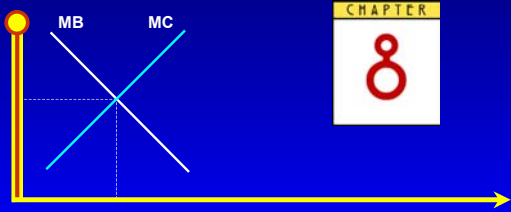


Workers, Wages, and Unemployment in the Modern Economy



Introduction

- What Do You Think?
 - Has everyone benefited equally from economic growth and increased productivity?

Five Important Labor Market Trends

- Trends in Real Wages
 - Over the 20th century, all industrial countries have enjoyed substantial growth in real wages.
 - Since the early 1970s, however, the rate of real wage growth has slowed.
 - Recent decades have brought a pronounced increase in wage inequality in the U.S.

Five Important Labor Market Trends

- Trends in Employment and Unemployment
 - In the U.S., the number of people with jobs has grown substantially in recent decades.
 - Western European countries have been suffering high rates of unemployment for almost two decades.

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Five Important Labor Market Trends

- Observation
 - Increasing wage inequality in the U.S. and persistent unemployment in Europe indicate that many workers have not been sharing in the recent economic growth and prosperity.

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Supply and Demand in the Labor Market

- Wages and the Demand for Labor
 - The demand for labor depends upon:
 - ◆ The productivity of workers.
 - ◆ The price of the worker's output.

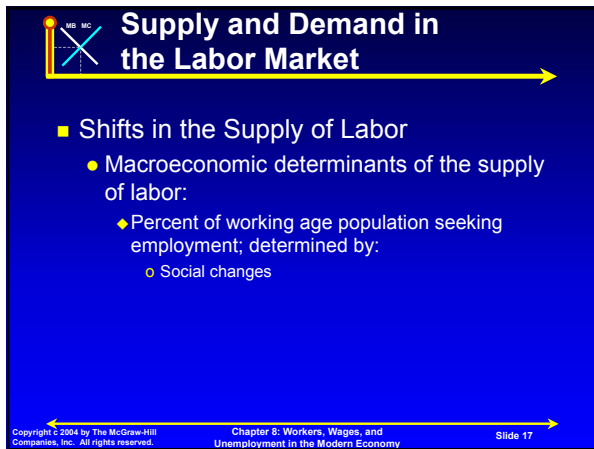
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Supply and Demand in the Labor Market

- Shifts in the Supply of Labor
 - Macroeconomic determinants of the supply of labor:
 - ◆ Size of the working age population; determined by:
 - Domestic birthrate
 - Immigration and emigration
 - Ages when people enter and retire from the workforce

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Supply and Demand in the Labor Market

- Shifts in the Supply of Labor
 - Macroeconomic determinants of the supply of labor:
 - ◆ Percent of working age population seeking employment; determined by:
 - Social changes

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Supply and Demand in the Labor Market

- Shifts in the Supply of Labor
 - All else being equal, the supply of labor will increase when:
 - ◆ The working age population increases.
 - ◆ The percent of the working age population looking for work increases.

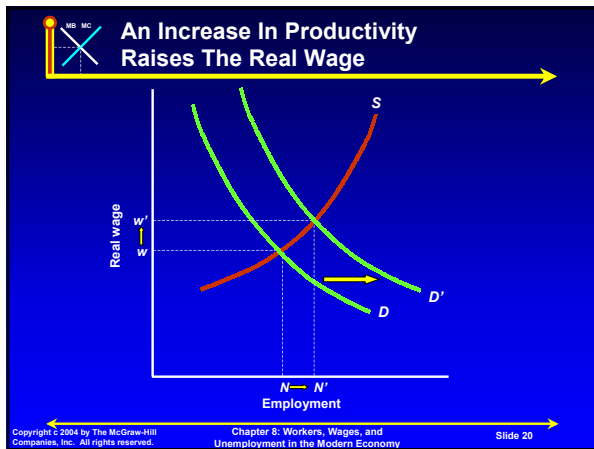
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Explaining the Trends in Real Wages and Employment

Economic Naturalist

- Why have real wages increased by so much in the industrial countries?
- Answer: Increase in Productivity

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Explaining the Trends in Real Wages and Employment

Economic Naturalist

- Factors contributing to productivity growth:
 - ◆ Technological progress
 - ◆ Increase in capital stock

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Explaining the Trends in Real Wages and Employment

Economic Naturalist

- Why has the gap between the wages of skilled and unskilled workers widened in recent years?

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The Effect of Globalization on the Demand for Workers in Two Industries

Initially, wages are equal.

- Demand for workers in importing industry (textiles) declines, lowering wages and employment.
- Demand for workers in exporting industry (software) increases, raising wages and employment.

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Explaining the Trends in Real Wages and Employment

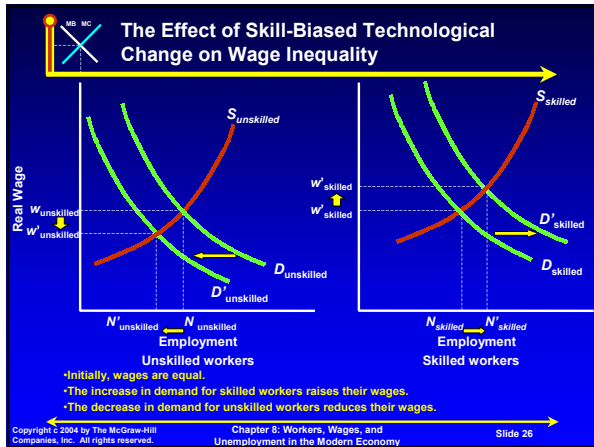
- Increasing Wage Inequality: The Effects of Globalization**
 - When wages in “losing” industries fall and wages in “winning” industries rise, wage inequality increases.
 - Low-skill industries in the U.S. face the toughest international competition.

