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# The Real American Jobs Crisis

## Why Better Family Policies Can Help

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The United States' employment rate—the share of working-age persons in a paying job—rose steadily throughout the second half of the twentieth century. In the 1980s and 1990s, this increase stood out among affluent democracies, a number of which were then experiencing low job growth and persistently high levels of unemployment. Commentators took to referring to [2] the U.S. economy as the "great American jobs machine."

*This article is the second in a two-part series. Part One [3] looked at the decline in men's employment since 1970.*

But that trend ended around 2000 [4], as Figure 1 shows. The employment rate was about four percentage points lower in 2016 than it had been in 2000, and nearly nine percentage points lower than what it would have been based on a projection using 1950–2000 trends.

The United States' recent employment record [5] isn't just disappointing when compared to past performance. It is also mediocre relative to job growth in other affluent nations [6]. Among 21 rich, long-standing democratic countries, the U.S. employment rate was the fifth highest in 2000. It is now fifteenth. What has gone wrong, and how can it be fixed? [7]

### DEFINING THE PROBLEM

The most obvious culprit is the Great Recession. Its onset in 2008 cut short the employment-growth phase of the 2000s business cycle, limiting it to just four years, compared to seven years in the 1980s and eight years in the 1990s. And the fall in the employment rate caused by the Great Recession—four percentage points between 2007 and 2010—was more severe than in any other downturn since the 1930s.

A second factor contributing to the recent jobs slowdown is a fall in government employment. As Figure 2 shows, the share of the working-age population employed by federal, state, and local governments increased until 1980 and then flattened out in the 1980s and 1990s. Since 2000 it has dropped by about one percentage point.

Another cause is an acceleration in the decline of manufacturing employment [8]. In 1970, 16 percent of working-age Americans had jobs in manufacturing, while today just six percent do. The downward trend sped up after 2000, as indicated in Figure 3 below. Between 1970 and 2000, the manufacturing employment rate fell by six percentage points, or about three percentage points every 15 years. In the 15 years after 2000, it fell by four percentage points.

