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Workers and Jobs

The Balance is Shifting

By Frank O'Hara

In an era where the availability of skilled labor is deemed one of the most important ingredients of economic growth, Maine faces a labor shortage that—according to Frank O'Hara—is unlikely to disappear soon. In this article, O'Hara traces the rapid growth of Maine's labor force through the 1970s and 1980s, its slow growth through the 1990s, and explains why slow to no growth can be expected in the future. Unlike a decade ago when concern over the availability of Maine workers disappeared with the onset of a recession O'Hara predicts this labor shortage is here to stay and has implications for all regions of the state. He describes several scenarios that could result from a sustained labor shortage, including the end of economic growth, the stimulation of a new period of in-migration, and/or an improvement in workers' conditions that is driven by the needs of business to retain its most talented workers.

Note: Glenn Mills, a Labor Market Analyst for the Maine Department of Labor, provided the primary data for this study as well as helpful editing suggestions. All data cited in the article are from the Maine Department of Labor, unless otherwise noted. All opinions in the article are solely the responsibility of the author.

For some time it has been a truism of political stump speeches and Chamber of Commerce breakfasts that nothing matters more to Maine's future than a skilled workforce. But, in Shakespeare's words, this is "a custom more honored in the breach than the observance." In a recent survey, one in three Maine employers¹ said that affordable wage rates were critical for their economic future (the most frequently listed item); in the same survey only one in six reported labor skills to be a major factor. Apparently, cheap labor still outranks skilled labor.

This state of affairs has been deplored by professors David Vail of Bowdoin College and Michael Hillard of the University of Southern Maine in several valuable reports and articles they have coauthored for the Maine Center for Economic Policy. They follow in the tradition of former Secretary of Labor Robert Reich and many others who argue that upgraded labor skills are essential for competing in the global economy.

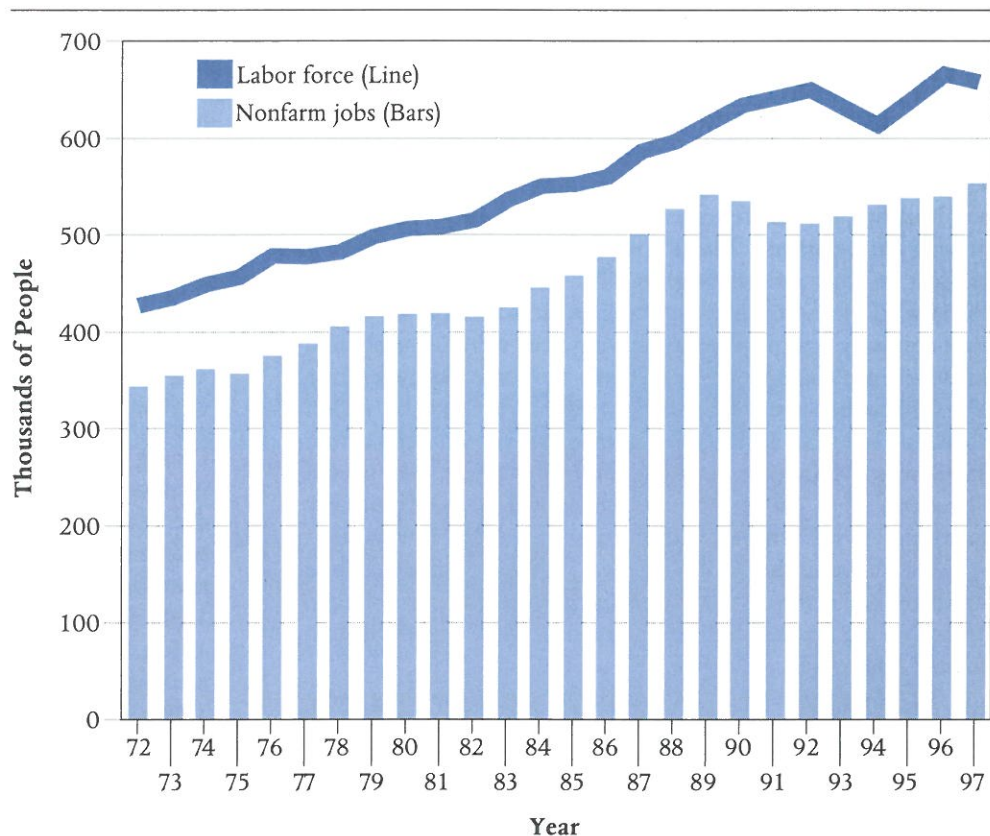
However, speeches and academic research are not persuasive in the face of countervailing market facts. So long as jobs remain scarce and workers remain many, it is perfectly rational for a business to pursue a labor policy of low wages, minimal training, and resistance to unions.

