

Wage Dynamics: Theory, Data, and Policy



NBER Wage Dynamics in the 21st Century Panel Remarks

May 21, 2021

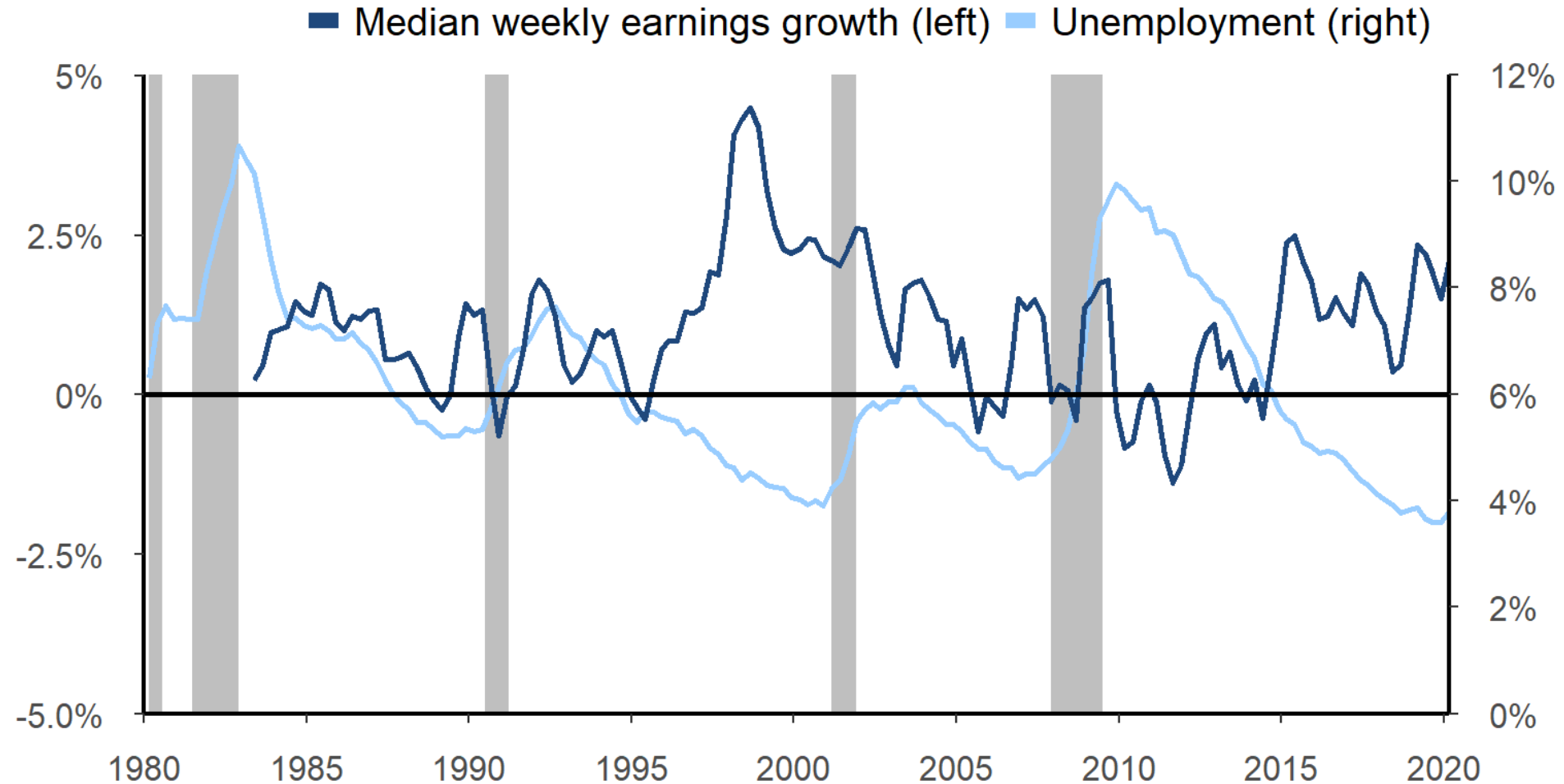
Mary C. Daly
President and CEO
Federal Reserve Bank of San Francisco

