

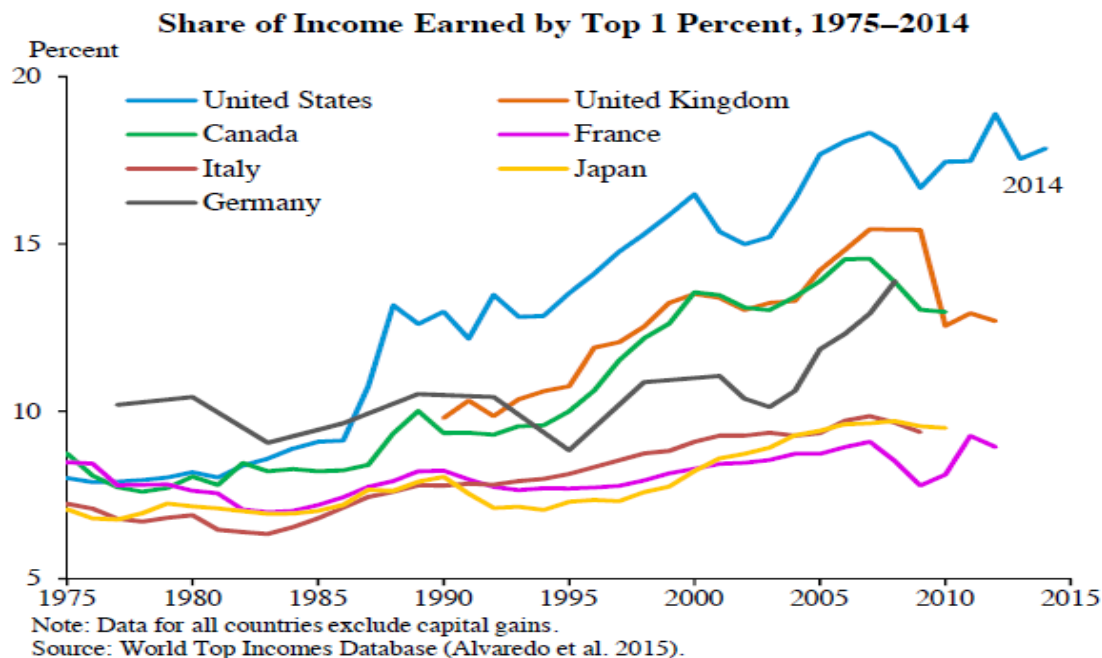
## Session 19

### A labour market for all

#### Remarks on “A Labour Market for All!”

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It is no secret that countries around the world have experienced a dramatic rise in inequality in recent decades. The following graph shows that the share of income accruing to the top 1 percent of households has grown dramatically in the U.S., U.K., Canada, and, more recently, Germany. Growing disparities in the labor market, particularly along skill lines, are the driving force behind rising inequality. Although the rise in inequality has been less dramatic in France, the bottom 90 percent of French workers have seen stagnant income growth for three decades, and the unemployment rate in France has exceeded 9 percent since early 2009, and currently exceeds 10 percent. Unemployment in France is particularly acute for young workers (the unemployment rate for 15-24 year olds is roughly 2.5 times the overall unemployment rate) and foreign-born workers (roughly 1.5 times the overall unemployment rate, and higher for youth). Long-term unemployment is also a serious problem in the U.S. and Europe.



Clearly, the labor market is not work for all segments of society. Inclusive growth is needed. Below are some observations on the nature of labor market problems and potential solutions.

- The rise in income inequality in many countries is causing gaps in education, housing and parental investment in children to expand along income and class lines, reducing upward mobility for children born to disadvantaged families. International and regional data point to what I have called a “Great Gatsby Curve,” where higher income inequality in one generation is associated with reduced equality of economic opportunity for the next generation.

- Although much attention has focused on the growing gap between the top 1 percent and everyone else, rising inequality along educational lines is also significant and consequential. Consider the following comparison for the U.S. If the top 1 percent's share of income had remained constant at its 1979 level, and *all* of the increase in share that actually went to the top 1 percent were redistributed to the bottom 99 percent – a feat that might or might not have been achievable without shrinking the total size of the pie – then each family in the bottom 99 percent would have gained about \$7,000 in annual income in today's dollars. By contrast, the earnings gap between the median household headed by a college graduate and that headed by a high school graduate rose by \$20,400 between 1979 and 2013, or nearly three times as much as the shift that has taken place from the bottom 99 percent to the top 1 percent in the same time frame.
- Rising inequality in the labor market is responsible for the lion's share of rising income inequality among households.
- One's city or town of birth matters enormously. Geographic isolation is a barrier for educational opportunity and upward mobility in many areas.
- The U.S. and many countries have experienced a rise in alternative work arrangements over the last decade, particularly a rise in independent contractors and outsourced work to domestic and foreign firms, and more recently a rise in gig work through online intermediaries. We need to craft the safety net for this emerging group of independent workers to support innovation while protecting workers, supporting efficiency, and strengthening the social compact.
- Long-term unemployment has a persistent adverse effect on many unemployed workers, causing psychological depression, family stress, discouragement, and skill obsolescence. Long-term unemployed workers often become disengaged from the workplace and society.
- Job search assistance has been found to be an effective intervention for nearly every population that it has been applied to. Wage loss insurance has been effective for older displaced workers.
- Raising the skills of the workforce, especially those from less fortunate circumstances, would help mitigate the rise in inequality and raise productivity.
- Preschool education has been found to be an effective intervention for many populations, although the benefits take a long time to enter into the economy.
- Although rising inequality can be necessary to support productivity growth and improved living standards, in recent years productivity growth has been notably weak in many economically advanced countries, including the U.S., U.K. and France.
- Countries that have more cooperative labor and management relationships, export-focused policies, strong connections between school and work (e.g., apprenticeship programs), and smart regulatory regimes that foster competition, support start-ups, and protect workers, investors and consumers have had greater success in creating a more inclusive labor market in recent years.