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Explaining the Trends in Real Wages and Employment

- Increasing Wage Inequality: The Effects of Globalization
 - High-skill industries in the U.S. tend to do the best in international competition.
 - This relationship between low-skill and high-skill industries will exacerbate the wage inequality created by increasing trade.


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Explaining the Trends in Real Wages and Employment


- Increasing Wage Inequality: Technological Change
 - Technological change that is biased in favor of skilled workers will increase wage inequality.

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 **Explaining the Trends in Real Wages and Employment**

- What Do You Think?
 - Should we try to slow technological change to reduce wage inequality?

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 **Unemployment**

- Measuring Unemployment: Revisited
 - Monthly survey estimates the number of people who are employed and unemployed.
 - Labor force = employed + unemployed


$$\text{Unemployment rate} = \frac{\text{Unemployed}}{\text{Labor force}}$$

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 **Unemployment**

- Types of Unemployment and Their Costs
 - Frictional Unemployment
 - ◆ The short-term unemployment associated with the process of matching workers with jobs


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Unemployment

- Types of Unemployment and Their Costs
 - Characteristics of Frictional Unemployment
 - ◆ Short-term
 - ◆ May lead to a better match between the worker and job
 - ◆ Necessary in a dynamic economy


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Unemployment

- Types of Unemployment and Their Costs
 - Structural Unemployment
 - ◆ Long-term and chronic unemployment that exists even with the economy is producing at a normal rate

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Unemployment

- Types of Unemployment and Their Costs
 - Causes of Structural Unemployment
 - ◆ Lack of skills, language barrier, discrimination
 - ◆ Long-term mismatch
 - ◆ Structural features of the labor market

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Unemployment

- Types of Unemployment and Their Costs
 - Cost of Structural Unemployment
 - ◆ Loss in economic output
 - ◆ May not develop new skills
 - ◆ Psychological

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Unemployment

- Types of Unemployment and Their Costs
 - Cyclical Unemployment
 - ◆ The extra unemployment that occurs during periods of recession

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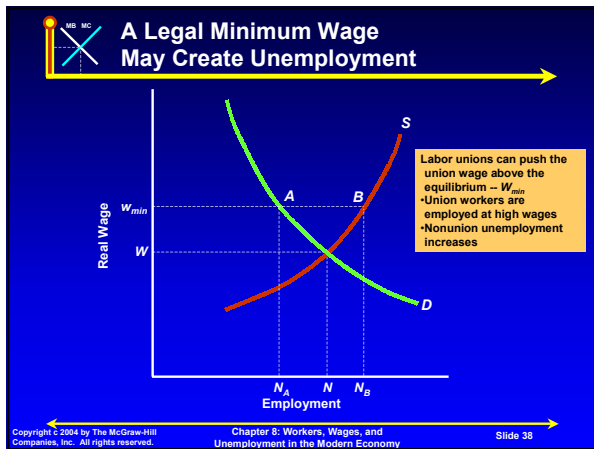
A Legal Minimum Wage May Create Unemployment

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Unemployment

- Impediments to Full Employment
 - Minimum Wage Laws:
 - ◆ Benefit workers who are employed.
 - ◆ Hurt those who lose their jobs.
 - ◆ Create economic inefficiency.

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Unemployment

- Labor Unions
 - Benefits
 - ◆ Reduced worker exploitation
 - ◆ Support progressive labor legislation
 - ◆ Increase productivity
 - ◆ Promote democracy in the workplace


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Unemployment

- Labor Unions
 - Costs
 - ◆ Unions cause otherwise competitive labor markets to function inefficiently.
 - ◆ Unions may prevent companies from competing in the global economy.

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Unemployment

- Unemployment Insurance:
 - Helps to reduce the costs of unemployment.
 - May give the unemployed an incentive to search longer and less intensely.
 - Unemployment benefits must balance the benefit of providing support to the worker with the cost of reducing the incentive to work.

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Unemployment

- Other Government Regulations
 - Health and Safety Regulations
 - ◆ These regulations can reduce the demand for labor by:
 - Increasing employer costs.
 - Reducing productivity.
 - ◆ The reduction in demand will:
 - Increase unemployment.
 - Lower wages.

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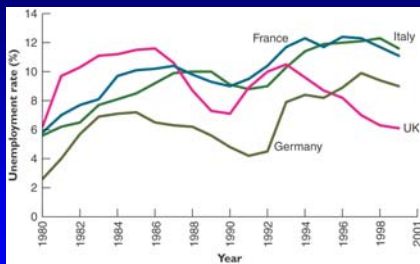


Unemployment

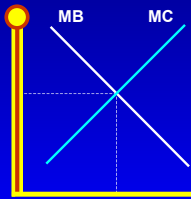
- Other Government Regulations
 - The cost-benefit criterion should be used to determine the feasibility of proposed legislation.



Unemployment Rates in Western Europe, 1980 - 2001



End of Chapter



CHAPTER 8