But this situation will soon change in Maine. The unfettered free market economy, blamed for the decline in workers' living standards in the last twenty years, may soon become the workers' ally. Why? The balance in the labor market is shifting. Where jobs were once scarce and workers many, in the future workers may be scarce and

jobs many. And this, rather than political persuasion, may finally provide the incentive for businesses to raise wages, invest in worker training, and even deal with unions. This article explores why the shift is occurring, and what the implications are for Maine's economic future.

In the interest of full disclosure, it must be acknowledged that this is not the first time the possibility of a labor shortage in Maine has been broached; indeed, wolf has been cried before. In 1989 Joe McGonigle wrote for the Commission on Maine's Future that "the problem of finding enough workers to fill the available jobs has replaced at least for the time being the state's historic preoccupation with ensuring the creation of enough jobs to employ the available workforce."²

**Employment and Labor Force Growth in Maine
1972 to 1997**



During Memorial Day weekend, the traditional kick-off
of Maine's lucrative tourism season, the Palmers took the odd
step of closing their restaurant. Why?
They couldn't find enough workers to keep the restaurant open.

McGonigle was careful to insert the qualifier "for the time being." This turned out to be prudent. Indeed, as he was writing these words, Maine was entering its deepest recession since World War II. Between 1989 and 1992 the state lost 30,000 nonfarm wage and salary jobs. What McGonigle referred to as "the state's historic preoccupation" with job creation returned with a vengeance and the looming labor shortage was forgotten.

Now the topic is back. On June 1, 1998, the *Portland Press Herald* featured the headline: "Service Workers Scarce for Tourist Season." The story included an interview with David and Anne Palmer, owners of a Burger King franchise in Boothbay Harbor. During Memorial Day weekend, the traditional kick-off of Maine's lucrative tourism season, the Palmers took the odd step of closing their restaurant. Why? They couldn't find enough workers to keep the restaurant open.

The shortages affect more than tourism businesses. Nursing and boarding homes are reporting a 50% turnover in entry-level nursing care workers.³ Maine's larger corporations are offering bonuses to their own employees who can attract other skilled workers to the firm. As I write this article, an employee at our own company has given notice, having been recruited away to a job where she could set her own hours and name her own salary.

Of course, the summer of 1998 is the height of an economic boom in Maine; in this respect, it is no different from 1988, when McGonigle made his ill-timed prophesy. Why should discussion of a "labor shortage" be taken any more seriously today than it was ten years ago?

The answer is that McGonigle was right ten years ago, but he was right about the distant future and not the immediate future. Today, we are further along in the process. McGonigle's "distant future" has arrived.

To understand why, it's necessary to take the long view. Consider the past twenty-five years in Maine, through the booms of the mid-1970s and 1980s, and the recessions of the early 1970s, 1980s, and 1990s. If you look beyond the fluctuations of

the business cycle, there is a long-term trend that is fairly consistent. On average, nonfarm employment has increased in Maine every year by 8,400 jobs, or by 1.9%; on average, the labor force has increased annually by 9,200 people, or by 1.7%.⁴

Of the many factors which contributed to job growth over the twenty-five years, state government investments, spillover from Boston growth, and quality of life, are but a few. But one contributing factor certainly was the ability of the Maine labor force to expand at a rate which could keep up with the new jobs. Over this time, Maine's labor force grew at a rate 70% faster than population growth. How this happened—and why it is unlikely to continue—is critical to understanding the coming change in the labor market.

