

Chapter 1 | Introduction and Background

THE COMBINATION OF inequality and volatility that characterizes the U.S. labor market has clearly generated a great deal of *insecurity*, even among currently employed Americans. They worry about when they might lose their jobs, how they might sustain themselves and their families during a period of joblessness, whether their wages and salaries on their next jobs will be as good as the ones they might lose, and also whether or not they will be covered by health insurance and other benefits.¹ This was true even before the Great Recession of the past few years, and it seems to have become even truer in the period of high joblessness we have experienced recently.

The policy debate on these issues has often focused on the education and skills of American *workers* and the question of whether these skills are sufficient to generate broadly shared prosperity and earnings security in the years to come. There is little doubt that differences in education and skill levels across workers now generate more inequality than in previous years and that the importance of raising worker education and skills at all levels has risen as well.

However, many analysts believe that improving education and skills alone will not be sufficient to generate broadly shared prosperity and security and that we need to focus as well on the *jobs* that our labor market is producing. Of course, in the aftermath of the Great Recession, and with a slow recovery projected by most economists, the *quantity* of jobs available to American workers will be a serious issue for years to come. But, at the same time, we should also focus on the *quality* of these jobs, as measured by pay levels and benefits, and their degree of *permanence* over the longer term. Have these two attributes of jobs in the U.S. labor market been changing over time? Are “good jobs” actually disappearing in the

United States, and if so, for whom? Should public policy encourage the creation of more “good jobs” as well as “good workers”? And if the answer to that question is yes, how shall it do so? Will good jobs exist in sufficient quantities to absorb many more workers if they have the appropriate skills? To the extent that there is enormous variation across the United States by state and local areas, is there a role to be played by state and local economic development policies? If so, what constitute cost-effective public interventions in this area, and to what extent must education and training be an integral part of these strategies?

The goal of this book is to shed light on these questions about job quality and volatility over time and what they imply for inequality and insecurity among American workers. We provide evidence on what is happening to the availability of good jobs, over time and for which groups of workers; what kinds of good jobs are now being generated; what happens to dislocated workers who lose good jobs and how their prospects are affected by the availability of good jobs today; and how all of this varies by the time period studied and the local labor markets.

We also look at the dynamics of job creation and destruction within existing firms and within firms that are themselves “dying” or “being born.” That examination sheds some light on the possible effectiveness of economic development policies that attempt to generate or attract good jobs and the firms that create them. Finally, we consider what all of this means for public policy.

INEQUALITY AND VOLATILITY

The American labor market is very unequal; by almost any measure, it is the most unequal in the industrialized world. Inequality has increased a great deal over time, and differences in earnings across individuals and skill groups have grown dramatically over the past three decades. Indeed, the real (or inflation-adjusted) earnings of Americans without college diplomas, especially men, have stagnated, while those of the college-educated have grown, creating very high earnings gaps. Most strikingly, in the last decade the earnings of the top 1 percent of earners have skyrocketed relative to those of everyone else.²

The American labor market is also volatile. Each year many millions of jobs are destroyed and others are newly created, and American workers often experience both voluntary and involuntary spells of unemployment as they seek new jobs.³ The forces of technological change and globalization generate the restructuring of industries, the decline of existing businesses, the entry of new businesses, and the reorganization of workplaces in surviving firms. The severe economic downturn of 2008 and beyond

certainly exacerbated the effects of these developments for many Americans as the rates of job destruction outpaced those of job creation for more than two years, leading to the net loss of several million jobs.

Furthermore, the institutions that traditionally have protected workers from both inequality and turbulence—like minimum wage laws, collective bargaining, and other government regulations, as well as the human resource policies of companies that created some protections—have weakened over time, rendering workers vulnerable. Fewer workers are covered by unemployment insurance, at least in good times, than at any time in recent decades, and those who are covered are more likely to see their benefits expire while they remain jobless (Burtless 2007). Workers who lose jobs are also more vulnerable to the loss of employer-provided health benefits, as these have become scarcer over time as well.

