

Discussion of Where Have All the Workers Gone?

Alan B. Krueger

Peter Diamond

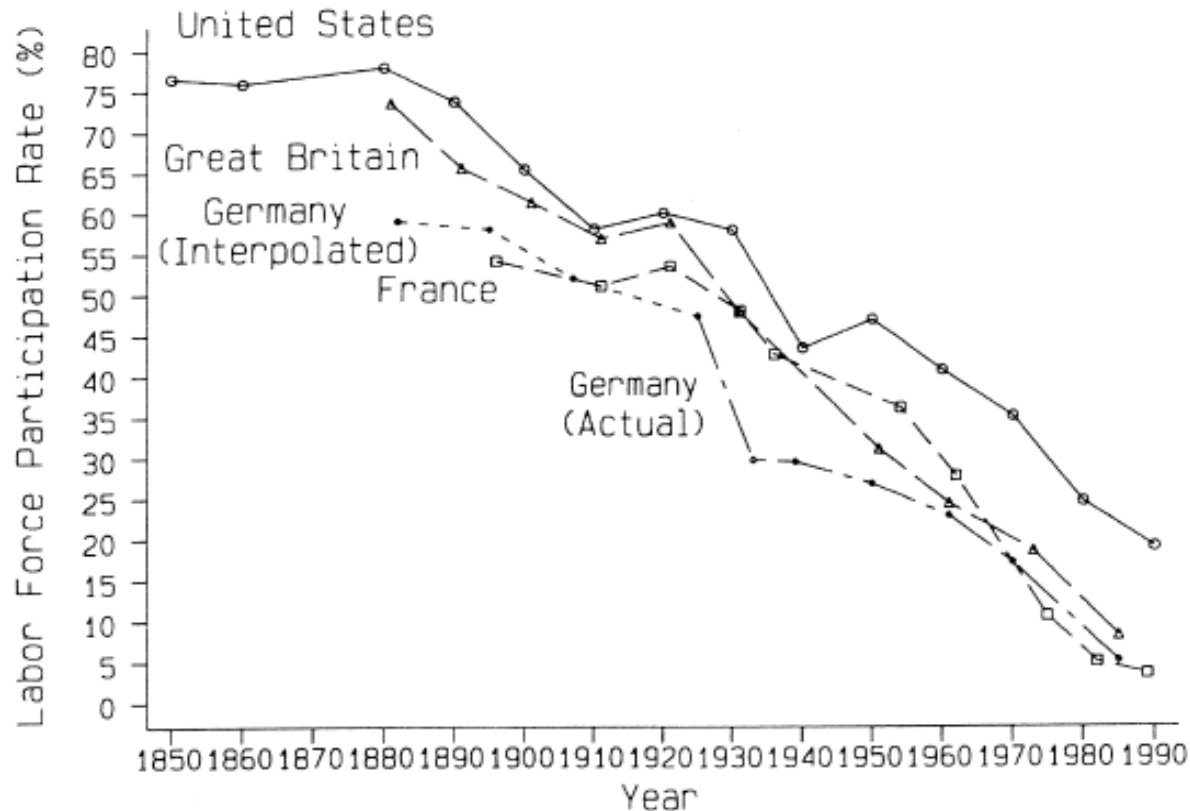
“The Elusive “Great” Recovery:
Causes and Implications for
Future Business Cycle Dynamics”

October 14-15, 2016

VI. Conclusion

- The decline in labor force participation in the U.S. over the past two decades is a macroeconomic and social concern.

Labor Force Participation Rates of Men (aged 65 and over) for the United States, Britain, France, and Germany from 1850 to 1990



Source: The Evolution of Retirement: An American Economic History, 1880 to 1990, Dora L. Costa, University of Chicago Press, 1998, pg 9.

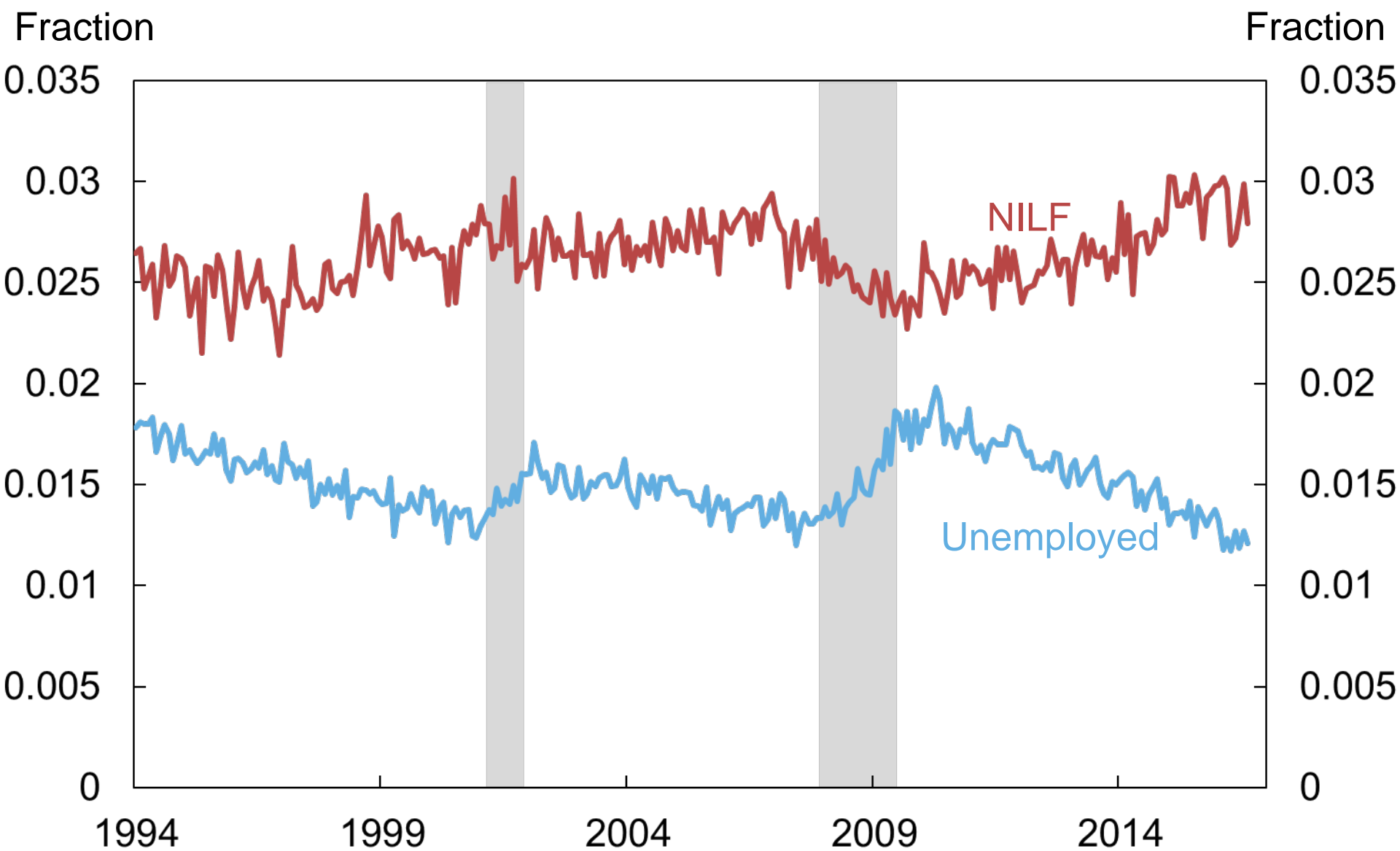
Decompositions of trend

- Age
- Gender
- Age and gender
- Health status
- Education
- Race
- Immigration
- Incarceration

As noted in Okun (1962), the unemployment rate is at best “a proxy variable for all the ways in which output is affected by idle resources.”