The Way It's Supposed to Work



The Data: Unemployment and Wage Growth

Real wage growth and unemployment

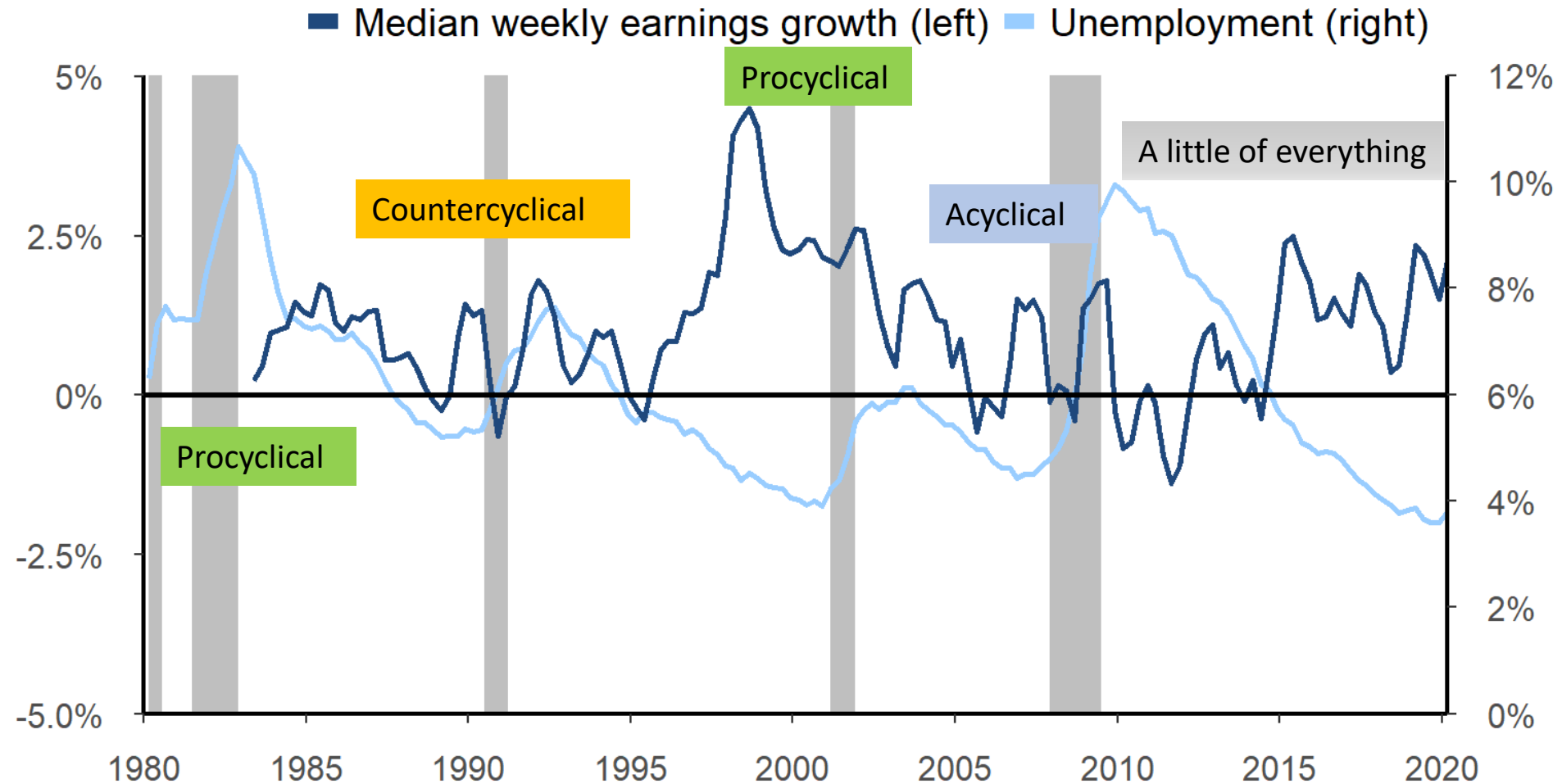


Notes: MWE series is shown as 4-quarter growth rates. Only data until March 2020 is shown.

