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LABOR SUPPLY IS DEEPER THAN OFFICIAL UNEMPLOYMENT RATE SUGGESTS

Job Insecurity and Longer Work Hours Have Created a "New Labor Market Regime," According to New Levy Institute Study

ANNANDALE-ON-HUDSON, N.Y.--Official unemployment rates suggest a labor market stretched to the limit, poised to ignite rapid wage increases and accelerating inflation. So why aren't wages skyrocketing and inflation accelerating? One explanation, according to Levy Institute research associate Barry Bluestone, is a "new labor market regime" fueled by job insecurity and longer work hours--factors not accurately reflected in the official unemployment rate.

In ***The Unmeasured Labor Force*****,** a new Public Policy Brief from The Jerome Levy Economics Institute, Bluestone and coauthor Stephen Rose of the Educational Testing Service analyze data from the Current Population Survey (CPS) and Annual Demographic File (ADF) and find that the average weekly hours worked by all prime-age workers has risen significantly since 1982, a trend that Bluestone says continues today. In 1988, for example, prime-age workers put in an average of 3,450 hour per year in combined employment, up from 2,850 hours two decades earlier. "Through added work hours, incumbent workers are deepening the labor pool in a way not measured by the unemployment rate," Bluestone says.

"Falling unemployment rates do not necessarily mean we are running out of workers and consequently face imminent wage-price push inflation," he says. Rather, "we have an increasing labor supply that keeps a lid on inflation and provides the human resources that can sustain faster economic growth rates."

The authors' analysis also shows clear indications of continued job insecurity and instability, which play a key role in the "new labor market regime." Using data from the Panel Study of Income Dynamics, the authors find that for every demographic group except college graduates, employment continuity, defined as working at least 1,750 hours per year in eight out of ten years and never working less than 1,000 hours in any single year, declined between the 1970s and the 1980s. Another measure of job security, changing employers in no more than one year out of ten, has also declined. Sixty-seven percent of men in the 1970s met this criterion, compared to only 52 percent in the 1980s.

"Workers now toil as many hours as possible when jobs are plentiful, in anticipation of future downsizing and job loss--and they do so at existing wage rates," the authors write. "This relieves a significant labor supply constraint that normally accompanies low official unemployment rates. Instead of having to raise wages to attract more workers, firms have increasingly been able to fill their additional need for labor by employing their own workers longer or by offering second jobs to workers who are employed elsewhere."

For policymakers, these findings have important implications, particularly in setting monetary policy. "Because official measures of unemployment can no longer be trusted as indicators of the overall labor market conditions, it would be prudent for the Federal Reserve to pay little attention to them when it comes to setting short-term interest rates or manipulating the money supply," the authors contend.

As far as low unemployment rates and the potential for wage-price inflation are concerned, "the underlying phenomena of global competition, technological change, weakened unions, and industry deregulation give no sign of dissipating," Bluestone says, adding, "at current sustainable economic growth rates, over the foreseeable future we can expect a continued upward trend in work hours, which will provide the needed labor supply to keep inflation under control."

Bluestone and Rose also suggest that the CPS and ADF be modestly expanded to include monthly data on second (and third) jobs, types of employment structure, and self-employment to produce more accurate measures of true labor supply. They also suggest that the collection of employer data on layoffs and quits be reintroduced as a way to measure job stability and security.

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