But a broad evaluation of the trends in the U.S. job market over time does not paint a completely negative picture. Although inequality has increased, a rising tide has lifted most boats: the majority of American workers have enjoyed at least some real earnings growth (when correctly measured) in the past three decades, and highly educated workers, especially women, have enjoyed strong earnings gains over time.⁴ There is no consensus that, aside from the huge rate of job destruction in the recent recession, job volatility has been rising over time. Although some popular accounts, such as those written by Jacob Hacker (2006) and Peter Gosselin (2008), show evidence of rising income volatility—which they attribute to rising volatility in the job market—other analyses suggest that this is far from certain. And the effects of volatility on workers in some cases are more positive than news accounts suggest, with many workers taking advantage of the opportunities for earnings growth that appear in many newly created jobs.⁵

THE IMPORTANCE OF JOBS AND JOB QUALITY

From an economist's point of view, jobs are generated on the demand side of the labor market, while workers reflect the supply side. In the market, the two sides interact to generate the wage and employment outcomes we observe for different groups of workers in different kinds of jobs. Indeed, wages fluctuate up or down to "equilibrate" the market—that is, to make sure that, in most cases, the available jobs can be filled by the workers who seek them. If the number of jobs grow more rapidly than the number of workers to fill them in some occupations or sectors, wages there will rise to attract more workers and limit job growth; the opposite occurs when too few jobs are available relative to workers.

But factors working independently on the demand side of the labor market—such as technological change and globalization—can affect the quality and stability of jobs that workers face in the market. If new technologies enable employers to reorganize the workplace in ways that use fewer less-educated or lower-skilled workers, then their wages might be driven downward relative to those of other groups, and some of the jobs will disappear entirely. The same is true if imports generate competition for these workers from lower-paid producers overseas or if more work in the United States can be outsourced abroad. These forces have no doubt contributed importantly to the steep relative decline in earnings experienced by less-educated or less-skilled American workers in recent years and the disappearance of many of the well-paid jobs that they held.⁶

Of course, markets do not always clear, and institutions can play some role in affecting these market outcomes. Labor unions, in particular, are an institution that historically has played an important role in raising workers' wages and benefits. Government regulations, especially in the form of minimum wage statutes as well as overtime premia, can affect pay as well, particularly at the bottom of the wage spectrum. Together, these forces affect the pay available on some jobs and in some firms relative to others, even for workers of a given skill level. The weakening of these laws and institutions over time has no doubt also contributed to the declining relative earnings of less-educated workers in the United States.⁷

But wages also vary systematically with other demand-side characteristics, such as industry and firm size, even after adjusting for the skills of workers in these firms and sectors. Industries such as construction, durable manufacturing, transportation, utilities, and wholesale trade have traditionally paid well, even for workers with relatively less education. These wage premia across industries might be partly accounted for by factors like the capital-labor ratios of the firms in those industries, but not fully. And large firms have long paid more than small ones, even when hiring the same kind of labor. For instance, it is clear that major hospitals pay more than nursing homes for workers at low levels of education or skill. A variety of hypotheses have been put forward to explain the "size-wage premium," though none has done so very completely.⁸

The average differences in pay by industry and size category suggest that employers are not perfectly passive players in a labor market completely determined by technological and global forces. In the face of competitive forces, employers choose how to organize the workplace, how to recruit and screen their workers, how to train them, when and whom to promote or discharge, and how to compensate workers, in terms of wages as well as benefits. These are broadly referred to as *human resource* prac-

tices, and all reflect important degrees of employer choice—even within the same narrowly defined industry and geographic location.

For example, some employers choose to compete on the basis of low costs and therefore pay the lowest possible wages and benefits needed to attract workers and fill available jobs. They are willing to live with lower productivity among their workers and the higher costs associated with rapid turnover. Other employers who choose to compete more on the basis of higher productivity and lower turnover pay more for their workers because that enables them to attract more productive workers and to retain them for longer. Some of these employers pay more because they find it economically worthwhile to do so, as the labor market research on “efficiency wages” suggests.⁹ Others might do so because of union requirements or because of their own preferences and sense of fairness, especially if human resource decisions are made by managers in relatively less competitive industries who are not under a great deal of pressure to generate higher profits. The lowest-paying ones are often referred to as “low road” employers and the better-paying ones as “high road” employers, though the choices they make are often less dichotomous and more varied than these terms might suggest.