Source: Bureau of Labor Statistics and Bureau of Economic Analysts

The Data: Unemployment and Wage Growth

Real wage growth and unemployment

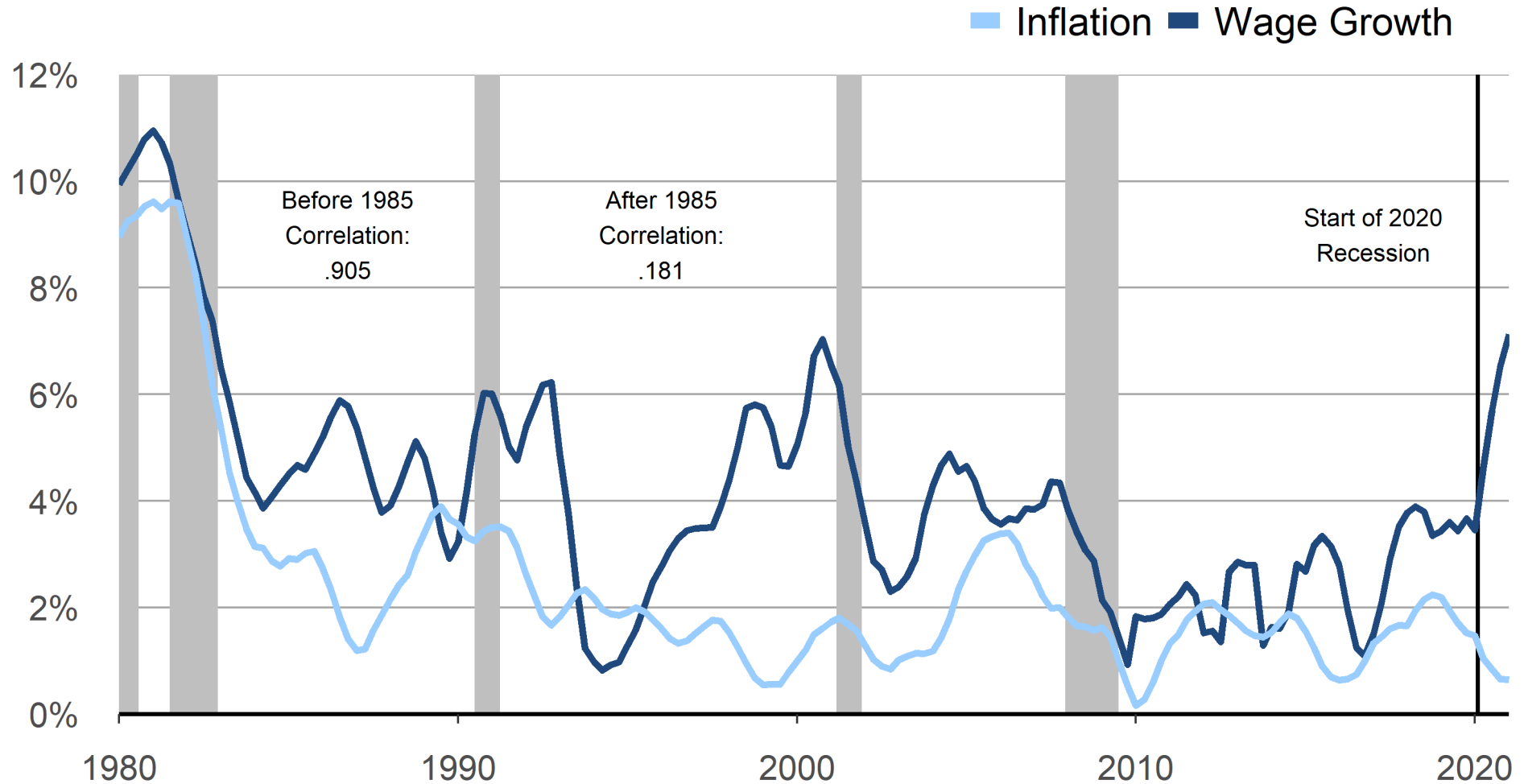


Notes: MWE series is shown as 4-quarter growth rates. Only data until March 2020 is shown.

