Chapter 10

Human Capital and the Labor Market

Why is it important to develop your human capital?

10.1 Introduction

In 2003, Catherine Omega, a striking brunette wearing a form-fitting bodysuit, joined a group of pioneers who were settling a new online virtual world known as Second Life. Like the real world, Second Life has land, seas, mountains, deserts, towns, and cities. People who join Second Life inhabit this virtual world through digital representatives, or avatars. Residents, as members are called, design their avatars to look however they might wish to appear in their online lives.

Catherine Omega was the avatar of a high school dropout in Vancouver, British Columbia, named Catherine Winters. Unfortunately for Winters, just as her Second Life was taking shape, her real life was coming apart. She became homeless and for a time lived on Vancouver's streets. Then she took shelter in an abandoned apartment building that lacked electricity.

Despite the bleakness of her situation, Winters was eager to find a way to return to Second Life. First, she needed to find a source of electricity, which wasn't difficult. She later recalled, "I had my multimeter and I know enough not to touch live wires."

Next, Winters needed a computer and a way to connect to the Internet. "It turns out that a computer capable of running Second Life is difficult to come by when you're homeless," she notes. But she was able to assemble a computer from junk parts discarded by computer

Human capital plays a critical role in the labor market.

Speaking of Economics

labor force
The portion of the population that has paid work or is seeking work. Active members of the military are not considered part of the labor force.

offshoring
Relocating work and jobs to another country.

equilibrium wage
The rate of pay that results in neither a surplus nor a shortage of labor. If the wage for a job is set above equilibrium level, too many workers will apply. If it is set below, too few will apply.

fringe benefits
Nonwage compensations offered to workers in addition to pay. Examples include health insurance plans and paid vacations.

wage gap
A difference in the wages earned by various groups in society.

affirmative action
Policies designed to promote the hiring of individuals from groups that have historically faced job discrimination. Such groups include minorities, women, and people with disabilities.

collective bargaining
Negotiations between an employer and a group of employees, usually represented by a labor union, to determine the conditions of employment.

right-to-work law
A law that prohibits employers from making union membership a requirement for getting or keeping a job. Twenty-two states have right-to-work laws.

Catherine Winters developed her human capital as a programmer in the online virtual world known as Second Life. She later used those skills to launch a career in Web development.

stores at a nearby recycling facility. Once she had her computer up and running, it wasn't hard to pick up a wireless Internet connection from a nearby building.

Back on Second Life, Catherine Omega became known for her programming ability. Soon other Residents were hiring Winters in real life to do programming for them. In 2006, Winters found a full-time job as the Second Life coordinator for a Vancouver Web developer. By then she had moved into her own apartment. "It's pretty tiny," she said of her new home, "but it's clean and all mine."

While she was homeless, Winters had developed her human capital to the point where she could start a new career. Although her story is unusual, it has relevance for anyone thinking about entering the labor force. In this chapter, you will read about trends that are shaping the labor market today. You will also learn how you can develop your own human capital as you prepare to enter the workforce.

10.2 What Trends Are Shaping Today's Labor Market?

Before Second Life was launched in 2003, few people would have believed that someone could make money working in a virtual world. Catherine Winters and many other Second Life Residents have done just that. The technology that makes Second Life possible has opened career opportunities that existed only in science fiction not long ago.

New technology has often been a driving force behind changes in the job market, creating new jobs even as it makes others obsolete. But changing technology is just one of many trends that have helped to shape the U.S. labor market in recent decades.

A Larger, More Diverse Labor Force

One long-term trend has been the steady growth of the nation's labor force, which has increased along with the nation's population. The **labor force** consists of those people age 16 and over who have jobs or who are actively looking for work. The labor force does not include unpaid workers, such as homemakers and volunteers. Nor does it include active members of the military or prison inmates. Between 1990 and 2010, the U.S. labor force grew by over 20 million people.

A key reason for this growth has been the increased participation of women in the workforce. In 1960, when many women worked as homemakers, women made up 33 percent of the workforce. As women increasingly sought jobs outside the home, that figure rose. By 2010, women made up 47 percent of the labor force. Figure 10.2A shows the percentage of working-age women in the labor force over the span of a half-century.