Thus, the “quality” of American jobs can reflect many factors, sometimes independently (at least to some extent) of the quality of workers available to fill them. An important corollary of this view is the notion that good jobs can come in at least two varieties: some pay well directly because they require personal skills and credentials that are highly rewarded in the market; others pay well because employers have chosen (or are forced by laws or unions) to pay more, independently of these required skills and credentials. Later in the chapter we consider whether trends over time in the quality and stability of good jobs vary according to which definition we use.

But these definitions raise a conundrum: if high-road firms in competitive industries need more productive workers to offset their higher wages, to what extent are the wages they pay really independent of the personal characteristics of their workers? And in this case, won't firms need to be choosier about the underlying skills and productivity of the workers they hire?

High-road firms might hire fewer workers who will remain unskilled and unproductive, regardless of the firm's human resource policies. But it is also likely that the productivity of many workers rises when they are hired at a high-road firm, because the firm invests more in training them or in retaining them over time (in which case they acquire skills informally through on-the-job training), in motivating them to work harder, or in or-

ganizing a workplace that effectively harnesses workers' potential productivity. In this case, the wage effects attributed to a firm correctly capture its contribution to worker earnings, especially if that higher productivity is not perfectly transferable to other jobs later held by its workers.

Finally, it is also clear from previous analysis of worker and firm effects that the quality of jobs and the firms that provide them have important effects on worker outcomes, such as earnings levels and advancement over time, controlling for underlying worker characteristics. To the extent that some workers systematically have more access to some kinds of firms and jobs than do other workers independently of their skills—perhaps owing to discrimination, geographic location, or informal networks—then important wage differences across groups can persist over time for reasons other than skills.¹⁰ Encouraging more employers to create good jobs and ensuring their availability to a wider range of workers might then become important components of strategies to reduce poverty and earnings gaps between specific demographic groups.

GOOD JOBS: LESS AVAILABLE OVER TIME?

The evidence that good jobs can exist for a variety of different reasons leads to a very salient question: have good jobs become less available over the long term? This question has appeared in many contexts and been asked by many public commentators in recent years. In particular, those opposed to expansions of trade and offshoring—like Lou Dobbs, Ross Perot, and many others¹¹—have argued that competition from low-wage workers abroad tends to eliminate good jobs here at home. Others on the leftward side of the American political spectrum—for example, the Washington Post columnist Harold Meyerson (2009)—have made similar arguments.

Is there much basis to these claims? Perhaps the answer depends on which definition of “good jobs” we are using. To the extent that good jobs are those that are filled by “good workers” (whether the higher worker productivity is due to the worker's characteristics or those of the firm), it is not obvious why they should be threatened by foreign trade and offshoring—unless competition from highly skilled workers earning much lower wages elsewhere than the United States increases competitive pressures on these workers, as the Harvard economist Richard Freeman and others have argued.¹² To the extent that new technology could replace highly skilled workers, their jobs could also be threatened—though most of the empirical evidence suggests that much of the technological change of recent years has been “skill-biased” in favor of those with more educa-

tion and against those with less.¹³ Perhaps these forces reduce the ability of relatively less-productive workers within each observed educational or training category to fill good jobs over time, so that only those within each education group with the best analytical or social skills are productive enough to survive the technological or global shifts in production.¹⁴

Clearly, technological change and import competition have reduced the availability of well-paid jobs in the traditional goods-producing sectors, like durable manufacturing, that have traditionally paid good wages to millions of less-educated workers (those with high school diplomas or less). In fact, the share of U.S. workers employed in durable manufacturing has fallen from about 12 percent in 1970 to 6 percent in 2008 as both technology and globalization reduced the demand for domestic labor in these jobs.¹⁵

And the dramatic declines of collective bargaining and union membership over time, at least in the private sector, suggest a similar decline in high-wage job availability; the share of workers in unions overall has fallen from about 35 percent in 1955 to roughly 12 percent overall and 7 percent in the private sector in 2008.¹⁶ Federal minimum wage levels have also tended to fall over time, relative to median wages in the private sector.¹⁷ All of these forces tend to reduce the quality of jobs available to those with relatively lower levels of education (such as a high school diploma or less). And these developments to some extent reflect legal and institutional choices made by American policymakers—especially to be more relaxed about enforcing labor laws governing collective bargaining and to be more protective of management prerogatives (Freeman 2007a).