Source: Bureau of Labor Statistics and Bureau of Economic Analysts

The Data: Wage and Price Inflation

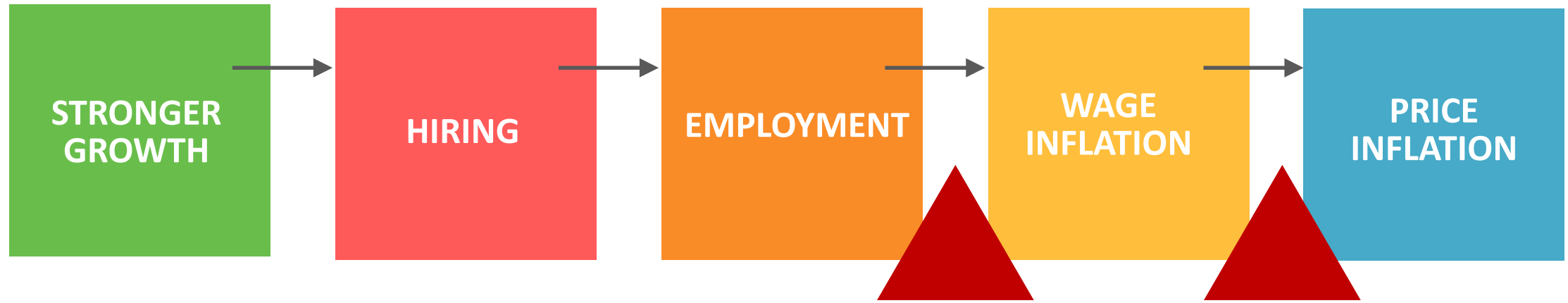
Inflation and Wage Growth since 1970



Note: Series shown are 3-quarter moving averages.

Source: FRBSF calculations using data from Bureau of Labor Statistics and Bureau of Economic Analysis

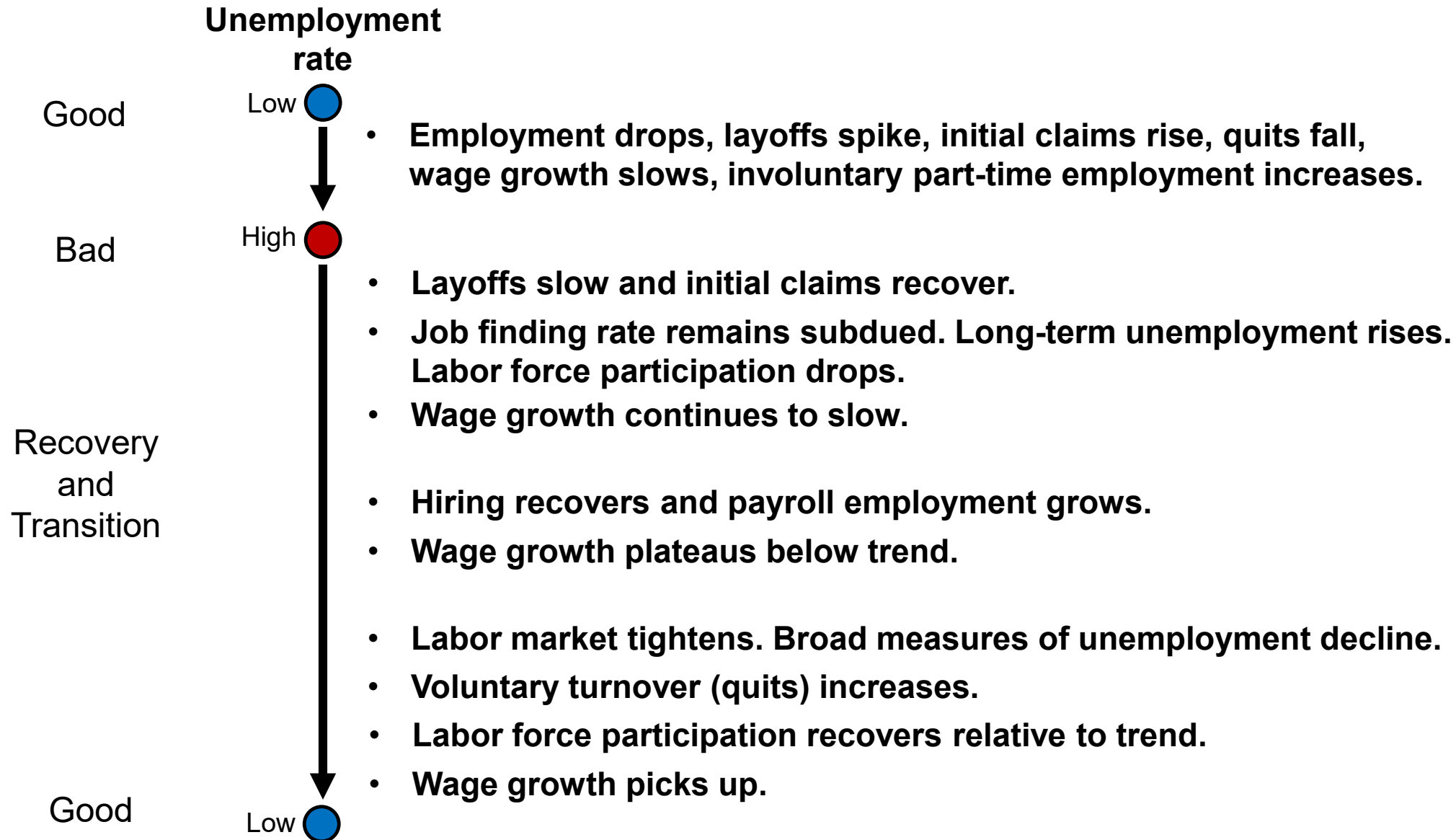
A Number of Structural “Wedges” Cloud the Picture