Okun, Arthur M. 1962. “Potential GNP: Its Measurement and Significance,” American Statistical Association, *Proceedings of the Business and Economics Statistics Section*, pp. 98–104. Page 99.

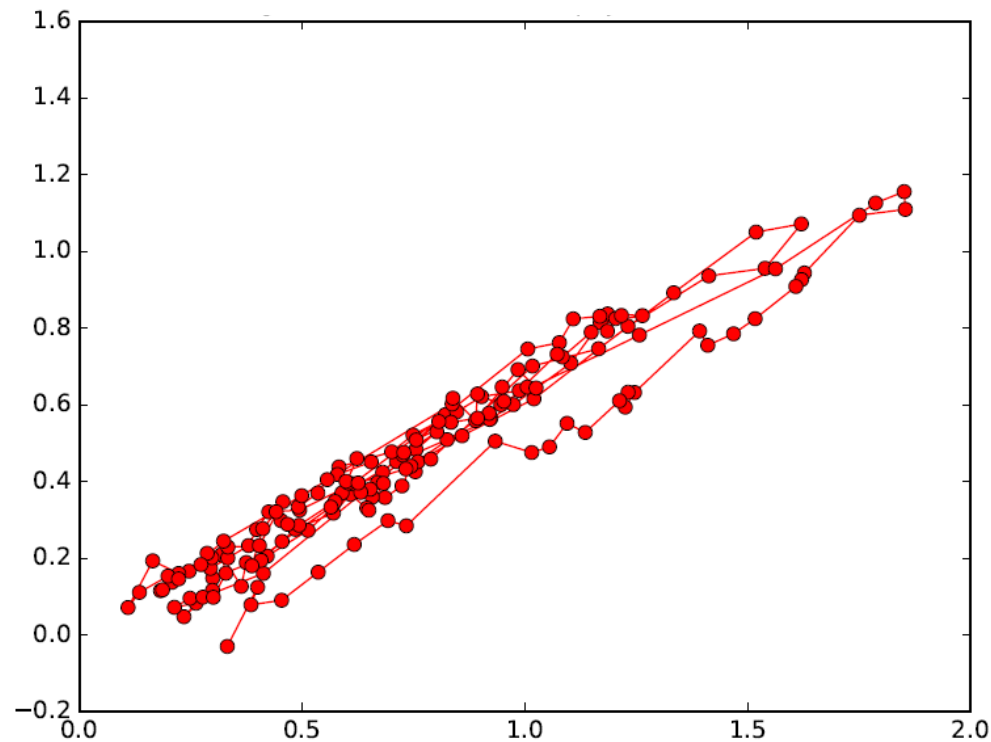
Hires from U and N as a Fraction of Employment



Source: Current Population Survey

Note: Shading shows NBER recessions.

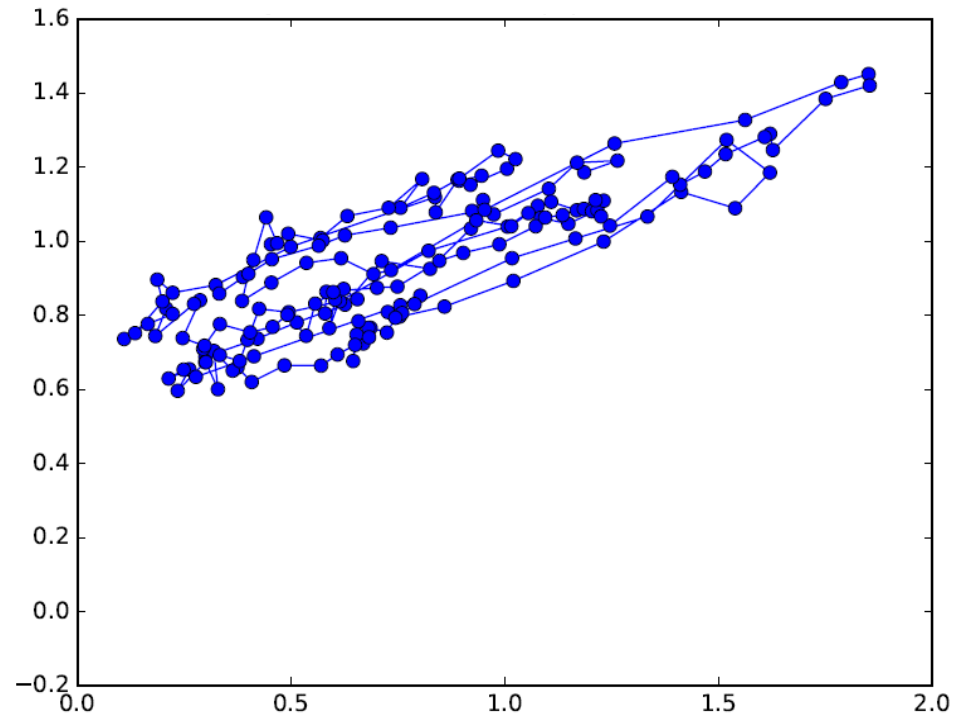
Log UE/Vacancies and Log Unemployment/Vacancies



Note: Quarterly Data – 1975-Q1 - 2016-Q1

Source: BLS, JOLTS, Conference Board, Barnichon (2010)

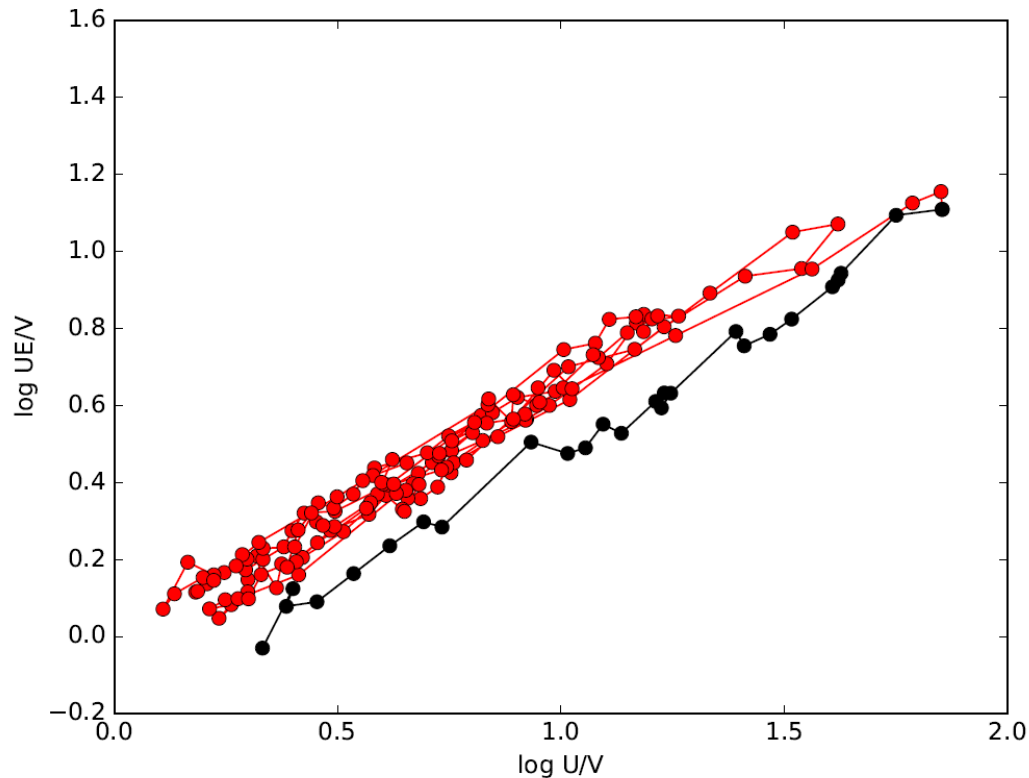
Log NE/Vacancies and Log Unemployment/Vacancies



