

Labor Force with Public and Private Employment

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Composition of labor force (labor force size is exogenous)

① Share u of workers is unemployed

→ unemployment is wasteful, no home production by unemployed workers

② Share of v workers who are employed & recruiting

→ workers do not produce consumable services when recruiting

→ both households & government recruit in a similar way & need recruits to fill vacancies & hire workers

→ Beveridge curve $U(u)$ links # recruits to # unemployed workers

(→ in US, one vacancy requires one recruit so # recruits can be measured by # of vacancies)

③ $1 - (u + v)$ workers are employed & producing services

(3a) share c of labor force employed
by households & producing private
services \rightarrow private ^{productive} employment.

(3b) share g of labor force employed
by government & producing public
services \rightarrow public productive employment

$c + g =$ total productive employment

$$c + g = 1 - (u + v)$$

$$c = 1 - (u + v) - g$$

public employment
productive

distortion

private productive
employment

nonproductive use of labor
(recruiting + job searching)