- Wage Rigidities
- Declines in worker bargaining power
- Unmeasured compensation
- Employment composition

- Monetary policy
- Anchored expectations
- Decline in COLAs
- Industry strategic complementaries

But Within Cycle Dynamics Also Matter

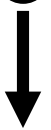



And Here There is Notable Asymmetry

Unemployment

rate

Low 



High 

- Employment drops, layoffs spike, initial claims rise, quits fall, wage growth slows, involuntary part-time employment increases.

- Layoffs slow and initial claims recover.
- Job finding rate remains subdued. Long term unemployment rises.

- Wage growth slows. In downturn and early stage of recovery, adjustments are through quantities.
- Hiring recovers. Labor force participation grows.

- Wage growth plateaus below trend.

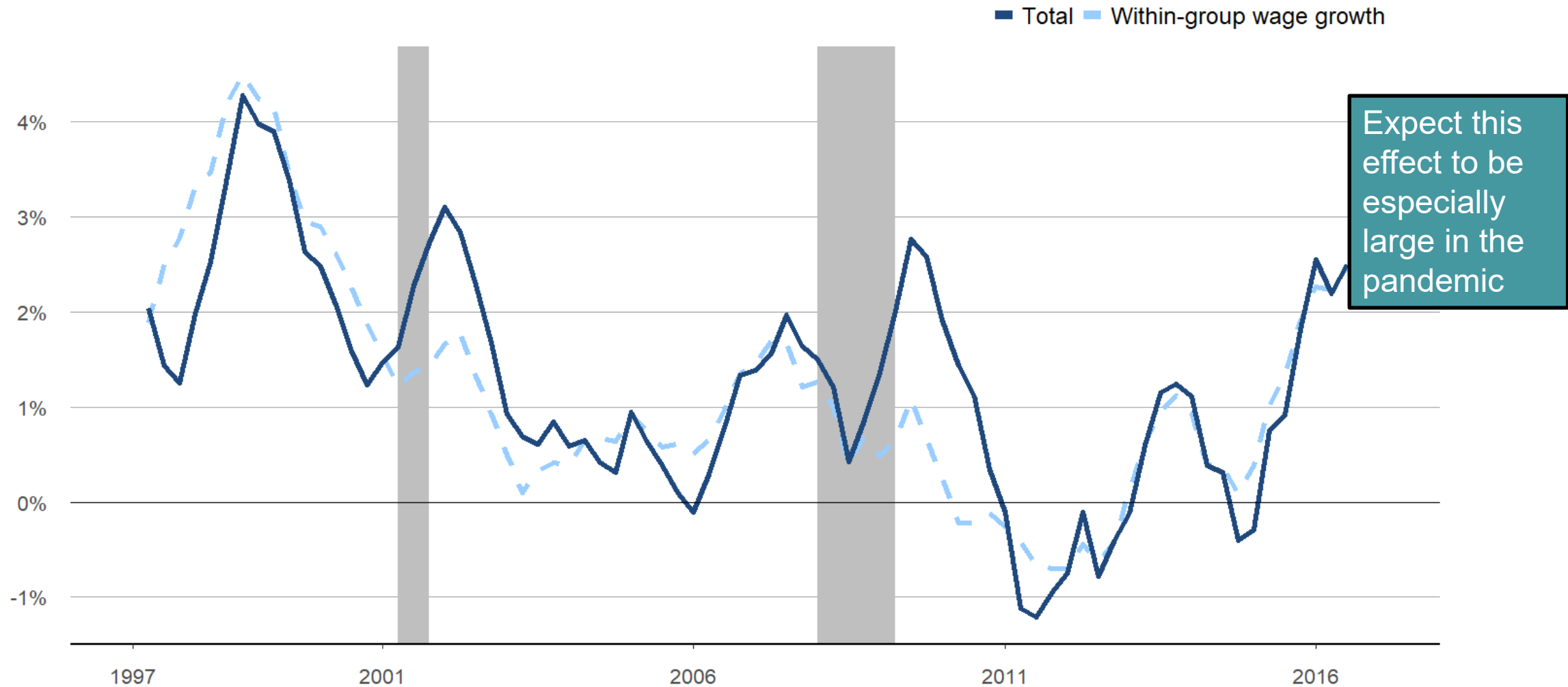
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- Labor market tightens. As labor market tightens, adjustment increasingly through prices (wages).

