingdom, France and Italy—added a combined total of only 12.5 million. The combined employment base of these six countries grew from 158 million jobs in 1981 to just 170 million in 1993, compared with the United States' 20-percent job growth, from 100 million jobs to more than 120 million (*Table 3*).

The reason? Other G–7 countries

"Despite the changing composition of the U.S. job market, job growth in the United States has surpassed that of every other industrialized nation over the past 12 years."

Table 3
Jobs Created by G–7 Nations

	Employment		Net jobs	Percent
	1981	1993	created*	job growth
United States	100,397	120,658	20,261	20.2
Japan	55,060	63,659	8,599	15.6
Canada	11,001	12,396	1,395	12.7
Germany	26,450	27,986	1,536	5.8
United Kingdom	23,800	24,565	765	3.2
France	21,200	21,735	535	2.5
Italy	20,280	19,998	–282	–1.4
G–7 minus United States	157,791	170,339	12,548	8

* In thousands.
SOURCE: OECD Economic Outlook.

have had less profound labor market turnover than the United States, often because government subsidies discourage people from working and regulations discourage firms from hiring. This is especially true in Europe, where one in two unemployed persons has been without work for a year or more. In the United States, one in 16 unemployed persons has been jobless more than a year.

The conflict between unemployment policy and economic growth may be undesirable, but it is certainly real. As the late Austrian economist Joseph Schumpeter wrote:

> Whether lasting or temporary, getting worse or not, unemployment undoubtedly is and has always been a scourge....The real tragedy [though] is not unemployment per se, but unemployment plus the impossibility of providing adequately for the unemployed without impairing the conditions of further economic development.[1]

Economies grow when markets are unimpeded and when obsolete jobs are allowed to disappear to free resources for other uses that can provide workers with opportunities rather than subsidies. As millions of would-be immigrants realize, this is America's proven formula for success.

—W. Michael Cox

[1] From Joseph Schumpeter's book, *Capitalism, Socialism, and Democracy.* In a recent study of 3,650 unemployed males in 12 states, Bruce Meyer found that the probability of becoming employed triples in the final few weeks before unemployment benefits run out (*Econometrica* 1990).

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