Note: Quarterly Data – 1975-Q1 - 2016-Q1

Source: BLS, JOLTS, Conference Board, Barnichon (2010)

Log UE/Vacancies and Log Unemployment/Vacancies



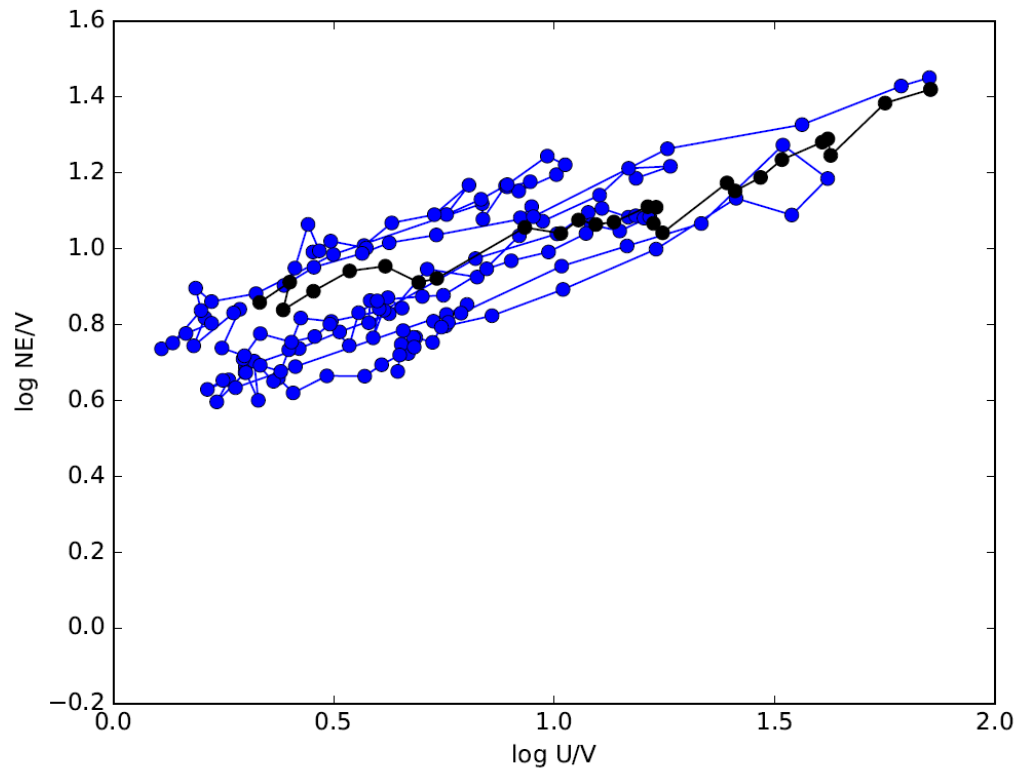
Note: Quarterly Data – 1975-Q1 - 2016-Q1

Source: BLS, JOLTS, Conference Board, Barnichon (2010)

Red represents before last max u,

black represents since last max u.

Log NE/Vacancies and Log Unemployment/Vacancies

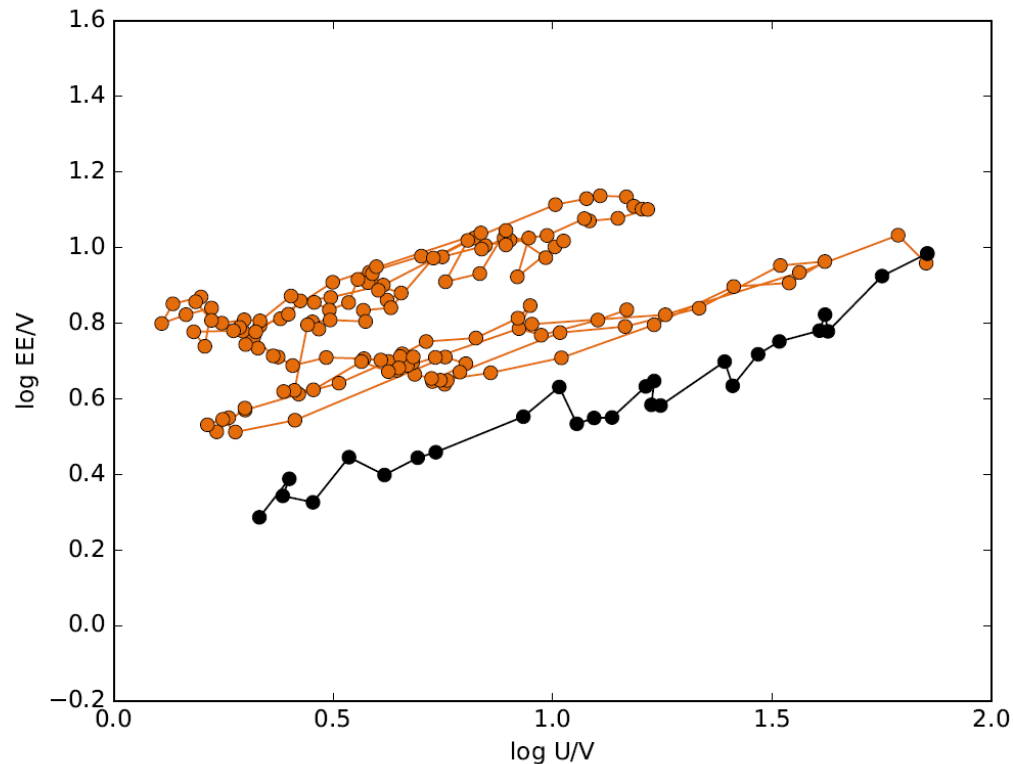


Note: Quarterly Data – 1975-Q1 - 2016-Q1

Source: BLS, JOLTS, Conference Board, Barnichon (2010)

Blue represents before last max u ,
black represents since last max u .

Log EE/Vacancies and Log Unemployment/Vacancies



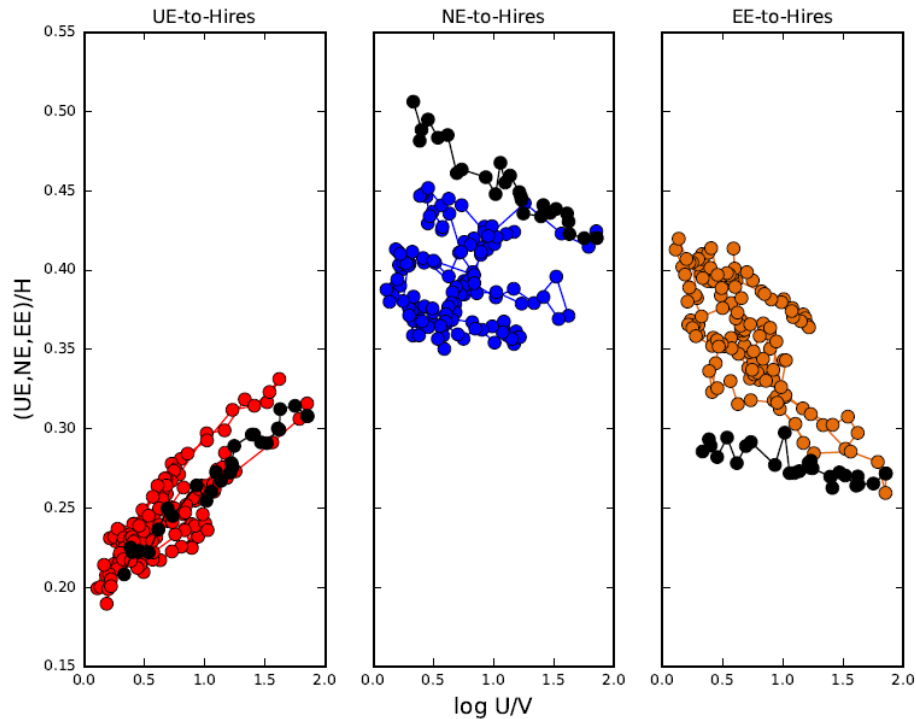
Note: Quarterly Data – 1975-Q3 - 2016-Q1

Source: BLS, JOLTS, Conference Board, Barnichon (2010)

Gold represents before last max u,

black represents since last max u.