But the declines in employment in high-wage jobs apparently go well beyond those in durable manufacturing and those workers directly affected by unions or the minimum wage.¹⁸ Why else, then, might good jobs more broadly be disappearing, especially for less-educated workers? In general, it is likely that new technologies and globalization have made a range of markets more competitive than before. Product markets become more competitive when consumers have more choices available to them as a result of rising imports or Internet-based competition domestically; capital markets become more competitive if firms face more pressure from the suppliers of capital (like major pension funds) to raise profits; and labor markets become more competitive when highly paid workers lose their jobs to their lower-paid counterparts overseas or at home.¹⁹ More competitive product and capital markets make it harder for employers to pass on higher labor costs to consumers in the form of higher prices or to capital owners in the form of lower rates of return. And both new technologies in the workplace and globalization might directly make labor markets more competitive as firms increasingly shift production overseas

to lower their costs or rely more heavily on machines than on less-educated workers.

Of course, one can also argue that recent developments in executive and financial market compensation do not reflect well-functioning labor markets at all. Instead, they seem to indicate market imperfections and concentrated power that have not only led to enormous concentrations of earnings at the very top of the distribution but also abetted the development of a debt-driven housing and financial bubble that ultimately collapsed and drove us into the Great Recession (Bebchuk and Fried 2004; Roubini and Mihov 2010). Yet it is also likely that both sets of developments have occurred simultaneously—with more competitive product and labor markets imposing greater constraints on many or most workers, especially those without the strongest educational credentials, while outlandish financial bonuses and CEO pay have created huge windfalls for those at the very top.

If true, then the more competitive forces affecting most workers would be generating labor demand that is more “elastic”—that is, where employment levels are more (negatively) responsive to labor costs. Under these circumstances, there is more pressure on employers to either reduce compensation or ensure that higher compensation is offset by higher productivity.²⁰ Fewer employers have the luxury often afforded by less competitive markets in the past to pay above-market wages according to “managerial preferences.” And in addition to other legal and institutional factors, more elastic labor demand might well contribute to the declining power of unions, which now find it harder to generate wage increases without causing a loss of employment in many private-sector industries.²¹

Furthermore, even those firms that have historically offset higher compensation costs with higher worker productivity may face growing pressure in this new competitive environment. The high-road model may become relatively competitive mostly in the production of “niche” products rather than broadly consumed goods and services. The dramatic success of Wal-Mart as a distributor of low-cost goods produced in China and elsewhere may reflect a new model and a growing competitive advantage for low-cost producers that are now better able to undercut and out-compete some of their higher-road competitors like Kroger or Costco.²²

If the disappearing higher-wage firms are those that disproportionately benefited less-educated workers in the past, greater labor market inequality would result from these shifts. On the other hand, well-paid jobs in sectors like health care (and especially at larger employers like hospitals) probably face much less of this pressure and therefore continue to grow because of demographic shifts (such as the aging of the U.S. population)

that increase the demand for health care services. Since new technologies in health care can substitute for direct worker input only to a limited extent, and since most health care services cannot be imported or easily offshored, demand in this sector will remain quite strong and thus limit the downward trend in the availability of well-paid jobs in this sector.

The notion that some good jobs are more easily replaced by technology or globalization than others appears in claims that the job market is experiencing a “hollowing of the middle”: well-paid jobs for less-skilled workers disappear when the work involved is routinized and can be easily done by computers, robots, or non-English-speaking workers (abroad or domestically) who do not need to interact with customers. Those jobs that survive are either highly paid and involve nonroutine analytics (especially for those with bachelor’s degrees or higher) or low-paid and based on social interactions with customers or coworkers.