Maine's labor force has grown due to natural increase, increasing participation by women, and in-migration. To understand these dynamics, consider the ten-year period between 1980 and 1990. During this time, Maine's labor force grew by more than 115,000 people, from just under 500,000 to about 610,000. Here's how the three factors accounted for the growth:

1) The entry of post-baby boom generation workers into working age.

During the 1980s, 75,000 more Mainers entered into working age (fifteen to seventy-four years old) than left due to aging or death. These people are not baby boomers, but were born during a time of considerably higher birth rates than today. In 1965, there were 19.9 births per 1,000 people in Maine (compared to a rate of 11.2 in 1995).⁵ In the 1980s, the maturing of this generation accounted for 44% of the labor force growth in the 1980s.

2) Greater participation in the labor force, particularly among women.

One of the most frequently discussed family trends of the postwar era is the increasing participation of women in the labor force. Forty-one percent of Maine women were part of the labor force in 1970, and by 1990 this percentage had increased to 57%. Higher labor force participation, mostly among women but among men as well, is responsible for about half of Maine's labor force growth in the 1980s.

3) Net in-migration.

The third cause of labor force growth in Maine during the 1980s was net in-migration (the people who moved to Maine with those who moved away subtracted out). Even though the 1980s was a period of fairly strong in-migration, this factor only accounted for 5% of the growth in the labor force during the period.

These same three factors also were major contributors to labor force growth in the 1970s. But looking ahead to the next century,

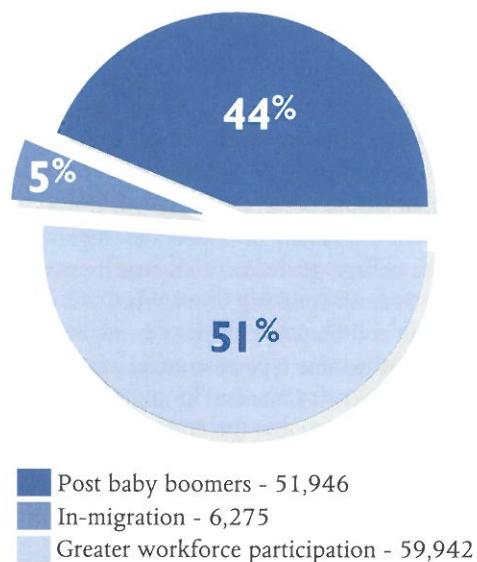
the picture is very different; indeed, labor force growth is slowing. Already since 1990, McGonigle's prediction has come partly true: Maine's labor force growth has slipped to an average of 3,400 per year, less than a third of the 1980s' rate.

After the year 2000, growth should fall even more. The reason is that all three of the historic sources of labor force growth have been, in essence, tapped out.

The first source of growth—natural increase—is declining. The generation entering the labor force over the next ten years are those born during the "baby bust" years of the late 1970s and 1980s. In fact, birth rates have declined even further since then from a 14/15 per thousand level to 11.2 in 1995, the latest year for which there are data in Maine. With baby boomers beginning to reach retirement age, Maine may soon have more people leaving rather than entering the work force, resulting in a natural "decrease" rather than a natural "increase."