$(UE, NE, EE)/Hires$ and Log Unemployment/Vacancies



Quarterly Data – 1975-Q3 - 2016-Q1.

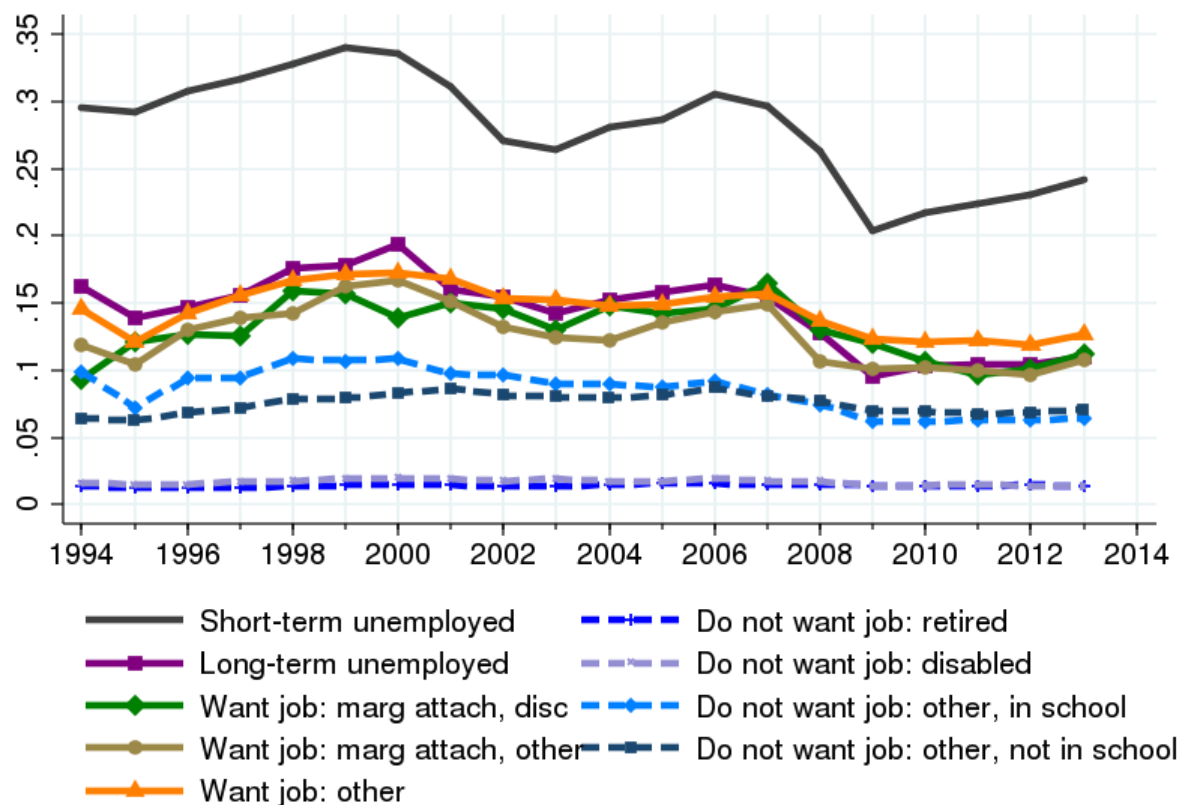
Source: BLS, JOLTS, Conference Board, Barnichon (2010).

Black represents since last max u

BLS Decomposition OLF

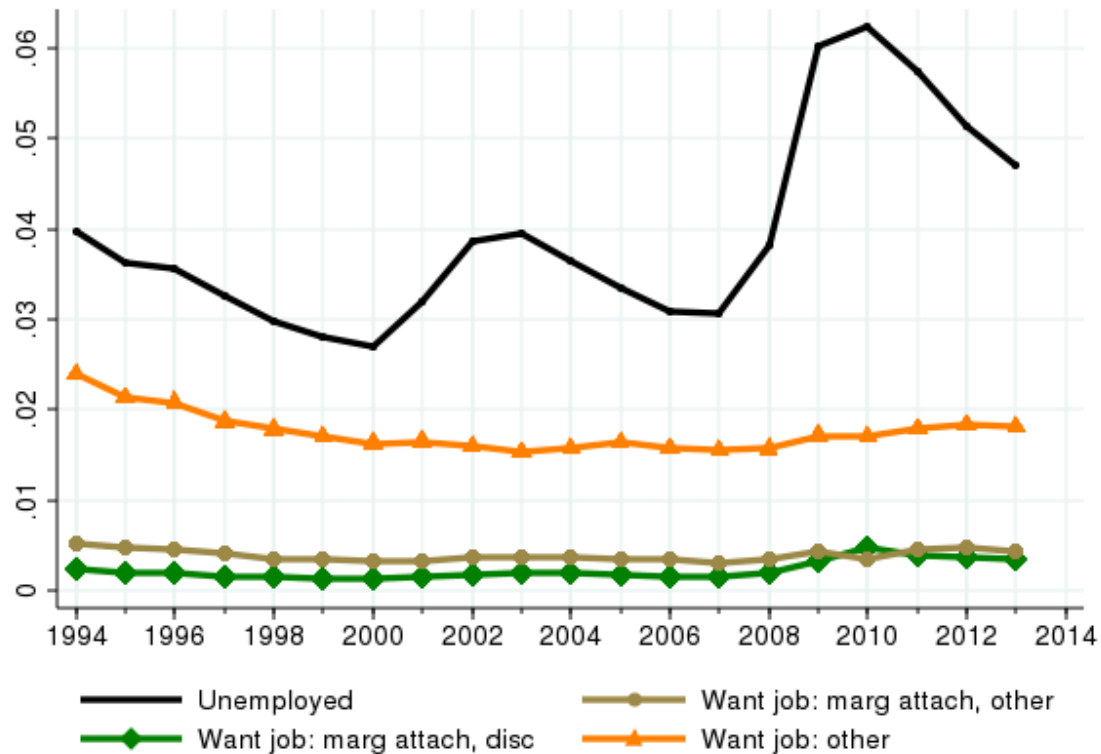
- Want job, marginally attached
(searched previously, but not last month)
 - Discouraged (Economic reason)
 - other
- Want job, other
- Do not want job
 - Retired
 - Disabled
 - In school (16-25)
 - Other

Transition Probabilities from Nonemployment to Employment, BLS Classification



Source: Kudlyak, Marianna, and Fabian Lange. 2014. "Measuring Heterogeneity in Job Finding Rates Among the Nonemployed Using Labor Force Status Histories." Federal Reserve Bank of Richmond Working Paper 14-18. Figure 6.