- Voluntary quits rise. Labor force participation returns to trend.
- Wage growth plateaus at trend.

Low 

Impact of Cyclical Composition Changes

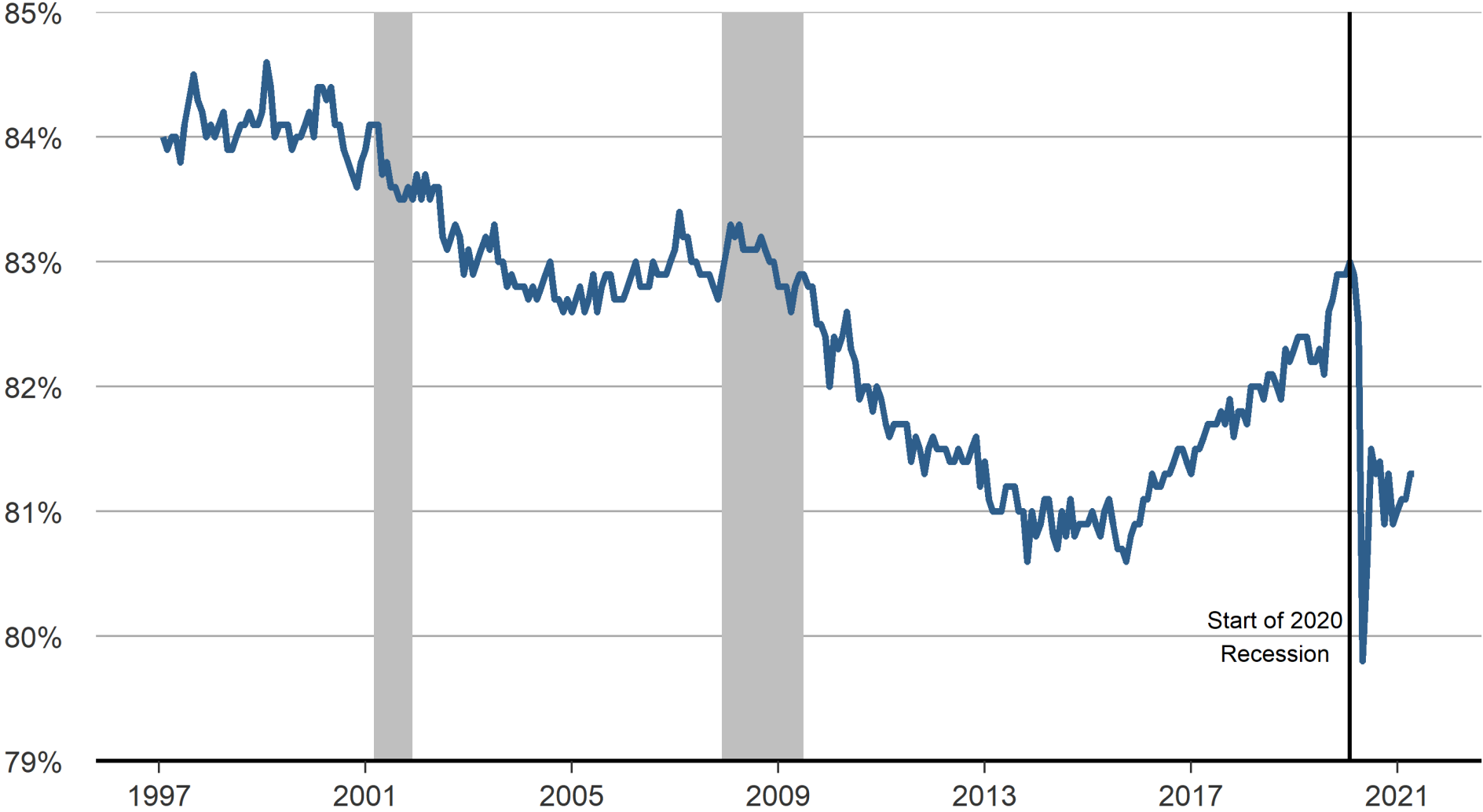
Within-Group and Total Wage Growth (1997-2016)



Source: Daly, Mary C., and Bart Hobijn. "Composition and Aggregate Real Wage Growth." *American Economic Review* 107, no. 5 (May 2017): 349–52. <https://doi.org/10.1257/aer.p20171075>