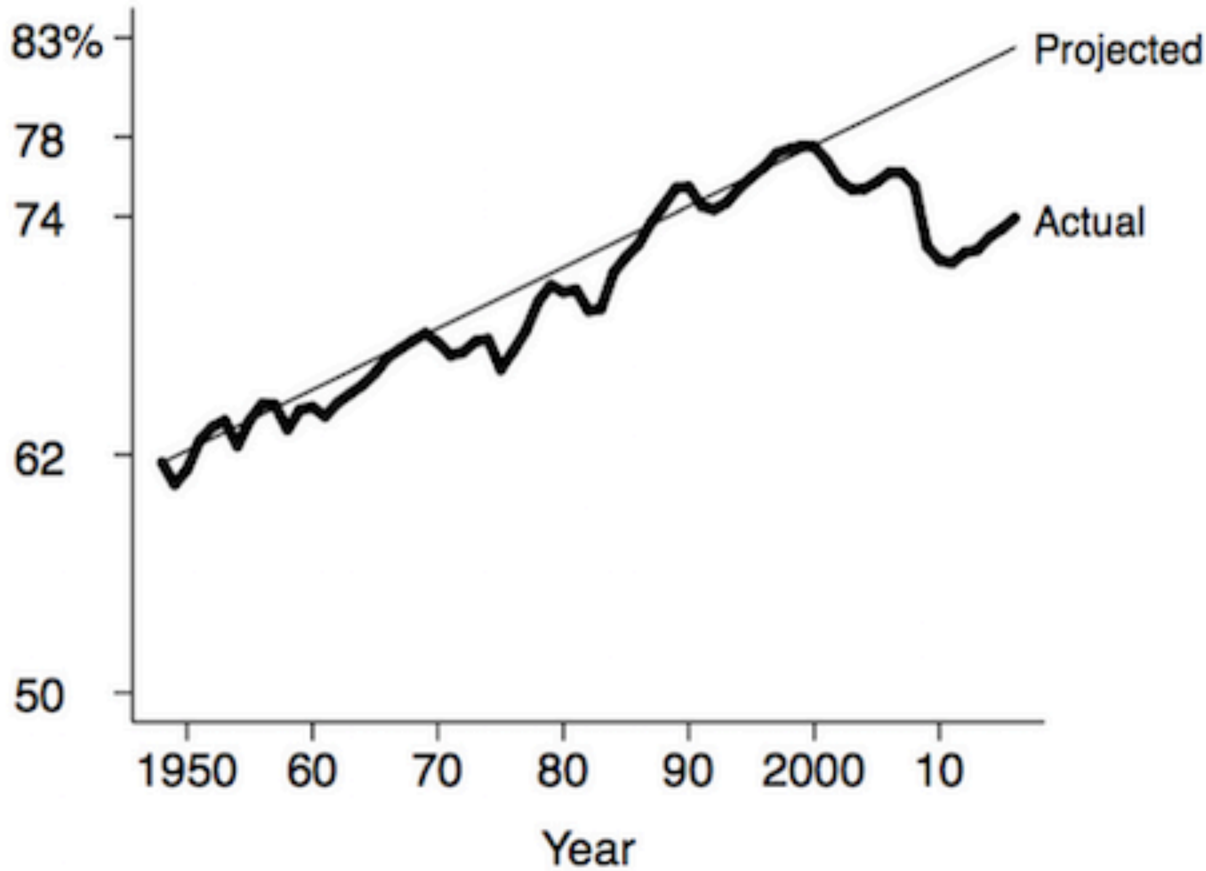


*Figure 1. U.S. employment rate among persons aged 25–64. Data source: Current Population Survey, Bureau of Labor Statistics.*

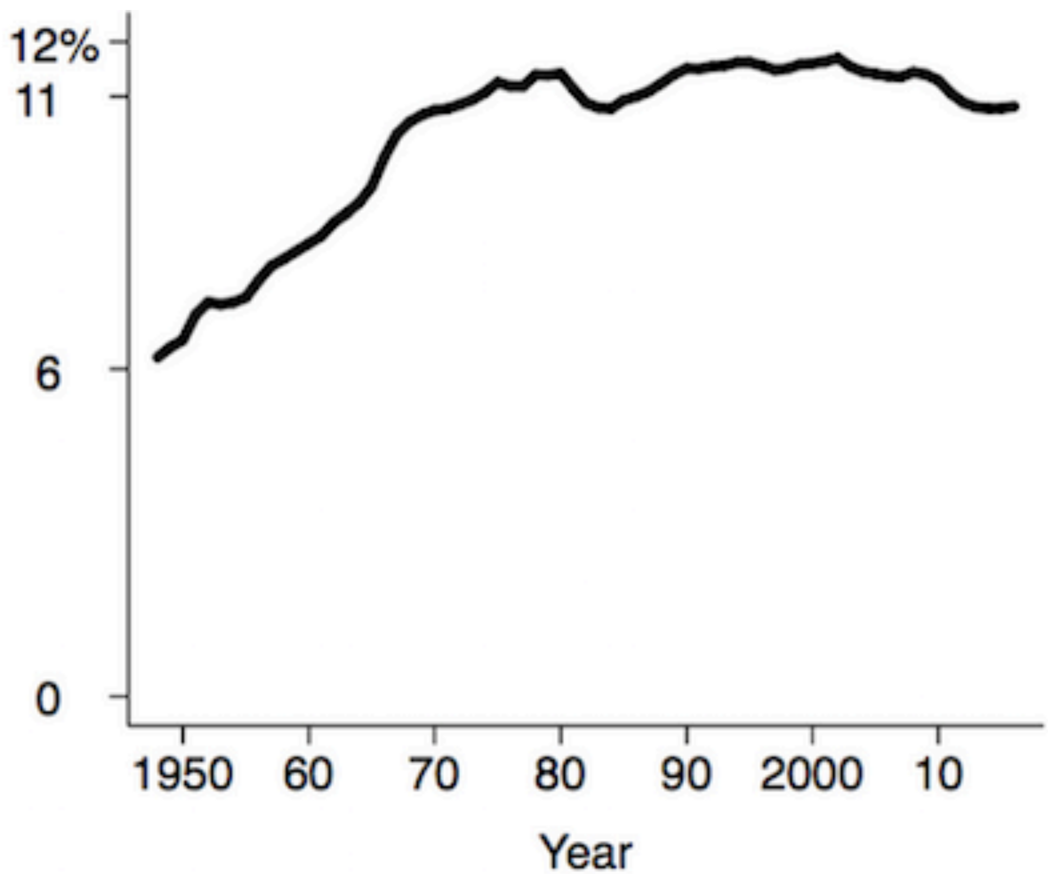


*Figure 2. Government employees as share of the population aged 15–64. Data sources: Federal Reserve Bank of St. Louis; Bureau of Labor Statistics.*