Unemployment and OLF(Want Job) Population shares

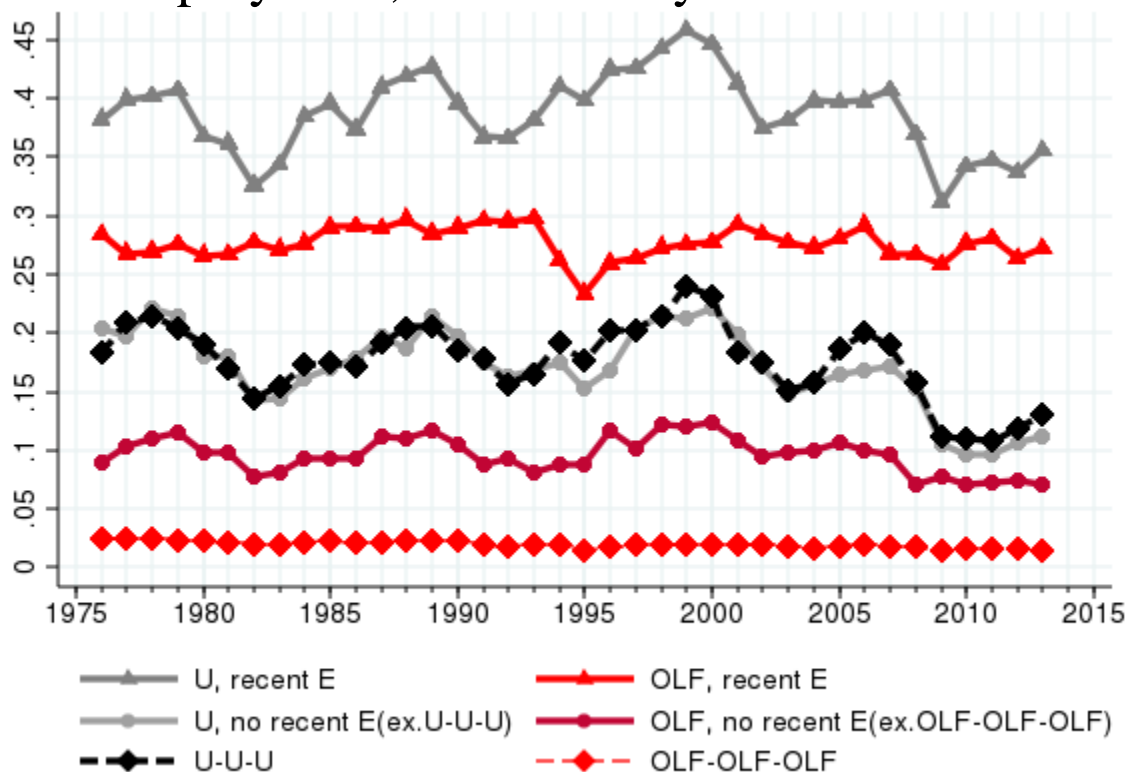


Source: Kudlyak, Marianna, and Fabian Lange. 2014. "Measuring Heterogeneity in Job Finding Rates Among the Nonemployed Using Labor Force Status Histories." Federal Reserve Bank of Richmond Working Paper 14-18. Figure 7A.

Decomposition 3 month history

- Unemployed last month
 - Recent E
 - No Recent E and not U-U-U
 - U-U-U
- OLF last month
 - Recent E
 - No Recent E and not OLF-OLF-OLF
 - OLF-OLF-OLF

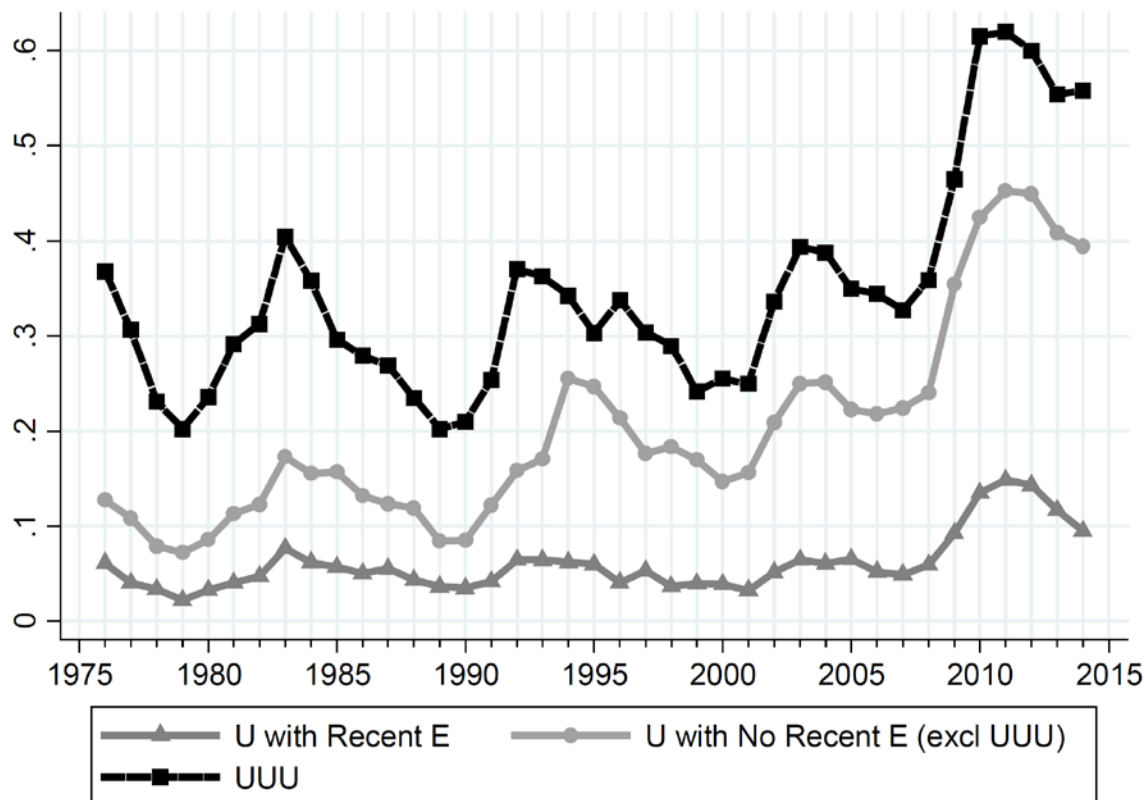
Transition Probabilities from Nonemployment to Employment, LFS-History Classification



Note: The figure shows annual averages of monthly series, NSA.

Source: Kudlyak, Marianna, and Fabian Lange. 2014. "Measuring Heterogeneity in Job Finding Rates Among the Nonemployed Using Labor Force Status Histories." Federal Reserve Bank of Richmond Working Paper 14-18. Figure 2.

Share of “U, recent E”, “U, no recent E”, and “UUU”, with self-reported unemployment duration > 26 weeks in the third month



Source: Kudlyak, Marianna, and Fabian Lange. 2014. “Measuring Heterogeneity in Job Finding Rates Among the Nonemployed Using Labor Force Status Histories.” Federal Reserve Bank of Richmond Working Paper 14-18. Figure 8.