Labor Supply More Elastic Than We Think

Civilian Labor Force Participation Rate, ages 25-54

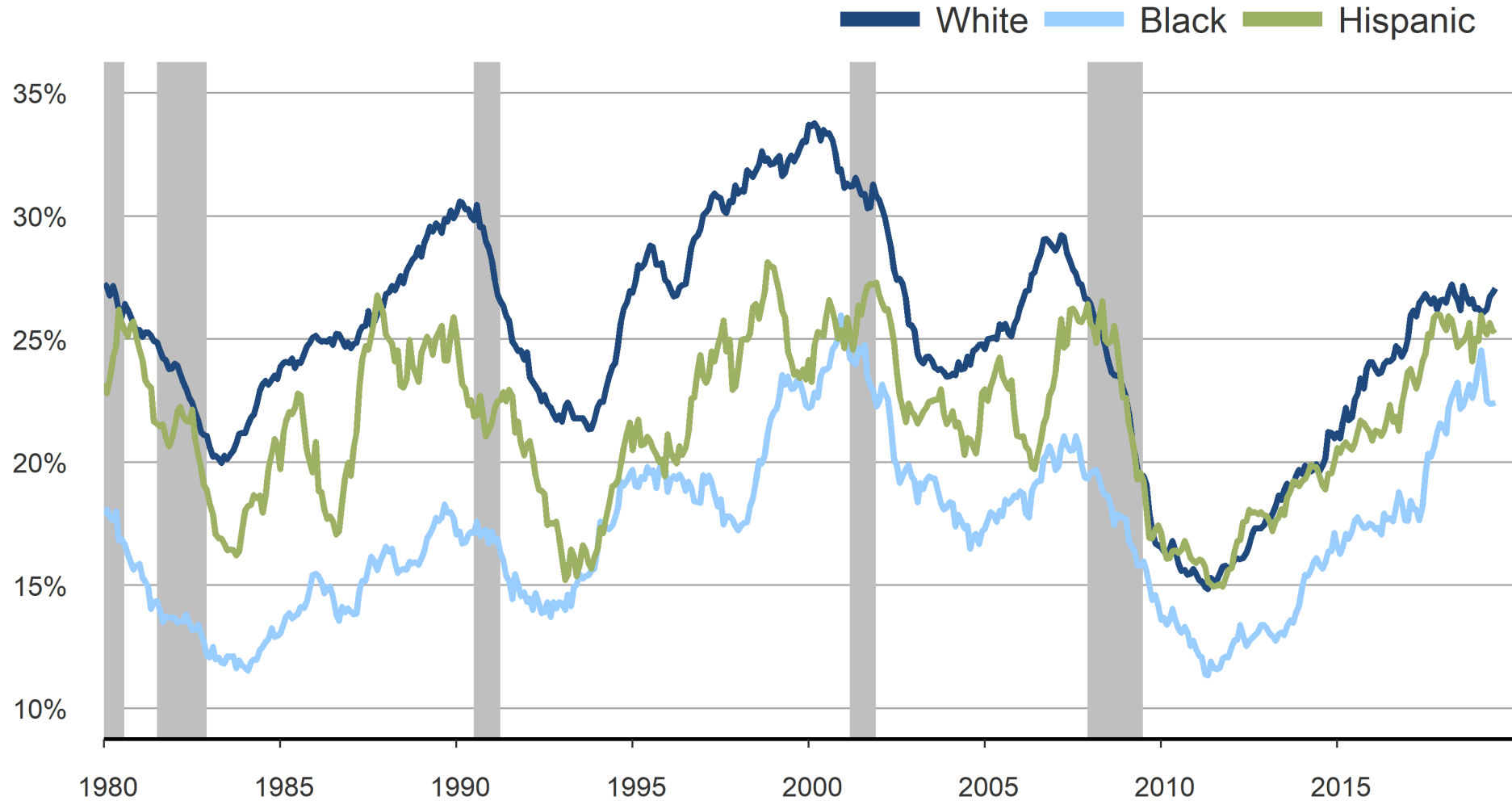


Note: Data are seasonally adjusted.

