Erica L. Groshen, Zahir Lalani, and David Murchison

Conference Overview and Summary of Papers

1. Introduction

Over the past three years, observers of North American economies have confronted two interesting phenomena. The first, which has received wide media attention, centers on the lack of job growth in the current U.S. recovery. The second involves the disparity in job growth between the United States and Canada—namely, while the United States was struggling to create jobs, Canada was producing them at a fast clip.

To shed light on this disparity, in December 2004 the Canadian Consulate General in New York, the Centre for the Study of Living Standards, the Federal Reserve Bank of New York, and the New York Association for Business Economics cosponsored the conference "Labor Market Developments in the United States and Canada since 2000." The goal of the sessions was to engage key Canadian and U.S. economists to explore the reasons for the lack of job growth in the United States, to contrast the U.S. experience with that of Canada, and to offer potential lessons from these experiences.

2. The Weak U.S. Jobs Recovery

Richard B. Freeman and William M. Rodgers III examine the operation of the U.S. labor market in the current recovery. They find that this recovery has been the worst in recent history in terms of job creation. Moreover, the slow employment growth is not attributable to the poor performance of a particular sector, such as the dot-com sector after its boom-bust cycle. Freeman and Rodgers also find a decline in job growth among groups especially sensitive to business cycle swings, such as African Americans, new labor market entrants, out-of-school youth, and less educated workers. Finally, the current recovery is shown to have no particular geographic dimension, which is unusual for recent recessions. The weak jobs recovery, conclude the authors, represents a major shift in the link between the labor market and the economy over the business cycle, rather than an idiosyncratic break in historic patterns.

Lars Osberg, in his remarks on the Freeman-Rodgers study, observes that he is less convinced than the authors by the structural change explanation for the jobless recovery. He argues that structural changes should be common across industrial countries, but only the United States has experienced a jobless recovery. Instead, Osberg contends that the lack of social supports for the unemployed in the United States, by constraining consumption by jobless workers, may help explain the nation's relative lack of job creation.

Erica L. Groshen is an assistant vice president at the Federal Reserve Bank of New York; Zahir Lalani is consul and senior representative for New York for the Bank of Canada; David Murchison is the Department of Finance representative in New York for the Canadian Consulate General.
<erica.groshen@ny.frb.org>
<zahir.lalani@international.gc.ca>
<david.murchison@international.gc.ca>

3. Is Canada Losing Well-Paid Jobs?

René Morissette and Anick Johnson assess whether the relative importance of low-paid (less than $10 an hour) and well-paid ($25 an hour or more) jobs in Canada has changed over the past two decades. They also consider whether well-paid jobs are disappearing in the country by analyzing changes in the share of jobs falling in certain real wage categories over 1997-2004. Morissette and Johnson find little evidence that the relative importance of well-paid jobs has declined or that the relative importance of low-paid jobs has risen over the period examined. Their results suggest that well-paid jobs are not disappearing in Canada. However, when the authors compare the wages of newly hired employees with those of their more experienced counterparts, they find a widening gap that is mostly not compositional. Canadian firms, conclude Morissette and Johnson, are responding to growing competition within industries and from abroad by reducing wage offers for new employees, making temporary jobs available to a growing proportion of these workers, and providing on a less frequent basis pension plans that guarantee defined benefits at retirement.

Erica L. Groshen's discussion of the Morissette-Johnson paper notes that Canada and the United States were subject to similar shocks in trade technology and consumer tastes over the past two decades. Thus, differences in employment performance between the countries likely reflect business cycle disparities or variations in how labor market institutions mediate shocks or cycles. This contrast suggests that recent employment growth in Canada may be seen as reducing a legacy of unemployment from the 1990s that persisted after the early 1990s recession. From this standpoint, recent strategies pursued by Canadian employers to relax wage rigidity in the country can be viewed as allowing a period of catch-up job growth. If this interpretation is correct, recent innovations by Canadian employers—such as the reduction of starting wages, the use of temporary workers, and the provision of less pension coverage—may be a short-lived catch-up phenomenon rather than an indication of a looming loss of good jobs in Canada.

4. The Recession's Effects on State Unemployment Insurance Funding

In terms of the change in real GDP, the 2001 downturn in the United States was one of the mildest in fifty years, according to Wayne Vroman. Yet during 2002-04, several large states had trouble financing their unemployment insurance (UI) programs. Accordingly, Vroman discusses the recession's effects on states experiencing UI funding problems and the borrowing options available when state trust fund reserves are inadequate. Not only has the size of drawdowns from UI trust funds varied by state, the author finds, but so have the types of loans used to address funding problems. He also concludes that all of the states that had to borrow had low trust fund balances at the end of December 2000—just before the recession began—and that funding problems have been concentrated among the large states.

Timothy C. Sargent considers Vroman's study in light of the automatic stabilizer role of unemployment insurance programs. That is, because UI programs accumulate reserves during expansions and run deficits that support consumption during recessions, they work to smooth business cycle fluctuations. Sargent emphasizes that Vroman's findings imply that changes in the UI funding practices of states undermine the automatic stabilizer role, potentially leaving the United States more vulnerable to economic fluctuations.

5. Conclusion

The papers and commentaries presented consider a variety of explanations for the disparate job creation performance in the sister economies of the United States and Canada. While this issue is far from being resolved, the common theme arising from the sessions is the key role played by labor market policy and by institutions—including unemployment insurance, practices that constrain wage flexibility, and social supports for the jobless—in channeling into different outcomes the common shocks faced by the U.S. and Canadian economies. As the recovery continues to unfold and more data become available, further analysis of the contrasting job creation performance of the United States and Canada will help us understand more fully the experiences of the two countries.