4.1 What Is a Specific Factor?

In the model developed in this chapter, we assume two factors of production—land and capital—are permanently tied to particular sectors of the economy. In advanced economies, however, agricultural land receives only a small part of national income. When economists apply the specific factors model to economies like those of the United States or France, they typically think of factor specificity not as a permanent condition but as a matter of time. For example, the vats used to brew beer and the stamping presses used to build auto bodies cannot be substituted for each other, and so these different kinds of equipment are industry-specific. Given time, however, it would be possible to redirect investment from auto factories to breweries or vice versa. As a result, in a long-term sense both vats and stamping presses can be considered two manifestations of a single, mobile factor called capital.

In practice, then, the distinction between specific and mobile factors is not a sharp line. Rather, it is a question of the speed of adjustment, with factors being more specific the longer it takes to redeploy them between industries. So how specific are the factors of production in the real economy?

Worker mobility varies greatly with the characteristics of the worker (such as age) and the job occupation (whether it requires general or job-specific skills). Nevertheless, one can measure an average rate of mobility by looking at the duration of unemployment following a worker’s displacement. After four years, a displaced worker in the United States has the same probability of being employed as a similar worker who was not displaced.[[1]](#footnote-1) This four-year time-span compares with a lifetime of 15 or 20 years for a typical specialized machine, and 30 to 50 years for structures (a shopping mall, office building, or production plant). So labor is certainly a less specific factor than most kinds of capital. However, even though most workers can find new employment in other sectors within a four-year time-span, switching occupations entails additional costs: A displaced worker who is re-employed in a different occupation suffers an 18 percent permanent drop in wages (on average). This compares with a 6 percent drop if the worker does not switch occupations.[[2]](#footnote-2) Thus, labor is truly flexible only before a worker has invested in any occupation-specific skills.

1. See Bruce Fallick, “The Industrial Mobility of Displaced Workers,” Journal of Labor Economics 11 (April 1993), pp. 302–323. [↑](#footnote-ref-1)
2. See Gueorgui Kambourov and Iourii Manovskii, “Occupational Specificity of Human Capital,” International Economic Review 50 (February 2009), pp. 63–115. [↑](#footnote-ref-2)