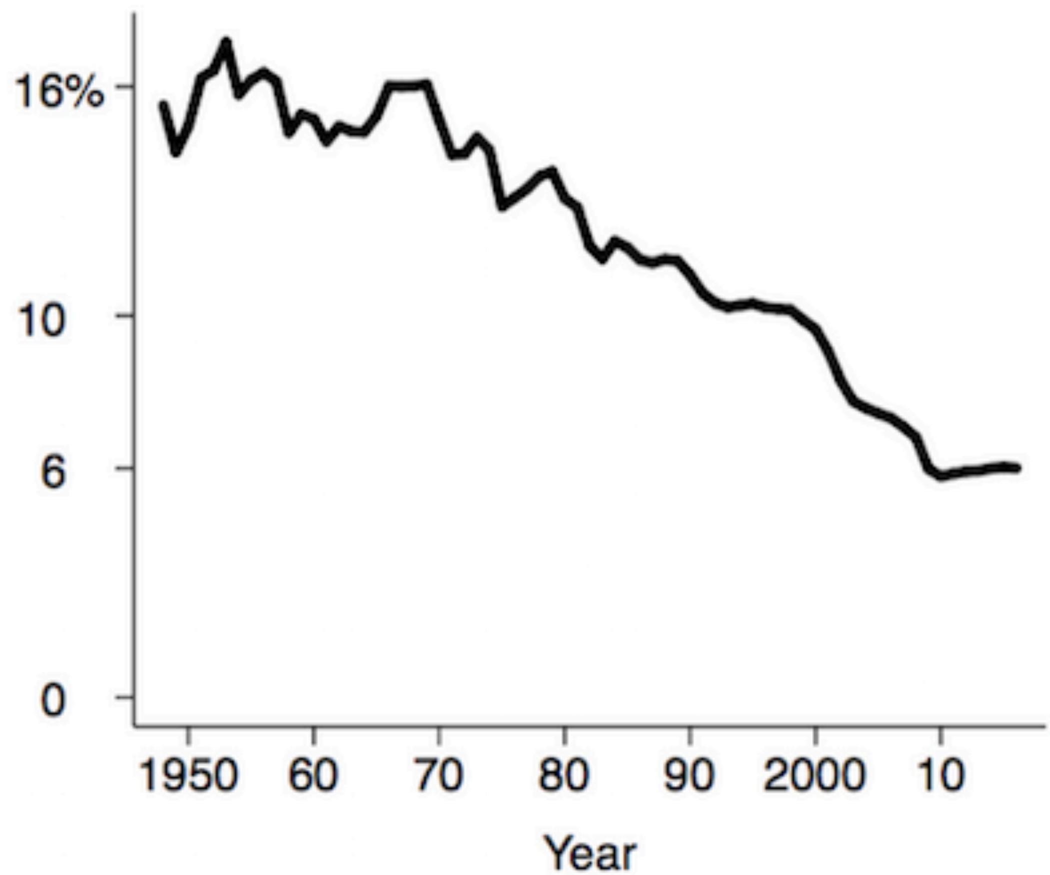


*Figure 3. Manufacturing employees as share of the population aged 15–64. Data sources: Federal Reserve Bank of St. Louis; Bureau of Labor Statistics.*

Declining American manufacturing employment owes largely to a surge in imports from China, following the latter's 2001 accession to the WTO. According to recent [9] analyses [10], the so-called trade shock from China has cost the United States between 2.4 million and 3.2 million jobs since 2001. Although in theory displaced workers could have shifted to other jobs, in practice doing so is difficult [11] unless the worker is willing to accept significantly lower pay or move to another city or state.

## WHAT'S EATING THE PRIVATE SECTOR?

The United States' actual employment rate in 2016 was about nine percentage points lower than what it would have been if the previous half century's employment trajectory had continued (see Figure 1). As a rough approximation, based on comparison of trends in 1950–2000 versus those in 2000–2016, about 3.5 percentage points of the employment gap owe to the timing and severity of the Great Recession, one point to the drop in government employment, and one to the acceleration in the decline of manufacturing employment. The rest of the gap, about 3.5 percentage points, is a result of a slowdown since 2000 in the growth of private-sector service employment during business cycle upturns.