Members of minority groups have also joined the workforce in growing numbers since 1960. Latinos, for example, comprised 14 percent of the labor force in 2010. This is more than double the percentage of three decades earlier.

Older Americans will also remain an important part of the working population over the next decade. Many members of the baby boom generation will retire during this period. But some baby boomers are expected to extend their working lives beyond the traditional retirement age of 65.

In contrast, the labor force participation of younger Americans has been slowly decreasing. The main reason for this decline is increased college enrollments. Rather than going directly into the workforce, many high school students are now choosing to continue their educations.

A Shift from Manufacturing to Service Jobs

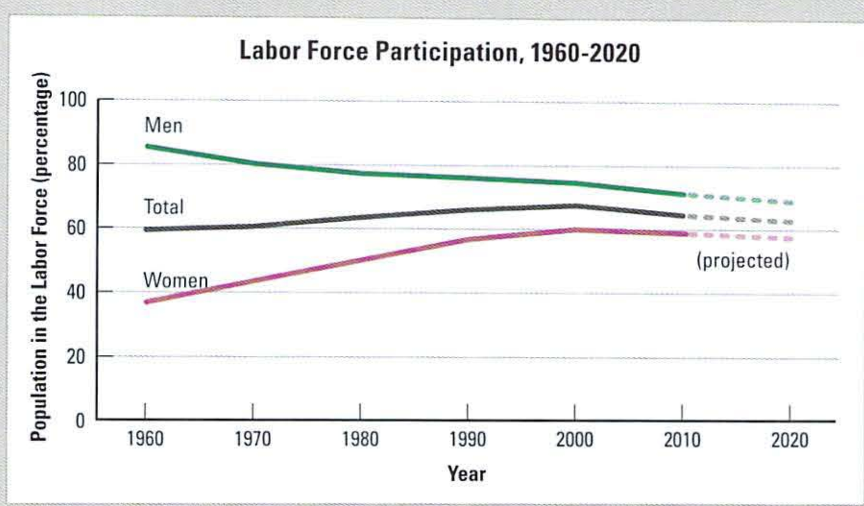
The number of workers involved in the production of factory goods has declined. At the same time,

Figure 10.2A

Tracking Workforce Participation by Gender

This graph shows the labor force participation rates for men and women since 1960 and projected to 2020. The labor force includes the portion of the population that is working or looking for work.

- Note that in 1960, the gap between men and women was about 45 percent.
- By 2020, that gap is projected to narrow to around 11 percent.



Source: Bureau of Labor Statistics.

the number of workers who provide services has increased. Jobs in the service sector include food preparation, banking, and health care.

This shift toward services continues a long evolution that began with the Industrial Revolution. By the late 1800s, manufacturing was replacing farming as the nation's most important economic activity. Manufacturing dominated the economy through most of the 1900s.

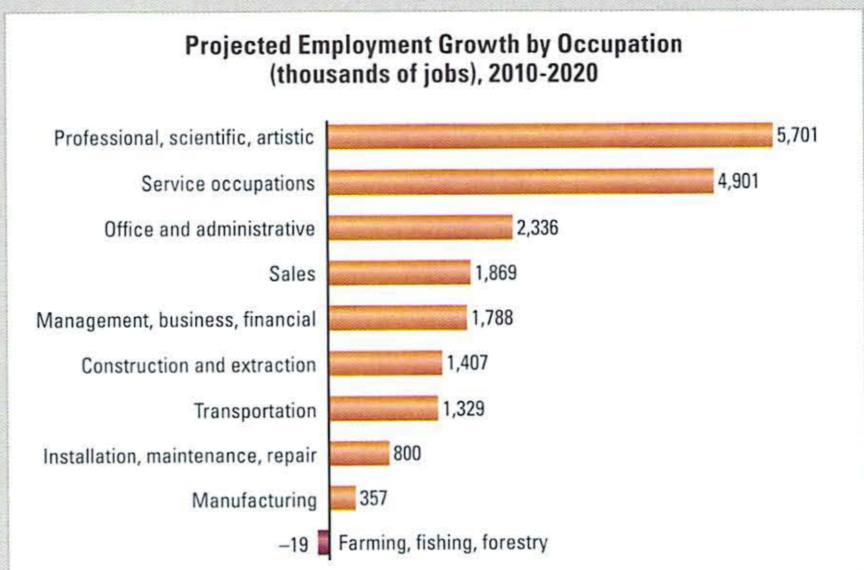
Beginning in the latter half of the 20th century, however, businesses that provide services have become the major source of jobs and economic growth. Economists expect this trend to continue. Figure 10.2B shows how the shift to service jobs is likely to affect future employment opportunities.