Fraction of CPS Employment that is Part-time



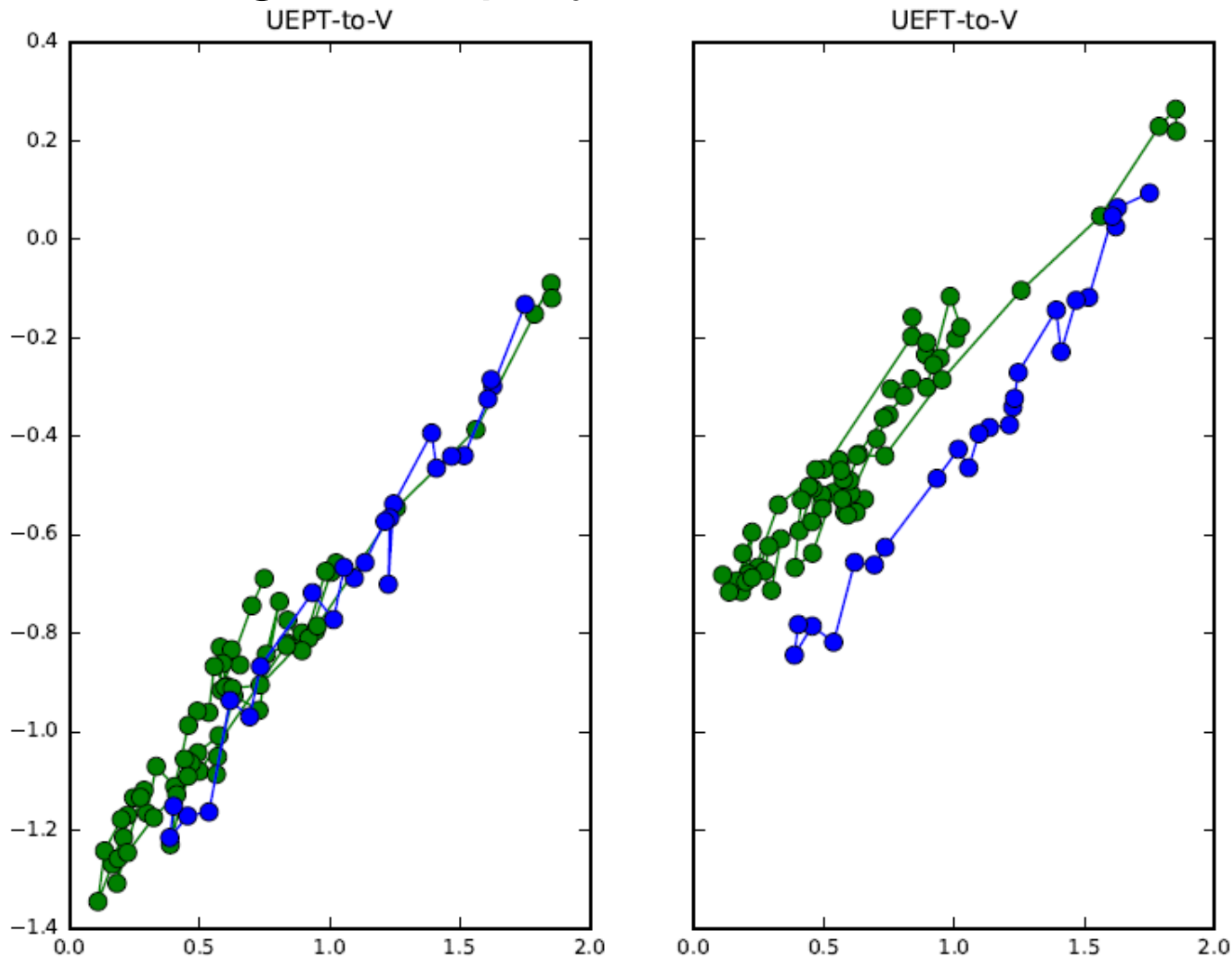
Source: BLS

Fraction of CPS Hires that are Part-time



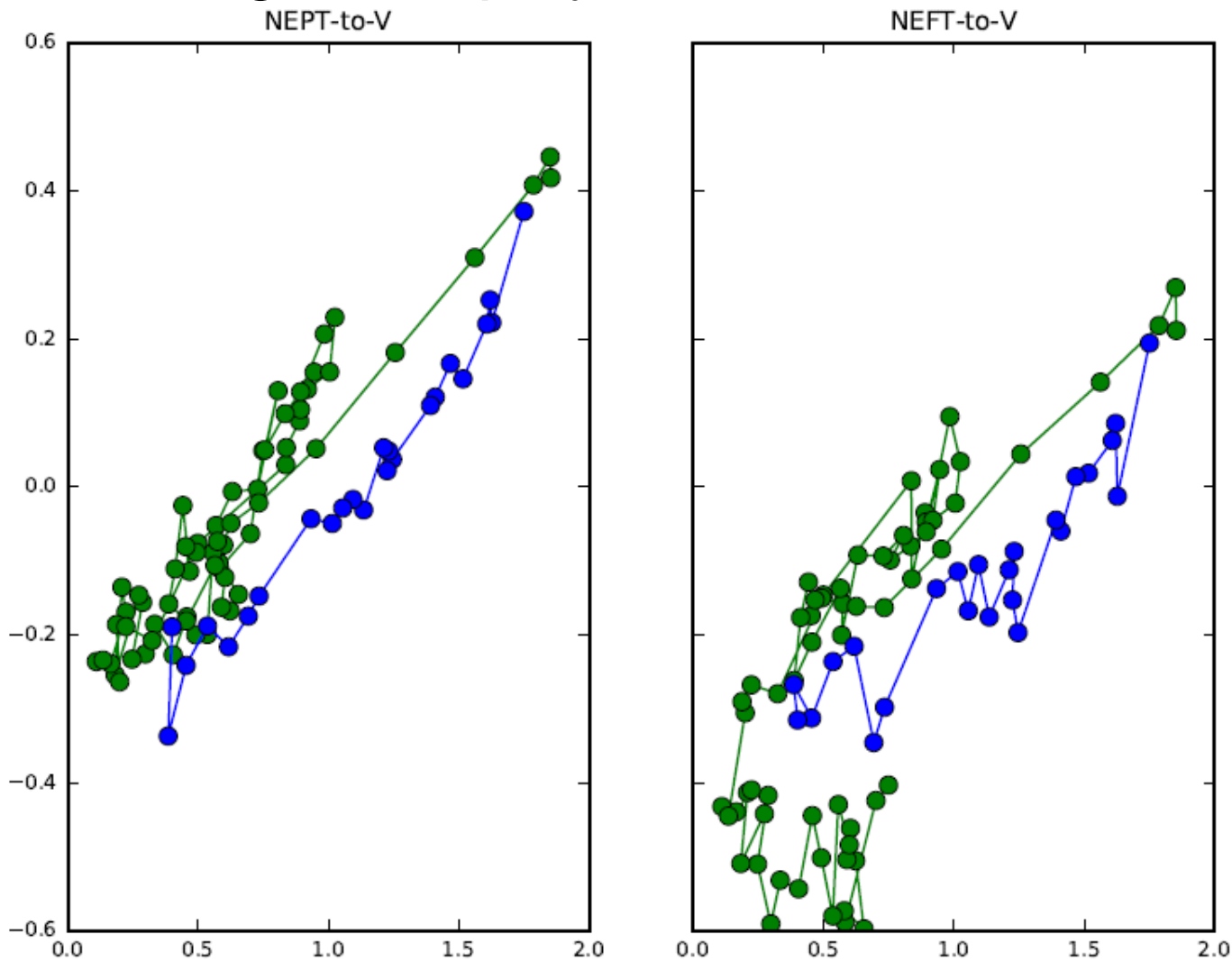
Source: BLS

Log (UEPT,UEFT)/Vacancies and Log Unemployment/Vacancies

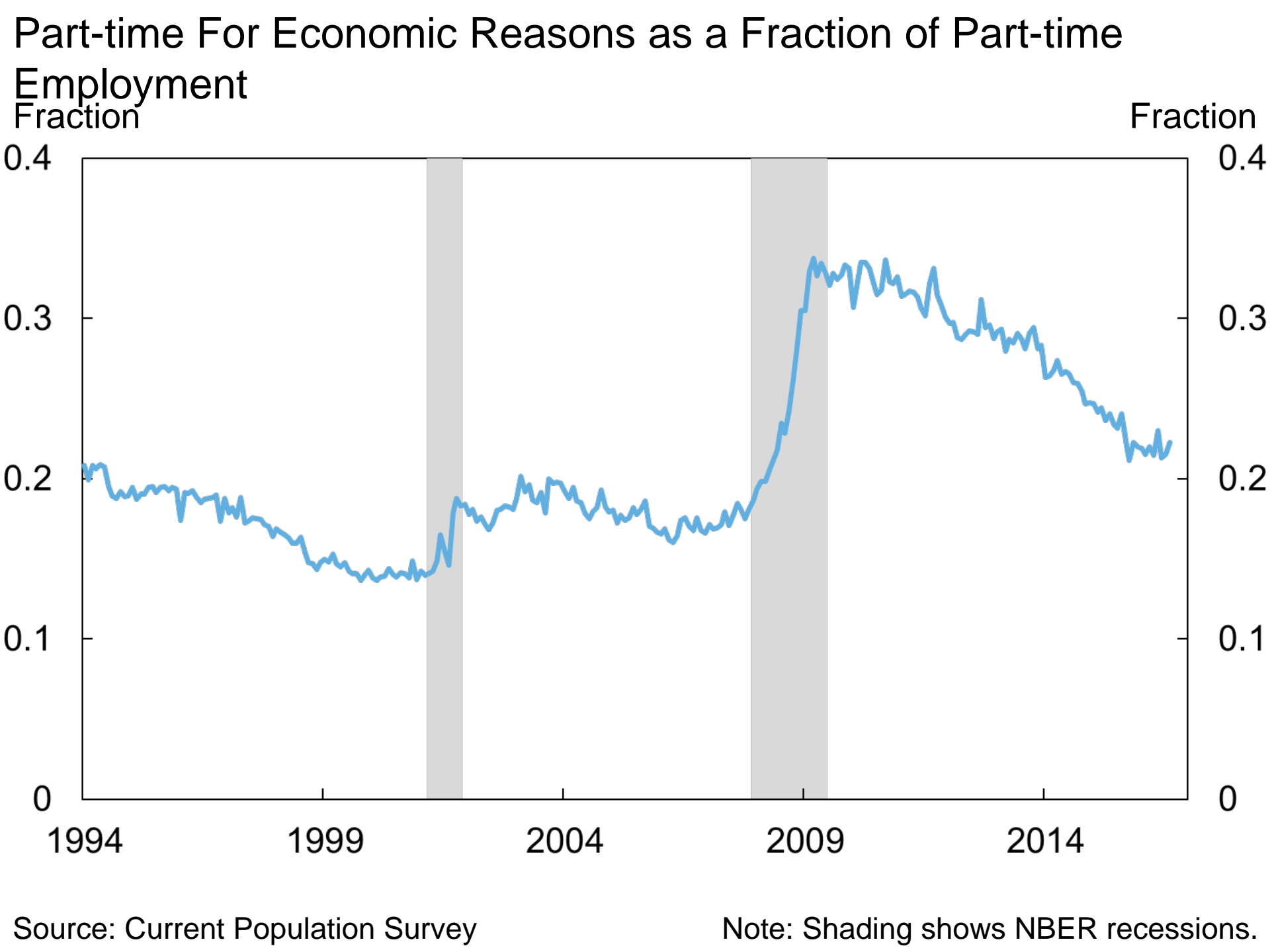