The empirical evidence to date certainly provides some support for the notion that middle-paying or middle-skill jobs declined in magnitude (and in pay levels) more than others, especially during the 1990s.²³ At the same time, it is clear that many well-paid middle-skill jobs, requiring some postsecondary schooling or training but less than a four-year college degree, remain in the U.S. labor market. These jobs remain good jobs for workers with appropriate levels of skill and previous training, even if they do not have college diplomas, and many of them cannot easily be outsourced or replaced by machines.²⁴

All of this discussion suggests that good jobs may decline in magnitude and availability in some cases but not in others, and for some workers but not for others. Those jobs that face the greatest changes in the technology of production or that are amenable to being globally provided may be declining the most—or at least may be filled increasingly by workers with greater productive potential. And other legal and institutional developments over time interact with these forces and no doubt reinforce their effects.

THE CONSEQUENCES OF VOLATILITY

If high-compensation producers are now under greater competitive pressure than before, the jobs they provide to workers may not only pay less but also may be less secure over time and more vulnerable to permanent dislocation. Of course, the movement of workers across jobs can lead to major wage gains, especially when such movement is voluntary; this is particularly true of job changes for young workers and those who have been stuck in low-wage jobs.²⁵ But when workers become involuntarily “displaced” or “dislocated,” they tend to suffer major losses in earnings—

which might be related to the quality of the jobs they have held, relative to their own general skills.²⁶

For instance, dislocated workers tend to experience some employment losses in the first few years after losing their jobs—until they gain new ones that last—and they frequently experience earnings losses over the longer run, because their new jobs do not pay them as highly as their old ones did. Perhaps they have lost seniority, perhaps the returns to specific skills were more valuable in their older jobs than in the newer ones, or perhaps the new job simply does not pay as well as the old one. Empirically, the long-term earnings losses average 15 percent or higher, as we note later. They are higher for older and less-educated workers than for younger or more-educated ones, who tend to move more easily across economic sectors and, because of their higher general skills and lower family commitments, are more likely to benefit from new opportunities that open up.²⁷ But the extent to which such losses might be higher for those who lose good jobs, especially when they cannot replace those jobs with ones of comparable quality, remains unclear.

Thus, today's workers might experience growing economic losses due to job market turbulence in a variety of different ways, especially when it comes to the role played by job quality. Even if the average quality of jobs is not changing—in the aggregate or for less-educated workers—new technologies and globalization may make existing jobs more unstable and lead to greater potential losses as workers are faced with the need to find new jobs and endure some loss of seniority or skills specific to their older jobs. This would be true even if *job creation* in high-wage sectors fully offsets *job destruction* in magnitude, leading to little *net* change in the availability of high-wage jobs for different groups of workers.

If jobs are no more unstable than before but fewer employers now offer health insurance or contributions to pension plans, the *incidence* of displacement might be no higher than in earlier years but its *costs* might rise over time, especially along certain important nonwage dimensions. And if higher-wage jobs are, in fact, becoming less available over time, either overall or for less-educated workers, then the wage costs of displacement might also rise, because it becomes more difficult to replace a lost job with one that pays comparable wages.

In this latter case, the distribution of net job creation would be shifting toward lower-wage sectors, at least for some workers. Not only would inequality rise overall in the labor force, especially for newer (or younger) cohorts of workers relative to older ones, but the older cohorts themselves would increasingly experience losses over time, and all might feel greater insecurity in the labor market, even while other groups of workers benefit from the creation of new jobs in the labor market.

THE IMPORTANCE OF LOCAL LABOR MARKETS

The late Speaker of the House Thomas P. “Tip” O’Neill (D-Mass.) once proclaimed that “all politics is local.” In a similar way, all labor markets are local—in the sense that the broad national and international forces described here play out in local labor markets around the country that differ from one another in the demographics of their workers, the concentrations of industries, and their vulnerability to (or ability to profit from) the many changes occurring around the world.

Local labor markets matter for a variety of reasons. For instance, worker mobility across local areas is often costly and somewhat limited—so that a “shock” to a set of local industries and jobs (like a fall in the prices of imported products that makes it harder for local industries to compete) limits the opportunities of workers in those localities and industries, at least in the short term. If their ability to relocate across industries or local areas is limited over time—by investments in skills specific to those industries, by ownership of local housing, or by non-economic factors (such as close family ties)—their inability to adjust by moving to a new industry or location might last even longer. And policy issues for workers often play out locally as well, with education and training policy for workers heavily determined by a variety of local boards with federal, state, or local funding.²⁸ Because of all of these factors, local economic forces often have important effects on workers and their well-being.

