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What Happened to Work?: Bloomberg Businessweek Opening Remarks

By: Peter Coy – May 9, 2013

Joey Griffiths grew up in the western New York town of Dunkirk and left home at 17. Now he's 30 and working as a bill collector in Jackson Heights, Queens. He has bills of his own to pay. Says Griffiths: "I'm good at collections because I understand what they're going through. Just surviving."

You hear a lot of just-surviving talk on the sidewalks of Jackson Heights, a polyglot neighborhood just south of LaGuardia Airport. Rajesh, a limo driver who declined to give his last name, says he's barely scraping by in spite of driving or waiting for fares at least 12 hours a day, seven days a week. "One day ends, the next day is coming," he says. Klaus Bauer, a 24-year-old immigrant from Cape Town, South Africa, is trying with little success to make it in computer science. He's homeless. "Right now I might be moving somewhere," says Bauer. "Another city. Another state. Trying to find some seasonal work, off the books. Get my own IT business together."

For all the positivity about the April jobs report -- lowest unemployment rate in four years! -- the U.S. job market remains dismal. One statistic makes the point: Just 58.6 percent of American civilians aged 16 and up had jobs in April, according to the Bureau of Labor Statistics. That's a lower employment-to-population ratio than during the worst of the 2007-09 recession. Even though the jobless rate has fallen, millions of people aren't counted as unemployed because they've stopped looking for work, or never started.

Little Effect

It's time to stop and figure out what's wrong. Politicians and economists have been talking about high unemployment for better than five years, to little effect. Some of the explanations offered seem to border on rationalizations for why nothing can be done. That's not good enough. Extended unemployment is not only a human tragedy for the jobless and their families. It's also a waste of human capital in a nation that can ill afford to discard valuable resources.

The breakdown of the labor market can be blamed on either supply or demand. Those who argue that the supply of labor is the main problem say that many Americans simply aren't qualified for the jobs available. On May 7, the BLS reported that there were more than 3.8 million job openings in the U.S. at the end of March -- at a time when more than 11 million people were looking for work.

More Education

One obvious fix is more education to cure the mismatch between job seekers' skills and employers' needs. Schooling clearly helps: The unemployment rate for college graduates in April was just 3.9 percent, versus 11.6 percent for people with less than a high school education. The U.S. economy thrived in the 20th century when it had the world's highest high school graduation rates and has stagnated as other countries have caught up, Harvard University economists Claudia Goldin and Lawrence Katz argue in *The Race Between Education and Technology*.

There's little debate that education improves social mobility. Jon Miller, a University of Michigan political scientist, says his father worked on the railroad and his mother in a shoe factory. He made sure his own kids got more education than his parents had. His son is a tenured astrophysicist, his daughter a neurobiologist with a law degree. "Educated people are getting a hefty return on their investment," says Miller.

The "supply" case hinges on the notion that the working world is getting more complicated and demanding. "Complexity has opened a great divide between those who have mastered its requirements and those who haven't," Brink Lindsey, a senior fellow at the Cato Institute and the Kauffman Foundation, argues in a new book, *Human Capitalism*. The economists' term of art for this is "skill-based technical change."

Worker Deficiencies

But an emphasis on workers' deficiencies can morph into a blame-the-victim mentality. And it's not the whole story -- far from it. A new study by three Canadian economists says that today's jobs don't require more smarts than jobs of the recent past. The researchers found that the average "cognitive content" of tasks performed by employed college graduates of all ages peaked in 2000 and has dropped fairly steadily since. The study is by Paul Beaudry and David Green of the University of British Columbia and Benjamin Sand of York University in Toronto. In the same vein, the Conference Board, a company-supported research organization, recently found that since 2000 the importance of math and science skills in jobs declined, while social skills became more important.

Grabbing Jobs

Beaudry and his co-authors agree that college grads are more likely to be employed than high school grads and dropouts. But they say that's partly because the college grads are grabbing jobs they're overqualified for, bumping the less educated down the job ladder or off of it entirely. The Canadians' study will be scrutinized at a National Bureau of Economic Research-organized gathering of top labor economists on June 14 in Washington. If it stands up, a lot of economists and policy makers will be forced to rethink their assumptions about the role of education in fixing unemployment.

To the "demand" camp, the skills mismatch is a small and temporary concern. A 2011 paper by Marcello Esteveo and Evridiki Tsounta of the International Monetary Fund concluded that it accounted for only 0.5 percentage point of the U.S. jobless rate and was likely to dissipate over time. Federal Reserve Vice Chairman Janet Yellen, a possible successor to Chairman Ben Bernanke in 2014, told Bloomberg Markets last year that the

mismatch argument “constantly resurfaces whenever unemployment rises, and it’s alive and well now.”

Full Potential

To Yellen and Bernanke, education matters, but it won’t help job seekers if the economy is running too slowly to generate jobs. Getting the U.S. economy producing at full potential would add about \$950 billion to annual gross domestic product and go a long way toward putting people back to work. For the Fed, accelerating economic growth through monetary policy is Job One. Alas, for Congress, which controls taxing and spending, faster growth appears to be Job Two, behind trying to shrink the federal budget deficit. Hence the January tax increases and the March sequester, both of which weigh on growth.

High unemployment isn’t due solely to fiscal policy failures. Offshoring and automation loom large. Companies can get accounting services from India for about \$23,000 a year that would cost \$70,000 in Northern Virginia, says Deborah Kops, managing principal of Sourcing Change, a sourcing consultancy. “We’re in a Jetsons economy. Technology is just massively disintermediating jobs,” says Gary Burnison, chief executive officer of executive recruiter Korn/Ferry International. (KFY) Gar Alperovitz, a left-leaning political scientist at the University of Maryland, argues that the problem is even deeper. He says the U.S. economy has proved incapable of generating growth and jobs for the past century except during military buildups and debt explosions.

Good Ideas

Five years since the start of the unemployment crisis, the problem with the U.S. labor market isn’t weak supply or weak demand. It’s both. At the same time, plenty of good and innovative ideas for how to put more Americans back to work are out there. Fixing aging infrastructure is a job generator that’s a no-brainer at today’s low interest rates. Youth jobs programs need more funding, not less. Jeff Madrick, a senior fellow at the Roosevelt Institute, calls for a revival of “Fordism” -- Henry Ford’s sensible idea of paying workers enough to afford what’s for sale. All that’s needed is the will to act. Tackling Unemployment, a new book by Ruth Ellen Wasem on the Employment Act of 1946, describes how postwar Americans made up their minds that they would not let the economy slip into another Depression. “There was a sense of ‘let’s do it,’ a can-do spirit,” Wasem says in an interview. A little of that American swagger would go a long way right now.