Figure 4 below shows the share of the U.S. working-age population in private-sector nonmanufacturing (mostly service) jobs. During the growth phase of the business cycles in the 1970s, 1980s, and 1990s, the employment rate in private-sector services increased, on average, by one percentage point per year. In the 2000s and the 2010s, however, it did so by two-thirds of a percentage point per year. That is part of the reason why the share of working-age Americans employed in private rose from 34 percent in 1970 to 53 percent in 2000, but was still at 53 percent in 2016.

There are four major hypotheses explaining the slowdown in private service employment growth in the last decade and a half. The first [12] is that U.S. employment growth has slowed because U.S. economic growth has slowed. This is quite plausible, but sorting out the causality is difficult, because employment is not only a consequence of economic growth but also a key determinant of it.

Second [13], a significant amount of net job creation comes from relatively young firms, and the rate of new business creation is lower today than in the past, perhaps due to an accumulation of regulatory impediments. The problem with this explanation is that the business startup rate has been falling steadily since the mid to late 1970s [14], so it isn't clear why this would have hindered employment growth only after 2000.

A third [15] hypothesis, championed by the economist Robert J. Gordon, points to changes in corporate governance and in the leverage that employers hold over employees. Beginning in the 1980s, many U.S. firms shifted to a shareholder value orientation, prioritizing the company's stock price over the well-being of employees. Growing use of stock options for executive compensation accentuated this shift by creating a direct financial incentive for management to try to drive up the firm's share price. At the same time, financial advisers, believing that many firms had become bloated with unnecessary employees, increasingly favored those that downsized their workforce, leading to larger share price increases. Meanwhile, automation, rising imports, a decline in unionization, and an increase in immigration weakened workers' bargaining power relative to that of their bosses.

Finally, a fourth hypothesis focuses on the United States' lack of progress [16] in developing more family-friendly social policy [17]. Employment among prime-age men [3] has decreased since 1970, but at a steady pace, with no acceleration after 2000. The big change since