Local labor markets are primarily based in *metropolitan statistical areas* (MSAs), including the central cities and very diverse suburbs in which both workers and firms are now located.²⁹ Furthermore, the metropolitan areas in certain *states and regions* tend to follow broad patterns of industrial concentration and of growth or decline, which generate commonalities in their overall labor market experiences and challenges. For instance, certain metropolitan areas—including but not limited to those of the industrial Midwest—have been hard hit by the decline in durable manufacturing employment over the past decade and earlier, and especially in the economic downturn of the past few years.³⁰ These are often medium-sized areas in which an above-average fraction of the workforce was employed in manufacturing at some point in the recent past and where the loss of these and other jobs has hit disproportionately large numbers of people. Furthermore, some of these metro areas have no doubt been more successful than others in attracting or developing new industries and good jobs to offset the losses experienced in manufacturing.

These developments raise a number of important questions. To the extent that the areas that have lost large numbers of manufacturing jobs

have been successful in replacing them, what has happened to job quality and volatility there? In other words, are the new jobs as high in quality as the old ones, and do they require similar or different (and higher) skills, thereby benefiting a different group of workers than those displaced? Do the areas that attract more highly educated workers also provide more growth and better opportunities for the less-educated? Are there systematic differences between larger and smaller MSAs in this regard, or between those in the South or Midwest relative to those on the two coasts? Has inequality grown more dramatically in some of these areas, and have older and less-educated workers been hurt worse in some places than in others?

To fully understand what has happened at these local levels, we also need to know more about the *dynamics of firms and jobs* as well as workers. For instance, to what extent is local job growth driven more by the creation of new jobs or more by the preservation of older ones, and who benefits in each case? Are new firms (or establishments) the primary generators of new jobs, or are new jobs more likely to grow in existing firms? How important is it to offset firm deaths with births, and how does this vary across industry and local labor markets as well as by job quality?

The answers to these questions have important implications for the appropriate policy responses to the developments we have described. We now turn to a discussion of these potential responses.

POLICY RESPONSES

All of these issues raise important questions for public policy. There is little doubt that differences in education and skill levels across workers are generating more inequality than in previous years and that the importance of raising worker education and skills at all levels has risen as well.

But should public policy encourage the creation of more good jobs as well as “good workers”? And if the answer is yes, how shall it do so? Increases in minimum wage laws and other regulations, especially mandates on benefit provision or training, can improve job quality, but perhaps at the cost of some further job loss as labor costs rise. Legislative or regulatory changes that make it easier for workers to choose union membership and collective bargaining might have a similar effect, depending on the extent to which wage and benefit increases can be offset by higher productivity.

These, indeed, are the preferred policies of many commentators who bemoan the loss of good jobs in our economy. Alternatively, the government might also use “carrots” as well as “sticks” in its efforts to improve

job quality—perhaps by providing tax credits or subsidies for on-the-job training or technical assistance for firms seeking to build more career ladders into their workplaces. These kinds of policies might generate fewer losses due to rising labor costs, though they might also make it harder to generate large-scale labor market changes.

Furthermore, if good jobs increasingly must be filled by “good workers,” then perhaps the traditional distinction between these two sources of higher earnings has diminished with time. Good jobs might exist in sufficient quantities to absorb many more workers if the latter have the appropriate skills, even without college diplomas, but these skills might require sector- or industry-specific training and work experience rather than just general education and credentials. These workers might also require more involvement by employers in the training process and by labor market intermediaries who can assess local demand and help workers gain access to jobs as well as to training providers.

The need to link training and jobs more effectively might also arise for dislocated workers as well as for the disadvantaged. Indeed, the former are more likely to have the basic skills and general education it took to attain good jobs in the past, but now must be retrained for available work. These workers might need guidance on the available jobs and their training requirements, and stipends as well as tuition assistance might be necessary during periods of training. Alternatively, if many older and less-educated workers lost formerly well-paid jobs, and if those jobs now available simply require more education than most of these workers can obtain, what kinds of other supports (like health insurance and wage insurance) are needed to persuade them to take lower-paying jobs?

