

Employment, Unemployment and the Labor Market

I chose to write my essay on employment and the labor market. I found many articles on this and related topics. I think that these are very interesting subjects because this is definitely something that affects all of us. Also, as I was doing research and throughout this course, I have found that employment is related to so many other things. Employment alone can affect so much else. It is unbelievable that our country's economic stability mainly rests on something so many people take for granted. I am sure that most people do not realize that most everything is connected to employment. I thought that it was very fascinating to learn all the things that affected the labor market and how many things it, in turn, affects.

The first article I found, from the Youngstown Vindicator, is titled: "Unemployment rate falls to 4.7 percent." I found this article to be very interesting and very relevant to what we have learned in class. This article discusses the unemployment rate falling to 4.7 percent which matches the lowest point in four and a half years. This is good news. After all, the lower the unemployment, the better, right? Well, this caused the Dow to drop 96 points when investors heard the news. Employers who are expecting good things from the economy at this point in time are adding jobs and recently hired 211,000. The reason the stocks dropped is because when all this hiring occurred, investors feared "that businesses' growing appetite might drive up wages – and inflation – down the road." This completely relates to topics that we have discussed in class. Because employers' expectations of the economy went up, they hired more people, and the demand for labor went up. This can cause wages to rise, and even more labor to be supplied. When there is more labor, more is being produced, and more wages are going

home with the workers. This causes the GDP to increase because more people are spending their income. This can then cause prices to rise (inflation). The stock market investors were correct in their thinking that this hiring spurt could cause wages to rise and inflation, eventually. This article also discusses the unemployment rates for different races which was discussed in class. The unemployment rate for Blacks is 9.3 percent, for Hispanics is 5.4 percent, and for whites is 4 percent (March 2006 numbers). The article also gives information concerning the amount of jobs added compared to wage increases. At this point the wages had only increased 0.2 percent, which was less than economists were expecting. The article then goes on to say that, "with the economy growing nicely and the job market blooming, the Federal Reserve and other economists are keeping a close eye on wage growth." Relating this to class, I think that the Fed is watching this closely because I think that if wages were to increase a substantial amount, they would increase the interest rate to try to bring the economy back to equilibrium. In conclusion, "Wage improvement is good for workers, but a rapid, sustained acceleration would trigger inflation concerns." I think that this was a very good article addressing unemployment and the many effects it can have on the economy. The article was accurate and followed the lessons learned in our text.

The next article I found is from LRA Online, News and Analysis from the Labor Research Association, titled, "The Economy, Labor Market Forecasts" (April 3, 2006). This was a great article, and a great website. It gives a lot of applicable information. This particular article discusses job growth, the sectors it will occur in, and the wages that go along with that growth. It says that "the U.S. economy will add 18.9 million jobs by 2014, but half of all the new wage and salary positions will be in relatively low-paying

jobs...” It goes on to discuss which occupations will grow the most and which will grow the least or begin to decline. The article also addresses the fact that there have been talks of labor shortages in the near future, but that the Bureau of Labor Statistics does not indicate that there will be a major shortage of workers. Also, “there is no sign of labor markets tightening to the point that would automatically drive up wages and end the ongoing decline in real wage growth.” This is saying that if there were a labor shortage, if the labor supply was down, that it would cause the wages to increase in order to attract new workers. This is in compliance with what we learned from our text. The article goes on to give specific data regarding what services / occupations will see the most increase and which will see the most decreases. This was a very interesting article with far too many facts and figures to include in my essay, but all the information given was in accordance with what we had learned in class.