Note: Quarterly Data – 1994-Q1 - 2016-Q1
Source: BLS, JOLTS, Barnichon (2010)

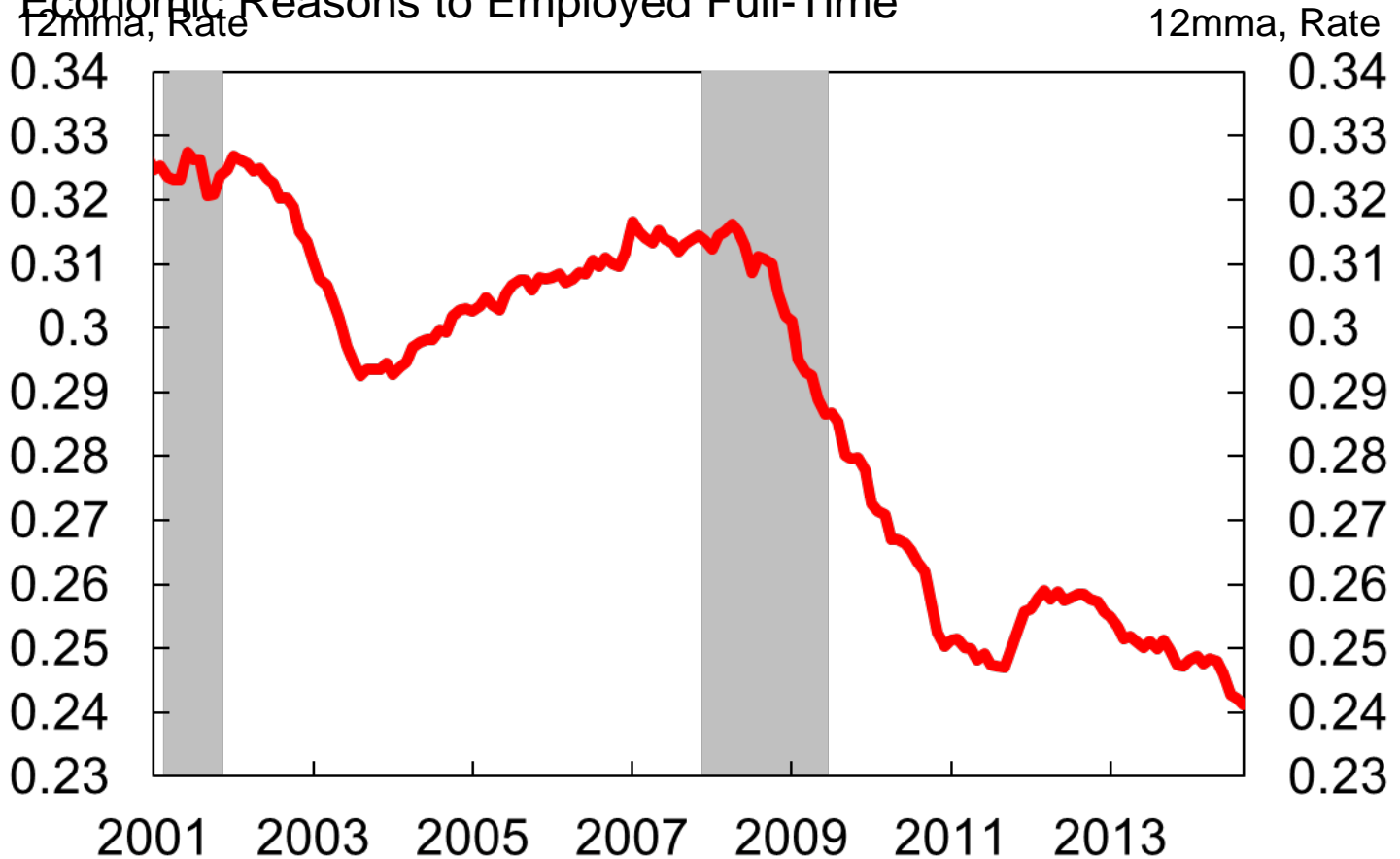
Log (NEPT,NEFT)/Vacancies and Log Unemployment/Vacancies



Note: Quarterly Data – 1994-Q1 - 2016-Q1
Source: BLS, JOLTS, Barnichon (2010)