Source: Bureau of Labor Statistics

Strong Sustained Growth Gets Into the Cracks

Job finding rate for women by race/ethnicity

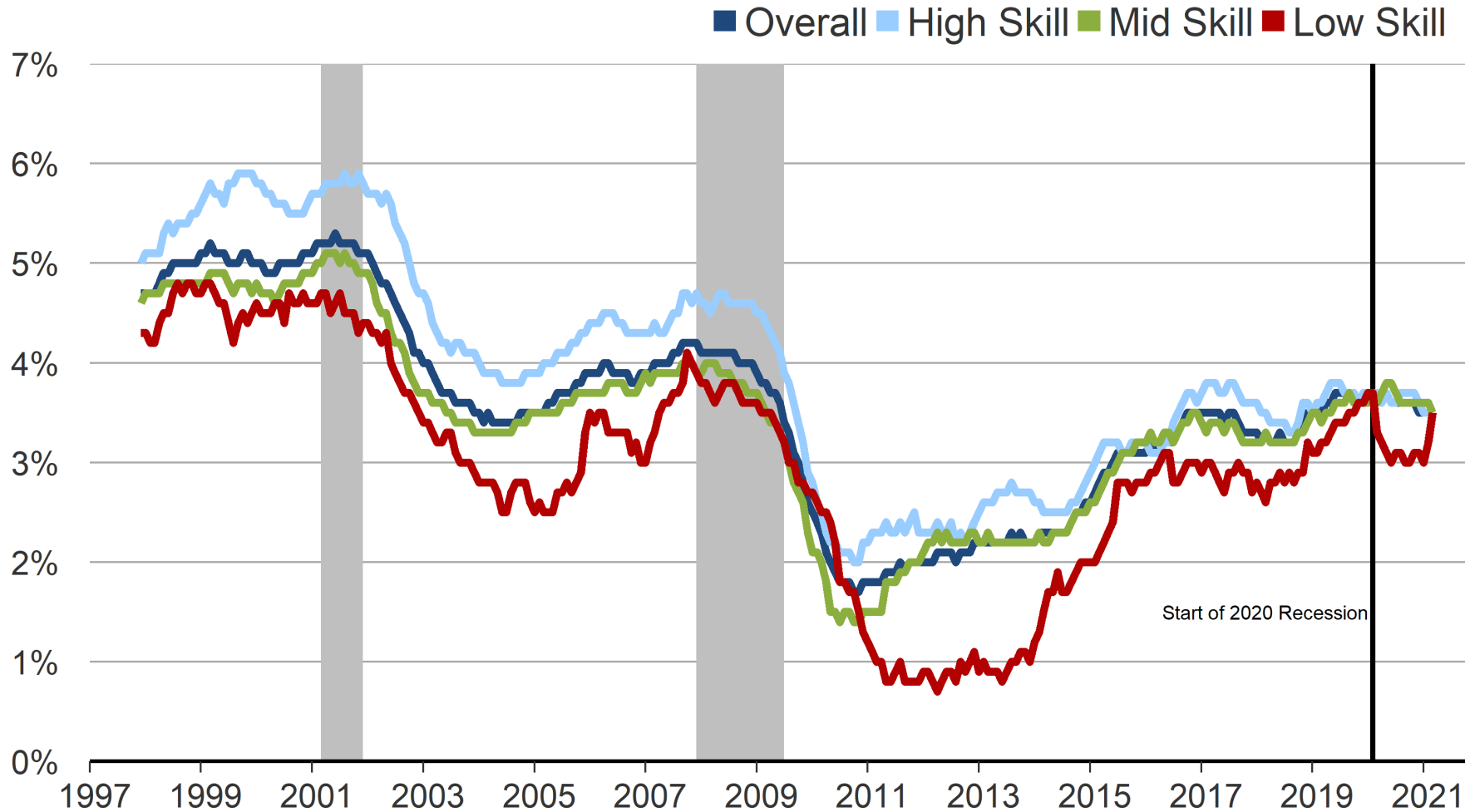


Notes: Series shown are 12-month moving averages. Data are not seasonally adjusted data.

Source: FRBSF calculations from matched monthly Current Population Survey data

And Chips Away At Long-Standing Gaps

Wage Growth by Skill Level



Note: Series shown are 12-month moving averages of median wage growth for each category, hourly data.

Sources: Current Population Survey, Bureau of Labor Statistics, and the Federal Reserve Bank of Atlanta.

What's Needed?

- Deeper understanding of within cycle dynamics
 - Why they occur
 - How to quicken the pace towards recoveries (policies)
- More work on the cyclicalities of the employer-employee matching process
 - Recruiting intensity of firms
 - Search intensity of workers
- More work that explicitly incorporates the micro evidence on worker labor market entry and exit decisions and worker-firm dynamics into macro models of business cycle dynamics