The next article I found was from the Richmond (Virginia) Times – Dispatch. The article is titled “Unemployment is low, but wages are sluggish”. This article also gives some good information. It states that “jobs are plentiful” and “143 million Americans have jobs right now, the most ever” and “at 4.7 percent, the national unemployment rate is well below historical averages.” This all sounds like good news, but is it? Wages are not increasing. “In the past five years, the weekly earnings of non-supervisory employees have increased only 2 percent, after adjusting for inflation. This accounts for four out of five American workers.” This is somewhat attributed to the 2001 recession. Jobs were lost, leaving employers “with the upper hand” in the marketplace. The article then goes on to give some very interesting information: “With unemployment rates now approaching levels typically associated with tight labor markets...employees

should be able to demand higher compensation as the supply of workers becomes more scarce. During the past year, wages have increased a respectable 3.7 percent. But rising prices have eaten up nearly all of those gains. Consumer prices have jumped 3.4 percent in the past year, leaving workers with a miniscule gain. Energy prices, higher employee benefit costs, especially health insurance [have risen]...that trend shows few, if any, signs of reversing soon.” I found this article to be the most interesting of any that I found. I think it is because it gives you real life, relatable statistics that the normal person can understand. I think that these facts are staggering. The typical American is paying more and more and is not, typically, bringing home any more money. But everything reaches equilibrium in the long run, right? Well, “the supply of workers is shrinking. Employers may have to begin offering better pay to attract and hold on to the people they need to succeed. Wages are gradually edging higher. At some point, workers should regain some bargaining power. That assumes, of course, that the economy continues to grow at a healthy pace.” This goes along with the first article I talked about because it discusses the labor shortage, which has the potential to cause wages to increase. Although increasing wages will cause inflation, which will probably cause a drop in the interest rate from the Fed, and eventually the economy will reach equilibrium once again. “You never know. A year from now the news may not focus on sluggish wage growth. The new story might be the impending labor shortage. And that should be good for folks who work for a living.” This was my favorite article that I found. It was completely relevant to my chosen topic and to what we learned in class. The information was in agreement with everything that we learned from the text.

The final article that I found and would like to discuss is “Seeing Through the Interest-Rate Static” from the National Review Online. This article also addresses the labor shortage issue that the other articles have also addressed but this article states that “with the continued penetration of 100 million-plus workers from the Soviet Union, China, and India into the labor force, the notion of coming labor shortages seems pretty farfetched.” This is an interesting, although realistic take on the situation. The other articles are optimistic that American workers, in the presence of a labor shortage will benefit and have bargaining power. But realistically, who is to say that American businesses will not take their business elsewhere, where wages are lower, where they do not have to worry about health care, benefits, unions, etc. And what would stop foreigners from coming into this country and taking Americans’ places at the jobs? This is a very real situation. I think that American’s should probably stop to think about that before they decide to start bargaining for higher wages. The article goes on to say, “It should be remembered that just as the amount of available labor rises and falls here and elsewhere in response to marginal tax rates, workers respond to price signals in the market. If demand for labor outstrips supply, wages will rise and so will the number of available workers to depress wage pressure.” This is in conformity with what we have learned in this course. This is saying that labor rises and falls depending on tax rates. If the demand for labor is greater than the labor supply, wages will increase to attract more workers and workers will respond to that, filling those higher paying positions and the labor market will again reach equilibrium. Lastly, the article says “while it’s still unknown what the Fed will do at its next meeting on May 10, it should be hoped that low unemployment...is not cited as a factor driving interest-rate policy one way or the other.”

The author is saying that unemployment should not be an issue as to whether or not raise or lower the interest rate at this point in time. He is saying that unemployment is not really an issue right now.

Finally, I think that I was lucky and found some great articles that really illustrated my point and the topic that I chose. I believe that all of these articles were completely relevant to what I have learned in Macro Economics and what we have discussed throughout this course. All of the articles were correct in the way that they addressed the different situations. All of the topics that were discussed in this essay were topics that we covered in class. The labor market, employment, unemployment, wages, inflation, etc. are topics that we covered throughout the course. It still is amazing to me to see how all the things in the economy, no matter how small, affect other things. The smallest change can cause a tidal wave of bigger changes. I think that economics is fascinating and this course helped me to better understand the economy and how it works as a whole.

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