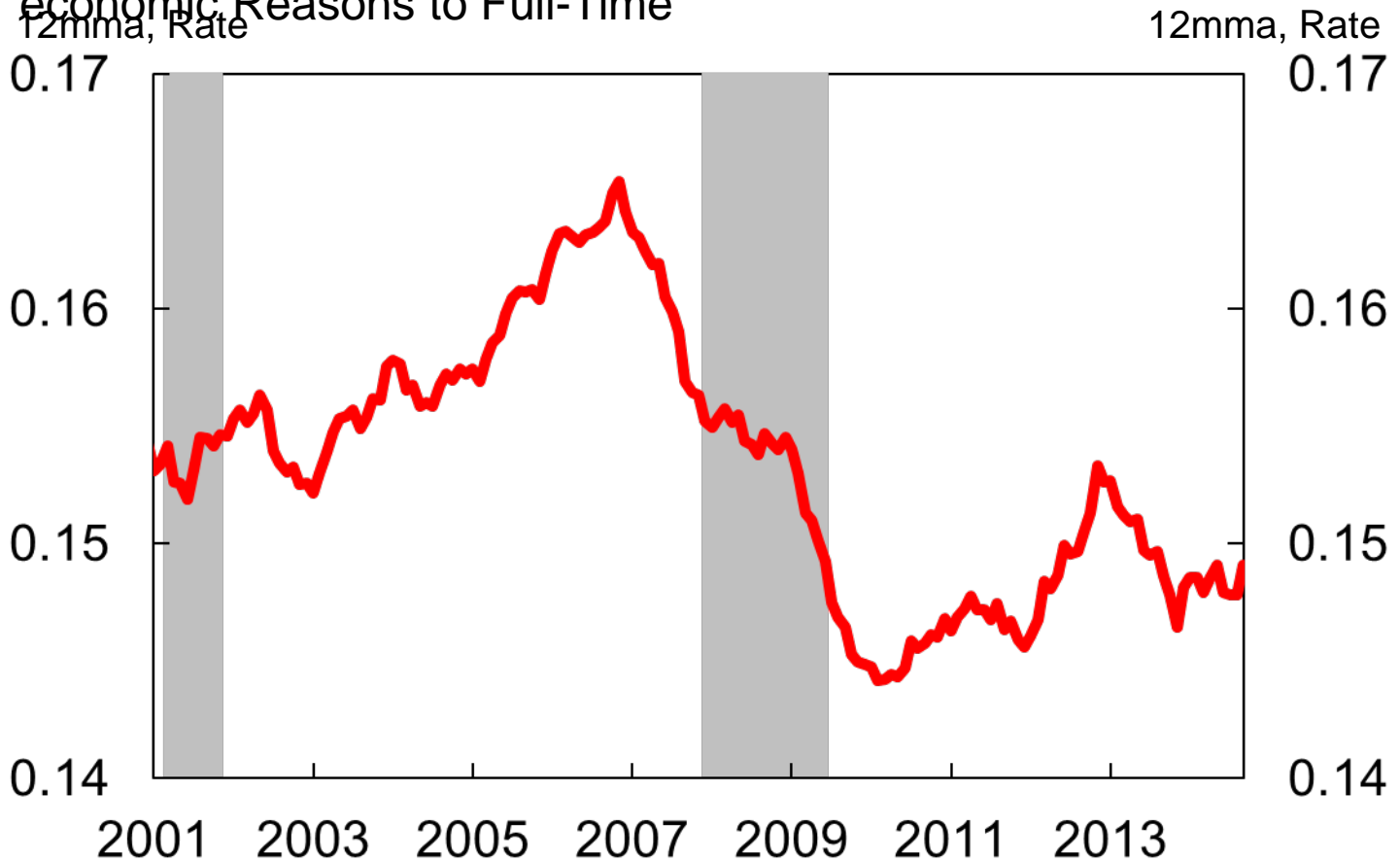
Probability of Transitioning from Employed Part-Time for Economic Reasons to Employed Full-Time



Source: Current Population Survey (CPS), Authors' Calculations

Note: Grey shading represents NBER
recession dates

Probability of Transitioning from Employed Part-Time for Non-economic Reasons to Full-Time



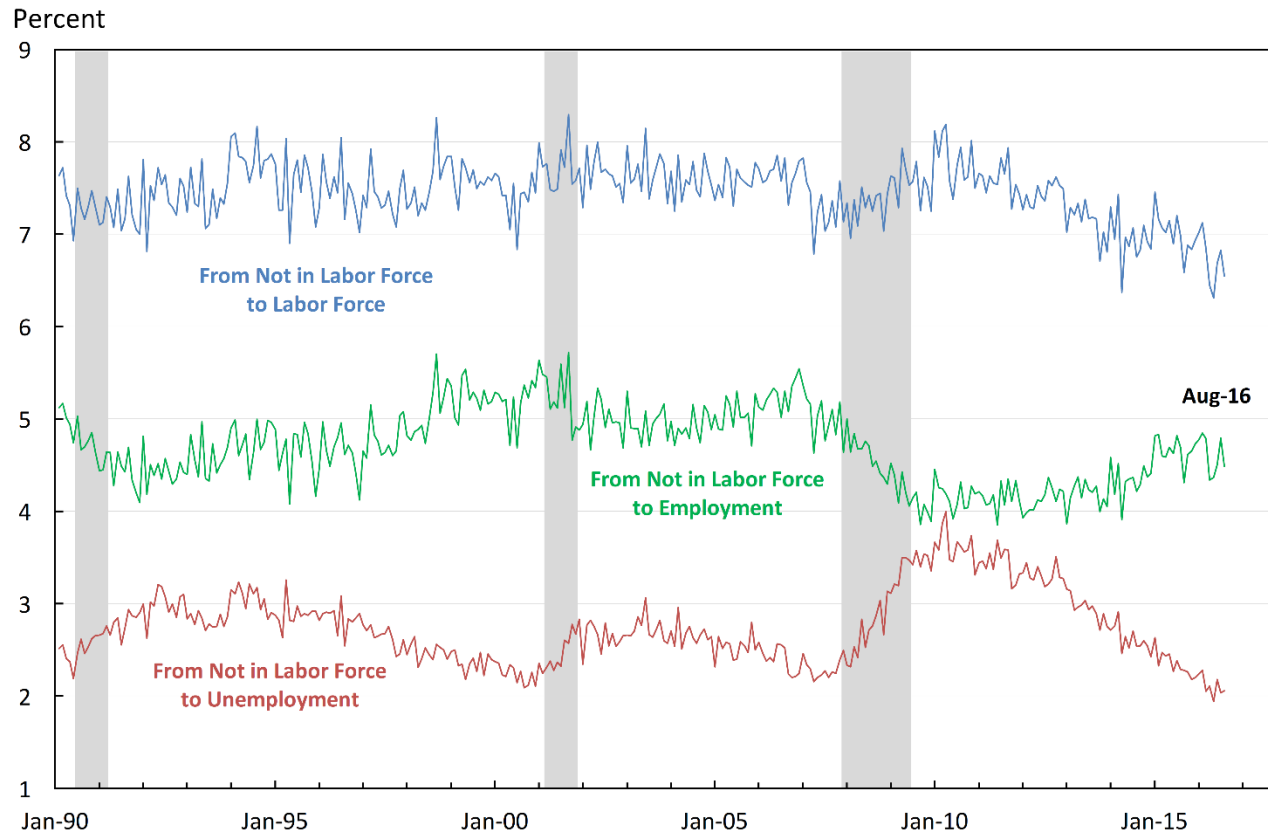
Source: Current Population Survey (CPS), Authors' Calculations

Note: Grey shading represents NBER
recession dates

Three considerations lead me to suspect that there will be only a limited and short-lived cyclical recovery in participation

- Third, and most importantly, throughout the recovery there has been *no* rise in the rate of transition of those who are out of the labor force joining the labor force.

Transition Rate From Not in Labor Force



Notes: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research

.Krueger, Figure 4

Abstract

- Is the lack of participation the consequence of a rise in the reservation wage or a fall in the market wage?
- Does it reflect a mismatch of skills?

For the Classical Theory has been accustomed to rest the supposedly self-adjusting character of the economic system on an assumed fluidity of money-wages; and, when there is rigidity, to lay on this rigidity the blame of maladjustment.

“Professor Pigou’s *Theory of Unemployment* seems to me to get out of the Classical Theory all that can be got out of it; with the result that the book becomes a striking demonstration that this theory has nothing to offer, when it is applied to the problem of what determines the volume of actual employment as a whole.”

John Maynard Keynes, 1936, *The General Theory of Employment Interest and Money*, p. 260. (footnote omitted)

“The difficulty lies, not in the new ideas, but in escaping the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.”

John Maynard Keynes, Quoted in K E Drexler, *Engines of Creation: the Coming Era of Nanotechnology*, (New York 1987) 231.