To the extent that the disappearance of good jobs varies by locality, state and local economic development policies may have a role to play. If so, what constitute cost-effective public interventions in this area, and to what extent must education and training be an integral part of these strategies?

Finally, though we don’t have data directly for this period, how might the labor market in the aftermath of the Great Recession—with growing numbers of long-term jobless workers who might not meet the skill needs of employers trying to fill good jobs (Elsby, Hobijn, and Sahin 2010)—affect the skill-building and job creation policies that would be most effective?³¹

THE DATA USED IN THIS BOOK

Of course, what we describe here is primarily an empirical exercise, and our work is heavily data-driven. But our ability to test these hypotheses empirically and to distinguish between these different scenarios requires

us to be able to distinguish between jobs that pay high wages owing to the high skills of the workers who hold them from those that pay high wages regardless of workers' observed skill level. To make this distinction, we must also be able to distinguish the characteristics of jobs and firms from those of workers, with sufficient detail over time to be able to generate patterns across areas and years. Unfortunately, most of the standard data sources on labor do not allow us to do this, either because they tell us nothing about the characteristics of firms and jobs or because they do not exist in large enough samples and over long enough time periods to enable us to answer the questions posed here.³²

To our knowledge, only one data set is available that meets all these needs: the Longitudinal Employer-Household Dynamics (LEHD) file at the U.S. Census Bureau.³³ The LEHD data begin with the universe of state-level unemployment insurance (UI) wage records for a sample of states over most of the 1990s and extend beyond the year 2000. The UI wage records are *longitudinal data on all individual workers and their employers* in the sectors of the economy that are covered by UI in each state. These individual records are then matched, wherever possible, with micro survey data on individuals—such as the Census of Population, the Current Population Survey (CPS), and the Survey of Income and Program Participation (SIPP). The data are also linked on the firm side to the various economic censuses that are available. They are also matched with universe demographic data from the Social Security Administration and other sources of administrative data.

The results are large-scale datasets with data on workers linked to firms over periods of several years. The data combine administrative with survey data on both sides of the market, thus generating rich information on workers and firms and the matches between them. In an ongoing process, the data have been painstakingly constructed over several years by the LEHD staff at the U.S. Census Bureau.

What we present here is based on a subsample of twelve states for which the LEHD micro data are available over the period of 1992 to 2003. Furthermore, we supplement this analysis in some cases by considering a subsample of the LEHD that has been linked to the Decennial Census of Population in 2000, which contains much more extensive personal demographics on workers.

By being able to follow the same workers over time, across different jobs in different firms and industries, we can measure the extent of earnings loss associated with job change for different groups of workers. And by being able to follow employment at firms over time and the extent to which firms are themselves created and destroyed, we can test the extent

to which gross or net job creation and destruction in different sectors contributes to these processes. And most importantly, having longitudinal data in both workers and firms enables us to calculate worker effects and firm effects on earnings that separately reflect the quality of workers and jobs, thus making it possible to analyze the extent to which job and worker quality are related to or independent of one another. We use these data to measure trends in job quality over time, in the quality of workers who fill jobs, and in the losses suffered by workers who lose jobs of different quality levels.

SUMMARY AND FINDINGS

After describing the data in somewhat greater detail in the next chapter, we proceed to our analysis of job quality and volatility and how they have evolved over time. The rest of the book presents these results.

Chapter 2 presents data on what constitutes good jobs today—that is, the industries in which they are located and the categories of firms (by size, turnover rate, and so on) in which they appear. The chapter concludes that, contrary to popular perception, relatively good jobs are not disappearing, but they are less available in the industries where they were traditionally found (in durable manufacturing) and increasingly require higher levels of worker education and skill. So the distinction between the two categories of good jobs is diminishing somewhat, as is the difference between policies that focus on creating better jobs and those that aim to create better workers with more skills. Our presentation of the “good jobs” issue thus may seem to run somewhat contrary to the arguments often espoused by some commentators, especially those on the political left, but in fact we simply take a more nuanced view: we need to generate both better jobs *and* better workers to fill them.