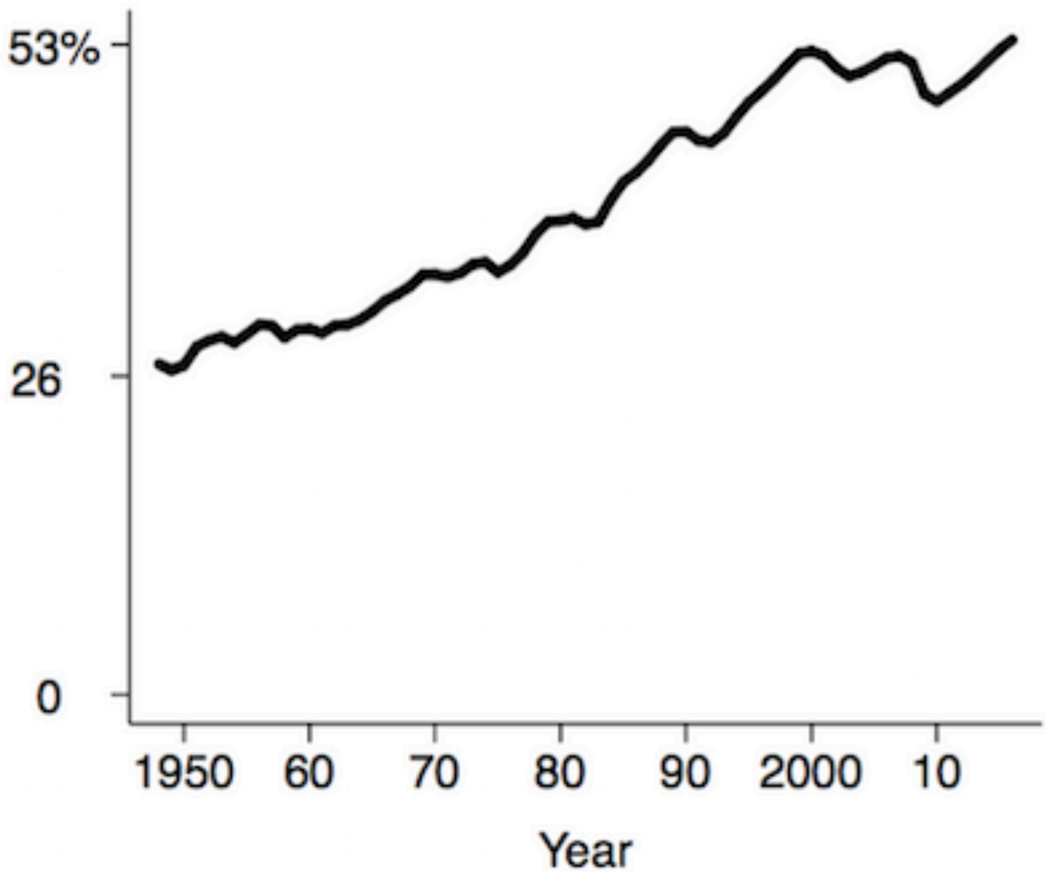


*Figure 4. Employment rate: private sector other than manufacturing. Data sources: Federal Reserve Bank of St. Louis; Bureau of Labor Statistics.*

2000 has been among women. The employment rate among prime-age women rose from 35 percent in 1950 to 74 percent in 2000. In 2016, it had fallen to 71 percent.

This contrasts with developments in a number of other rich countries, as Figure 5 shows. In 2000, the United States had the sixth highest prime-age women's employment rate among these countries. A decade and a half later, it ranked seventeenth.

Many Americans with young children want to combine family with paid work. But free public schooling in the United States only begins with kindergarten, which usually starts at age five, and out-of-home care for younger children can be prohibitively expensive. Full-time out-of-home care for a child under five costs, on average, about $9,500 per year [18]. That is a large sum, particularly for those with low incomes. (The average annual income of the bottom fifth of U.S. households is only $20,000 [19].) Faced with such unaffordable costs, some parents settle for care that is mediocre or poor, while others, mostly women, forgo employment.

Denmark and Sweden [20] have pioneered a different [21] approach [22]. Beginning in the 1960s, these countries introduced, and then steadily expanded, paid parental leave and publicly funded childcare and preschool. Today, Swedish and Danish parents can take a paid year off work following the birth of a child. After that, parents can put the child in a public or private early education center. The quality tends to be high, as early education teachers in these countries receive training and pay comparable to elementary school teachers. Parents pay a fee, but the cost is capped at less than ten percent of a household's income.

The impact of these policies is visible when comparing employment patterns [23] in the United States to those in the two Nordic countries. Among mothers whose youngest child is six to 16 years old, and thus eligible for free schooling, the employment rate in the United States is just a few percentage points lower than in Denmark and Sweden. Among mothers with a child younger than six, it is 15 percentage points lower.

In recent decades many other rich nations have moved toward Nordic-style family policies, and a number of them have pulled ahead of the United States in women's employment and in overall employment. In Germany, for instance, the employment rate among prime-age men was flat between 2000 and 2015. But in part because of expanded access to childcare, the employment rate among prime-age German women rose from 71 percent to 79 percent. As a result, Germany's overall employment rate increased during this period while in the United States it was falling (see Figure 1). U.S. family-friendly policy remains well behind the curve: in 1993, the federal government enacted a requirement that medium-sized and large firms allow 12 weeks of unpaid family leave; at the state level, a few states have paid parental leave policies and some have pre-kindergarten for four-year-olds.

At the moment, there is no clear answer as to which of these hypotheses best accounts for the slowdown in employment growth in private services since 2000. But as noted earlier, the big reversal in employment trends has occurred among women, which suggests a key role for family-friendly policies.

## WHAT TO DO

How can the United States do better going forward? One clear imperative is to avoid another deep financial crisis or asset bubble. This will require the regulation and vigilant monitoring of the U.S. financial industry. Other strategies—investment in infrastructure, paid family leave, subsidized childcare and preschool, and relaxation of unneeded