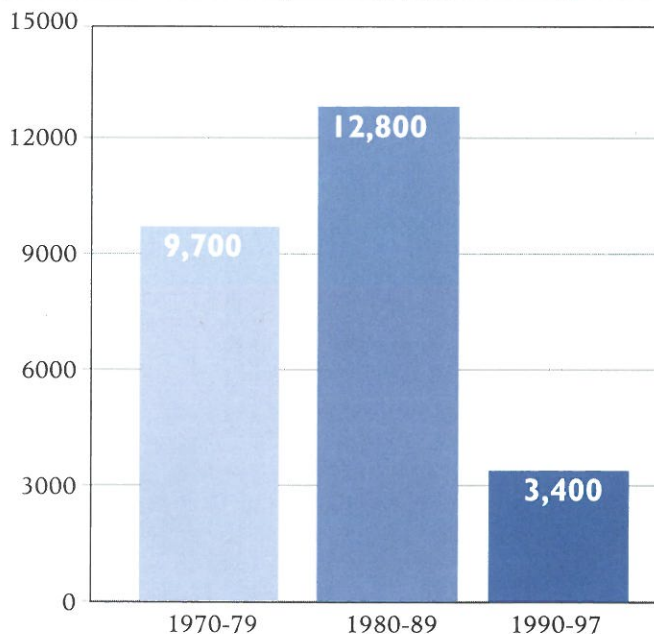
The second source of growth—women in the work force—is problematic. Today nearly two-thirds of women are in the

The Growth in Maine's Labor Force
From 1980 to 1990



Source: Planning Decisions, Inc.

Average Labor Force Growth in Maine



labor force, compared to about three-quarters of men. It is possible that the women's workforce participation rate will continue to rise until it equals the rate of men, a trend which would contribute to the continued growth in Maine's labor force. But as women still take on more responsibility for family care than men, their participation rate is unlikely to rise that much. In any case, even if there is a further increase in women's participation, the percentage is likely to be marginal; for practical purposes, the bulk of the labor force gains have already been realized from women entering the workforce.

Finally, the in-migration of the 1970s and 1980s has come to an end in this decade. It may resume again, a possibility that is discussed below, but it is by no means a sure thing.

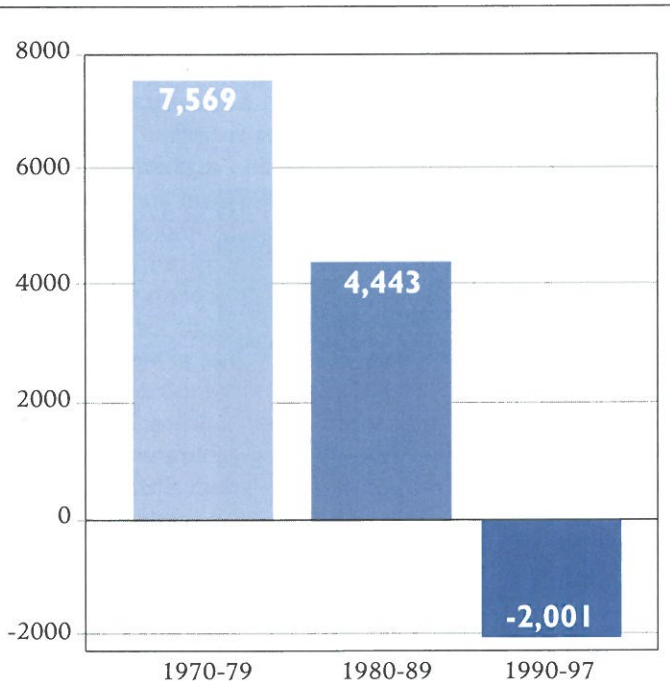
There is an additional factor working against labor force growth which wasn't present twenty years ago: the aging of Maine's labor force. Historically, labor force participation among both men and women has tended to fall off after age fifty, when

health issues and early retirement begin to show up. In ten years most of Maine's baby boomers will be over age fifty, and the front edge will be approaching age sixty-two. Although it is likely that the baby boom generation will work longer than prior generations (due to more active lifestyles and more concern about retirement saving), the fundamental relationship between age and labor force participation will likely remain intact. This will create a downward pressure on labor participation rates in Maine, which in turn will exert a downward pressure on labor force growth.

In summary, Maine's labor force outlook is, at best, for very slow growth—and possibly for no growth at all. There are fewer young people growing up and entering the workforce, there are fewer in-migrants, there are fewer women not in the workforce available to join, and with the aging of workers there will be more early retirements and dropouts. We are entering an era where the irresistible force of expanding employment will meet the immovable object of a fixed labor force.