Chapter 3 looks at levels of volatility for different groups of workers and firms and examines trends in these rates over time. We also look at what happens to workers in a volatile environment. In the past (see, for example, Andersson, Holzer, and Lane 2005), we have argued that changing jobs, especially when young and less-skilled workers do so voluntarily, can have positive effects on worker earnings and is more frequently associated with wage growth rather than decline. But involuntary changes—especially those involving older workers and those associated with the downsizing or shutdown of firms—are much more likely to have a negative impact on earnings. In our statistical work, we find that rates of job dislocation rose very modestly over time, especially during the 1990s. Furthermore, these increased rates of dislocation raise an important ques-

tion: when workers lose good jobs, how likely are they to find other jobs at their skill level? We show that some of the biggest losses in earnings occur when displaced workers cannot find jobs as good as those they have lost, which happens to a significant fraction of displaced workers. The ability of the displaced to avoid losses also seems to depend heavily on the overall health of the job market: these workers experienced less earnings loss during the boom years of the 1990s and more during the recessionary period after 2000, which implies quite serious difficulties for many displaced workers in the aftermath of the Great Recession.

Chapter 4 focuses on labor markets at the metropolitan level. We look at two types of MSAs: the very large ones in the states that we have, plus another group of smaller MSAs that lost a lot of manufacturing jobs in the 1980s and 1990s.³⁴ We show that these two sets of labor markets experienced quite different labor market trends in the 1990s and beyond. The large labor markets boomed in the late 1990s and paid highly skilled labor very well in expanding technical and professional service jobs. The smaller labor markets that experienced a lot of restructuring boomed less, had less growth at the top of the earnings distribution, and struggled more to replace the good jobs that they lost. And workers who lost good jobs in those smaller MSAs, especially if the earlier jobs were in manufacturing, experienced greater losses in earnings than did those in larger MSAs. This will likely be even more true after the Great Recession for the next several years.

Chapter 5 looks at the dynamics of firms in these markets: how much job growth occurred in new or growing firms (or establishments)—especially within the industries that have been targeted by local economic development policies—and how good have these jobs been? We show that job flows from new and growing firms are important in replacing those lost in declining and dying firms, and so policies that try to affect these flows and the sources of new jobs can matter importantly, regardless of the economic sector in which they appear.

Chapter 6 summarizes and develops some policy recommendations. Besides our needs for more jobs overall after the Great Recession, we argue that we also need policies to generate good jobs—through higher rates of unionization, increases in the minimum wage, or government efforts to motivate or assist firms that create good jobs, especially through economic development policies that target new and growing firms. But we also need policies that create more good (or highly skilled) workers. Such efforts can be implemented for a range of populations through policies that raise general levels of literacy and numeracy as well as general educational attainment in high schools and colleges across the country. Especially needed at these levels of schooling are high-quality career and

technical education as well as sectoral training strategies and the building of career pathways in workforce development. These policies seek to train employees for, and place them in, well-paying sectors and firms, and they often involve intermediaries who work closely with employers to make sure they are getting the workers they want for the jobs they have. Our results also suggest a need for policies for displaced workers that similarly combine job training with effective job placement strategies that are tied more closely to the good jobs that exist on the demand side of the labor market.

To the extent that a “mismatch” between worker skills and those needed for available jobs may be growing over time—and also may be exacerbated as we emerge with so much long-term unemployment from the Great Recession—the need for such policies becomes even more pronounced. But we also must recognize that because some older and less-educated workers and some disadvantaged groups will have much more trouble meeting this demand for higher skills, other strategies that support their more meager earnings (like “wage insurance” and universal health care) make more sense for them.

In short, we argue and show evidence that job and worker quality both matter importantly; that good jobs are not disappearing for everyone, but that they are largely disappearing for less-educated workers, especially in certain traditional sectors of the economy (like manufacturing) and smaller local areas; that good job creation depends a great deal on what happens in new and growing firms and establishments; and that labor market policy should target both skills and good job creation in a coordinated and coherent fashion.