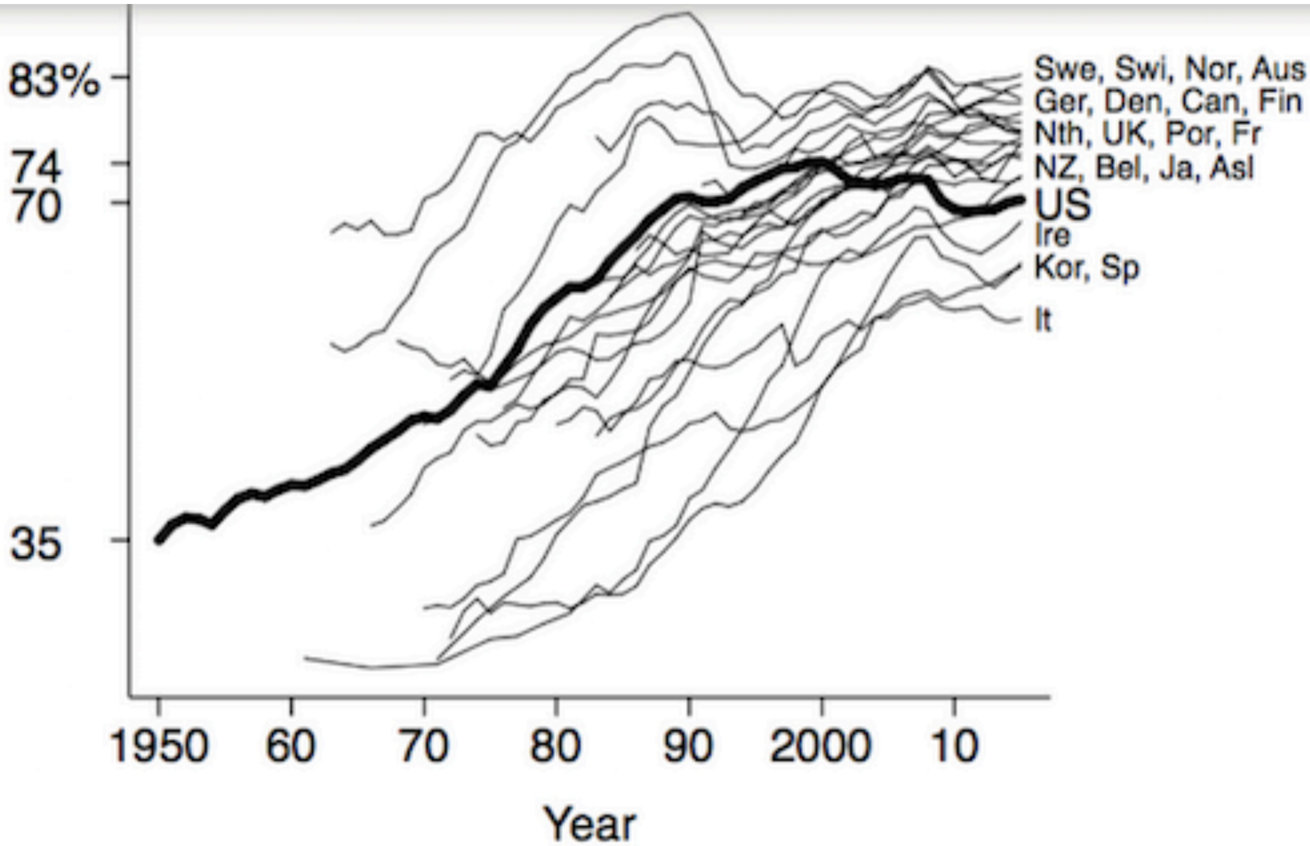


*Figure 5. Employed rate: women aged 25–54. The other countries are Australia, (Asl), Austria (Aus), Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea (South), the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Data source: OECD.*

regulations (including some occupational licensing requirements)—might not only boost employment but also have additional desirable effects, expanding equality of opportunity [24] and enhancing choice.

Other strategies are less promising. The United States is unlikely to make much headway in bringing back manufacturing jobs, even if the Trump administration succeeds in reducing imports from China and Mexico. And revitalizing unions, or weakening the shareholder value orientation in corporate governance, are likely to be very difficult to achieve. Unionization levels, for instance, have been decreasing in most affluent nations over the past several decades.

The 2016 presidential election suggests that a large number of Americans care deeply about jobs. Now would be a good time to begin a conversation about committing to full employment. (The 1978 Humphrey Hawkins Act established "the responsibility of the Federal Government to use all practicable programs and policies to promote full employment.") This would mean monetary policy geared toward maximum employment, even at the expense of inflation above the two percent norm of recent decades. It would mean more funding for training, job placement assistance, career switching, relocation, counseling, and monitoring for those who need it. And it would mean a guarantee that if a decent job isn't available in the private sector, the government will provide one.

Although there may be some openings right away for a few of these suggestions, such as infrastructure and paid parental leave, it is likely that implementation of much of this agenda will have to wait until the political moment is more favorable. Policymakers should be ready when that moment arrives, because the United States' employment problem looks unlikely to resolve itself on its own.



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