Discussion of Bluestone and Sharpe, “Construction of a New Architecture . . . “

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Laudable Project to Broaden Labor Market Statistics Beyond the U Rate

- What does U rate Conceal rather than Reveal?
  - Differences in Hours per Employee per Year
    - Vacations
    - Part-time work, voluntary and involuntary
  - Labor-force participation
    - Disguised unemployment
    - Early retirement
  - Self-employment
  - Underground Economy
Basic Analytical Tool: The “Output Identity”

- GDP by definition is the product of:
  - Output per Hour
  - Hours per Employee
  - Employment rate (1 – U)
  - Labor force participation rate
  - Working age population

- Their version on p. 5 divides both sides by total population
Uses of the “Output Identity”

- Explaining the Difference between League Tables of Output per Capita and Productivity
- Core Countries of EU have ~75% of U. S. Output per Capita but ~95% of U. S. Productivity. Why?
  - Lower Employment Rate, Higher U
  - Lower Labor Force Participation Rate
  - Fewer Hours per Employee
Decomposition since 1870, Europe/United States
Second Use of Output Identity: Projections for the Future

- When Connecting future GDP per Capita Growth to Standard Productivity Measures
  - Need Additional Term in Identity
  - Total Economy Productivity Grows Slower than in Nonfarm Private Business Sector

- In U. S. Output per Capita 1987-2003 Grew Faster than Total Economy Productivity
  - Decline in NAIRU, Slight Increase in LFPR, No Decline in Hours per HH Employee
  - Opposite in Europe
My New Brookings Paper is Based on the Same “Output Identity”

- Actual Data, 1987-2003
  - GDP / Working Age Population = 1.79
  - NFPB Productivity = 1.78
  - Total Economy Productivity = 1.59
  - Contribution of Labor Market Variables = 0.20

- My Projections 2003-2023
  - Total Economy Productivity = YpC = 2.30
  - Contribution of Labor Market Variables = 0.00
Third Use of the Output Identity: “Okun’s Law”

- What is the Response of the Employment Rate (relative to trend) to Deviations in real GDP (relative to trend)
- Elasticity of the “Employment Gap” to the “Output Gap”
- Brookings Paper vs. Original Okun
  - Employment Response \( \sim 0.50 \)
  - Remainder Productivity and Hours, but Productivity Response has Changed
  - The Puzzles of 2002-03
Today’s Paper

- Goal is to Distinguish
  - Economic Performance vs.
  - Labor Market Performance
- They Compare Spain vs. Portugal
  - Spain has Higher Unemployment and Higher YpC
- “Having Good Marks in terms of employment does not Guarantee Good YpC”
  - But We Already Knew This, should focus on YpC vs. YpH, how much is explained by H/E, E/L, and L/N
Table 1 Puzzles

- United States: Labor Market Variables Should Make YpC Grow Faster than YpH, they have it backwards
- U. K. Also Makes No Sense (YpC Grows Much Slower than YpH but Labor Market Variables sum to Zero)
- Please Help Us by Redoing This Table in Average Annual Growth Rates and Check the Identity
Table 2 Conclusions

- “2/3 of Dispersion in YpC due to Differences in Productivity”
- “1/5 Due to Hours of Work”
- “Only 1% Due to the Unemployment Rate”
- But Why is that Surprising?
  - Take the U. S. If the NAIRU Goes from 6.0 to 5.0 over 1980-2001, that’s an Annual Growth Rate in E/L of 0.05% per year
Discussion of Figure 1 Misses the Point

- Figure 1 Shows Negative Correlation of Employment Growth and Productivity Growth
- Could be a Spurious Correlation
- What do US, Australia, Canada Have in Common?
  - #1, Rapid Population Growth
  - #2, High Initial Income in 1964
Substantive Reason for Negative Correlation

- See Gordon (1998) Tradeoff Paper
  - Flexible Labor Market, Low Minimum Wage (the U. S. Model)
    - High Growth of Low-Wage Jobs
    - Reduces Productivity Growth
  - Those Unique U. S. Occupations
    - Grocery Baggers
    - Bus-boys
    - Parking Lot Attendants
    - Valet Parking
“Failure” of the Phillips Curve and the NAIRU

- There is an Ample Literature that Explains Co-existences of Low Inflation and Low U
- The 1990s were the Flip Side of the 1970s
  - Dollar Appreciated 1995-2002
  - Low Energy Prices through early 1999
  - Accelerating Decline in Computer Prices
  - Hiatus in Medical Care Inflation
  - Lag of Real Wages behind Productivity Revival
Their Hypothesis: Failure of Phillips Curve Related to Inadequacy of U Rate

- But in the U. S., all Labor Market Indicators went in the same direction
  - Higher E/L
  - Higher L/N
  - Higher H/E

- Their Claim: U Rate Ignores
  - “Supply of Hours by Incumbent Workers”
  - “Ignores Hours by Those Not in LF”
Most Important Measurement Problem: Hours of Work

- Good Discussion of Measurement Issues
- Busiest People May not Respond to Surveys
- Inherent Problems with Time-Use Surveys
  - Employees won’t report Consumption on the job
    - Use of e-Bay, Amazon peaks at noon on weekdays
  - Reverse Bias, Work at Home, use of Mobile Phones during “Personal Time”
- Insoluble Measurement Problem?
  - Professors can’t answer their own surveys!
Table 3 on Transition Rates

- Should Summarize this as “People Just Keep on Doing what they are doing”
- What Questions Are Addressed by the Transition Matrix?
Their Recommendations

- Part-time unemployment correction, good but the questions must be carefully posed
- Skill-based “overqualification”. A hornet’s nest of measurement issues
- “Gender Dimension” Why?
- Vacancies – nice if we had the data
- Distribution of Unemployment – we’ve had those data for 50 years!
Conclusion

- There is much to support in the project and this paper
- But it needs a tighter focus.
- What is new?
- What is old but needs to be revitalized
- And what is a high priority for new measurement efforts, my candidate hours surveys