Howard Rosen, 10.2.2008 9:40 am

As has already been suggested, many factors contribute to job change. Voluntary job change is hopefully undertaken to enhance a worker's career, skills and earnings. By contrast, workers have no control over the factors that contribute to involuntary job loss. Some workers lose their jobs due to poor management decisions. Other workers may lose their jobs due to technological change, productivity gains and increased domestic and international competition. Job loss under the former case is bad for the worker and bad for the economy. Job loss under the latter scenarios is bad for the worker, but may enhance productivity growth for the overall economy. The challenge to society therefore is to minimize the cost of job change to individual workers while maintaining the benefits to the overall economy.

Employment shifts are virtually a given in a dynamic economy. They are certainly not a new phenomenon. For example, between 1940 and 2007, the number of workers in the agriculture sector fell by 78 percent, or 6 million people. The key difference between then and now is the poor performance in the overall economic environment in which employment changes currently take place. Total employment growth was more robust during previous major shifts in the labor market, thus making it easier for workers to move from job to job. Total employment growth between 1960 and 1990 averaged 2 percent per year. By contrast, total employment growth has averaged a little more than 1 percent per year since 1990.

Employment growth depends on two factors—the supply of workers, i.e. labor force growth, and the demand for workers, i.e. investment leading to job creation. The US economy has fallen behind in both of these factors over the last few years.

§ Labor force growth over the last two decades is half of what it was in the previous three decades. This is primarily due to demographic changes.

§ Private investment in plant and equipment is 2 percent of GDP lower than it was at the beginning of the decade, accounting for a cumulative loss of $1.7 trillion in potential investment over that period. Many of our competitors devote two to three times more, in terms of percent of GDP, than we do.

§ Government investment in physical infrastructure, R&D and education and training—those investments which contribute to job creation—have fallen seriously behind GDP growth over the last 25 years.

The combination of slow growth in the number of people available for work and the country's dismal investment performance exacerbate the difficulties workers face when moving from job to job.

Tax incentives alone are not sufficient to address this problem. First, there is little evidence that tax incentives result in more investment. Most companies don't pay taxes. Some companies choose to invest their profits outside the United States. And as the current crisis once again shows, our financial markets reward those who pursue short-term profits, rather than those who make long-term investments in raising living standards.

§ The "first best" response to this problem would be to prevent job loss and have workers move to other jobs within firms. Ideally employers would make long-term investments in their workers so that they can meet the new challenges resulting from productivity improvements.

§ The "second best" response would be to make it easier for workers to move from one firm to another firm. As mentioned above, recent declines in total employment growth make it difficult for workers to make this transition. Prolonged job search and potential earnings losses impose a significant cost on workers. All of this is exacerbated by the fact that job change often results in the loss of a worker's health insurance and pension. Our private social safety net works against job change

§ The "third best" response is to provide public and private transitional assistance, including income maintenance, training, job search assistance, and re-employment subsidies, to workers in order to ease the burden associated with job change. Although it comes third on the list, this scenario receives most of the attention.

I firmly believe that no amount of transition assistance will be enough to fully address the costs borne by workers in facing job change. We must invest more, create more jobs within our borders and change our private and public social safety net programs to enhance labor market flexibility, not work against it.

As Robert Nichols suggested, there is considerable turnover in the US labor market (although I estimate that the percent of workers changing jobs each year is probably closer to 10 percent than 20 percent). But we need to look beyond the quantity of job change and also consider the quality of the jobs being changed. Contrary to popular opinion, it appears that there is no discernable difference between wages associated with jobs terminated and jobs created. In other words, workers are not necessarily moving from low wage jobs to high wage jobs.

Gary presented an excellent description of the kinds of interventions that might help workers move from one job to another. I would just add that our current system of transition assistance is completely broken. Assistance by private employers is ad-hoc and is usually too little too late. Ideally, employers would devote more resources to preventing job loss, making it the last option, not the first.

Our government programs no longer meet any of their original objectives. Approximately only one-third of unemployed workers receive unemployment insurance; one-third of unemployed workers exhaust their unemployment insurance before finding a new job; on average, unemployment insurance replaces only one-third of a worker's previous wages; training programs are under-funding, forcing states to arbitrarily decide who gets training; and the quality of job search assistance differs not just by state, but also by county. The Workforce Investment Act was nothing more than a change in the organization chart. Current government spending on training and employment, as a percent of GDP, is half of what it was when WIA was enacted.

If you are not yet convinced, Terri Austin can tell you horror stories of workers denied assistance they so desperately need.

I am sure all of you have had the embarrassing experience of explaining our system to people in other industrialized countries.

Worker dislocation is a national phenomenon; it is no longer concentrated in just the "rust-bowl" states. By contrast, we no longer have a national policy to address worker dislocation. Andy's description of Michigan's creative efforts is exciting. But why should Michigan have to shoulder all the responsibility in assisting worker transition that supposedly benefits the entire economy?

Although I am a strong proponent of public and private efforts to assist worker transition, we must all keep in mind that these interventions are not magic. No amount of assistance is likely to fully offset the burden borne by workers, their families and communities due to job loss. Numerous evaluations confirm that income maintenance and training programs help on the margin. (Evaluations of job search assistance show significant returns.)