



LECTURE NINE - PART FOUR

Labor Force Participation



- One of the most dramatic developments in labor force participation over the last half-century has been the sharp influx of women into the work force.
- Participation has roughly doubled since 1950, from 34% to about 60% today.

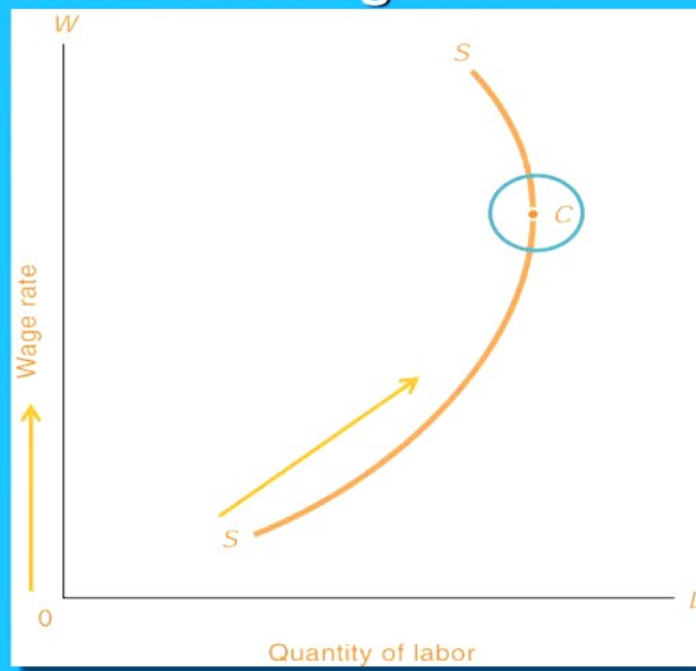
At The Same Time

- Labor force participation by older men has fallen sharply, particularly for men over 65.
- This change is probably due to changes in programs such as Medicare and Social Security which offer far more generous health and retirement benefits.

Hours Worked

- The typical American works between 35 and 40 hours a week.
- Nonetheless, many workers work as much as 50 to 60 hours a week at the same, or a second, job.
- There are a variety of incentives such as over-time pay that can greatly affect hours worked.

Backward Bending Curve



The Reason

- At higher wages, workers can afford more leisure even though each extra hour of leisure costs more in wages foregone.
- To see this, put yourself in the shoes of a worker who is offered higher hourly rates and the freedom to choose the number of hours worked.

The Substitution Effect

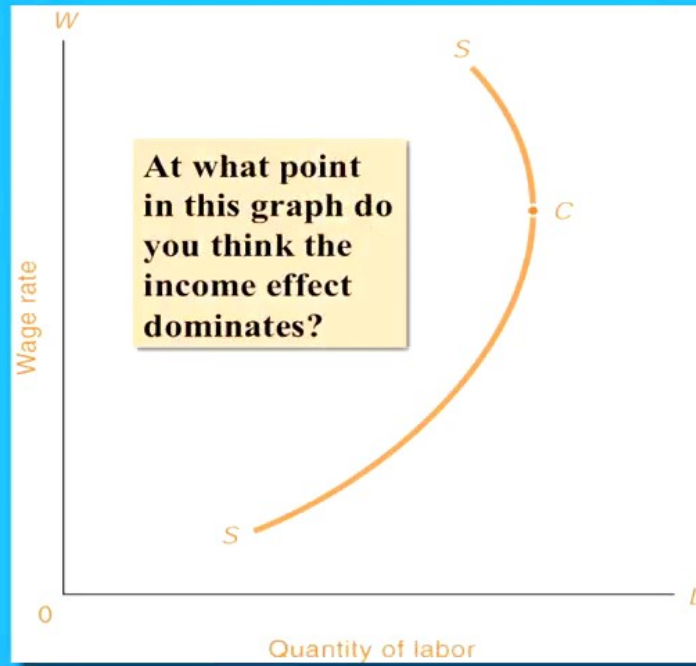
- The more you work, the more you will earn so each hour of leisure becomes more expensive to you as the wage rate rises.
- Your incentive, then, is to substitute work for leisure.

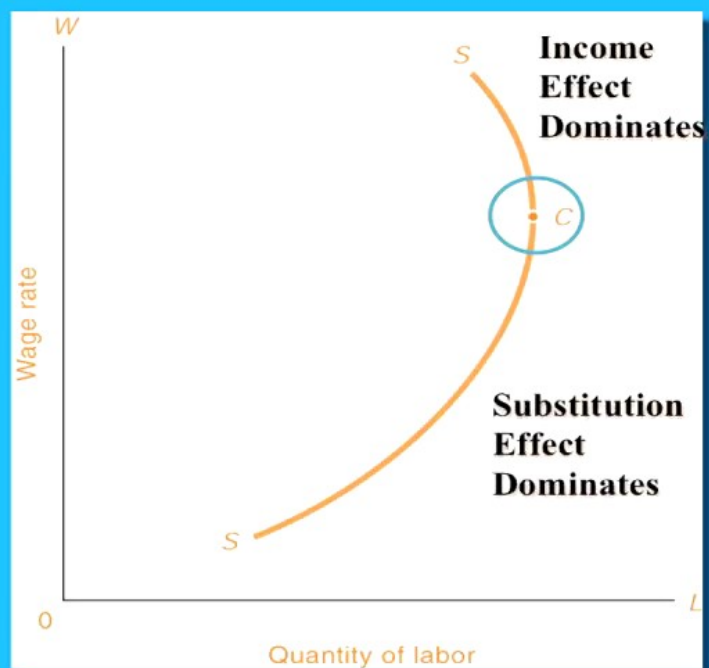
The Income Effect

- The higher the wage, the higher your income so you will be able to take that extra week of vacation to ski in Colorado or sun yourself in Miami.



Pause presentation to think about this!





Immigration

- In recent years, this has become a potent political issue.
- **A big reason:** As immigration increases, every thing else being equal, wages tend to decline.



A Trend Affecting Wages

- Since 1970, the percentage of the foreign-born U.S. population has more than doubled, from only 5% to well over 10%.
- More importantly, the characteristics of the immigrants have changed.

During The 1950s

- Europe and Canada were the major sources of primarily high-skilled workers.
- However, beginning in the 1980s, the biggest groups of now primarily less skilled and less educated immigrants have come from places like Mexico, the Philippines, and Vietnam as well as from Central American and Caribbean countries like Nicaragua and Jamaica.

The Result

- A significant increase in the supply of low-skilled workers and a sharp decline in the wages of less-educated groups relative to the college-educated -- just as our theory would predict.