What does this mean for Maine's economy? Here are several possibilities:

Average Net-migration



•**It could mean the end of economic growth.** Certainly, the historic growth in Maine jobs of 1.9% a year, through boom and recession of the past twenty-five years, is unlikely to be sustained in the future. Maine employers may look around, see that there are few workers, and decide to invest and relocate their operations to Mexico or Asia. This is the pessimistic scenario.

•**It could mean a new period of in-migration.** This is the least predictable future trend, because it is so influenced by changes in circumstances in distant places. If a new period of in-migration does occur, it's likely that it won't be like the 1970s, when so many of Maine's in-migrants were young white college graduates. This time there are more likely to be Spanish-speaking in-migrants, as well as, Asian, African and Eastern European in-migrants. This would present the same type of cultural adjustment for Maine that the French Canadian in-migration caused at the turn of the century; but the French experience also showed that in-migration from new lands can expand and enrich the cultural life of Maine.

•**It could mean rising incomes and greater opportunities for current Maine workers.** This is the possibility discussed in the beginning of the paper. In the


future, a skilled workforce won't simply be desirable as an exercise in rhetoric; it will be desirable as an economic necessity. Thus, businesses will have to engage in sharp competition to attract skilled workers; they will have to increase pay and benefits. The successful businesses will attract some Maine workers to leave other jobs. A game of musical chairs will ensue, and when the music stops, the least attractive jobs will be left vacant, as the owners of the Burger King in Boothbay Harbor found out this summer.

The new market conditions may even correct some government policy failures of recent decades. For example, the minimum wage has been allowed to fall to levels below that of the 1960s; the market may push entry-level wages back up. Government policy has allowed employers to use replacement workers to weaken unions; in the future, shortages of skilled labor may make the replacement worker route untenable. Government has allowed a vast disparity in income among the rich and the poor; a tight labor market might help workers redress the balance.

The new environment could also engender a new attitude among employers toward their existing employees. As skilled workers become a rarer and more desired commodity, businesses will need to do more to create career ladders within the company, to provide benefits, and to promote access to continuing education. They will find that it's easier to retain talented staff than to find them on the outside. They will also have more incentive to train and hire people who have traditionally encountered obstacles in the labor market, such as people with disabilities and women who have been on welfare.

All this may seem hard to imagine (or it may only be imaginable for southern Maine—York and Cumberland counties), but the labor shortage is already being felt even in eastern and northern Maine. Consider another survey: In 1997, the Maine Economic Growth Council asked four hundred forty-seven Maine employers whether they had "difficulty finding skilled employees." The answers—weighted by numbers of employees—found that 49% of Aroostook business respondents had trouble (10.1% unemployment rate in June 1997; 92% of Washington respondents had trouble (11.3% unemployment in June 1997); and 54% of Franklin County employers had trouble (9.2% unemployment June 1997).

A recession may slow this process, as it did in the early 1990s, but the long-term trends are irreversible. What will take even longer is the mental adjustment, the realization that in fact

it is good workers, rather than jobs, that are the scarce commodity in Maine's economy. Once that realization occurs, Maine's labor market will never be the same again. 



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ENDNOTES:

1. Through the Maine Business Visitation Program—a joint effort of the state and local chambers, and the state departments of Labor and Economic and Community Development—over eight hundred businesses have been surveyed in the last five years. While the surveys are not random or geographically representative, the data (which are available through the Maine Department of Labor) remain valuable.
2. Joseph McGonigle, "Maine's Changing Face," Commission of Maine's Future, (1989): 78.
3. Reported from the Maine Health Care Association.
4. The reason that labor force numbers are slightly higher than nonfarm employment (job) numbers is that many Maine people work in New Hampshire and Massachusetts; in other words, they show up in the Maine labor force numbers, and the New Hampshire (or Massachusetts) nonfarm employment data.
5. *Maine Vital Statistics: 1995*, Maine Department of Human Services, 1997.