The fact that fewer Americans work in manufacturing these days does not mean that factory output is declining in this country. Just the opposite is true.

Figure 10.2B

Analyzing Future Job Growth

This graph shows how job opportunities are expected to grow (or shrink) in various occupations. Service occupations include jobs that directly assist the public such as police officers, health care aides, and cooks.



Source: Bureau of Labor Statistics.

Between 1970 and 2011, manufacturing output increased roughly threefold, making the United States the second largest producer of manufactured goods in the world as of 2011, behind only China. American-made products range from industrial machinery to motorcycles to T-shirts.

Because of gains in productivity, fewer workers are needed to turn out all these goods. Workers today are better educated and trained than they were a generation ago. Businesses have invested in labor-saving technologies, such as computers and robots. By some estimates, factory workers today are four times more productive than in the 1950s.

Factory workers have traditionally earned higher wages than most service workers. But this does not mean that all service jobs pay low wages. The service sector includes professional fields such as law, medicine, and information technology. In these fields, the most qualified workers command high salaries.

The Bureau of Labor Statistics, which tracks employment trends, predicts that jobs in the service sector will continue to expand. Figure 10.2C shows the 20 fastest-growing occupations based on BLS projections, most of which are service jobs.

The Growing Importance of Knowledge Workers

Another key trend in the labor market is the growing need for **knowledge workers**. Management consultant Peter Drucker coined this term in 1959 to describe people who work with information or who develop or apply information in the workplace. Financial advisers, for example, develop information when they analyze stock market returns. They apply that knowledge when they provide investment advice to clients.

Knowledge workers are a subset of workers in the service sector. They include people like Catherine Winters who work in the information technology field, such as computer programmers and systems analysts. Writers, researchers, teachers, lawyers, and scientists are also knowledge workers. The demand for knowledge workers is expected to grow as the handling of information becomes an increasingly important part of the economy.

Increased Outsourcing, Temping, and Telecommuting

Another set of trends in the labor market has to do with changes in the way people work. Many people spend less time working at the office and more time working at home than they did a decade ago. They also change jobs more frequently than was the case for previous generations.

One key development in recent years is the growth of **outsourcing**. This term refers to the business practice of sending work once done by company employees to outside contractors. Firms decide to outsource work when they believe an outside supplier can do the work more efficiently and at a lower cost than can be done within the company. For example, a medical practice might decide to outsource its billing operations to a firm that specializes in medical billing. Similarly, a school district might decide to outsource its legal work to an outside law firm. Outsourcing generates work for independent contractors. It may also result in the loss of jobs for in-house employees.

The use of **temporary workers** is also common. Temp workers are employed for limited periods of time for a variety of reasons. They may be hired for a project, to fill in for a sick or an absent employee, or to augment a firm's workforce during a busy time.

People choose temp work for many reasons. Many enjoy learning new skills as they move from one job to the next. Others value the flexibility they have in deciding who to work for and when. They also like being able to take time off for any reason at any time without asking anyone's permission. Temps are generally paid as well as or better than permanent employees doing the same job. And some view temping as a good way to try out a job before joining a firm as a regular employee.

Telecommuting is another growing practice in the labor market. Telecommuters do much or even all of their work at home, using phones and computers to remain connected to their workplaces. Telecommuting is especially common among knowledge workers. Writers, for example, can deliver drafts of their work by e-mail without ever stepping into their employer's office.

The Globalization of Work: Offshoring, Inshoring, and Foreign Competition

Globalization is yet another trend that is transforming the labor market. **Globalization** is the process by which people around the world, along with their economic activities, are becoming increasingly interconnected. As globalization increases, the factors of production—land, labor, and capital—move across borders with greater ease than ever before.

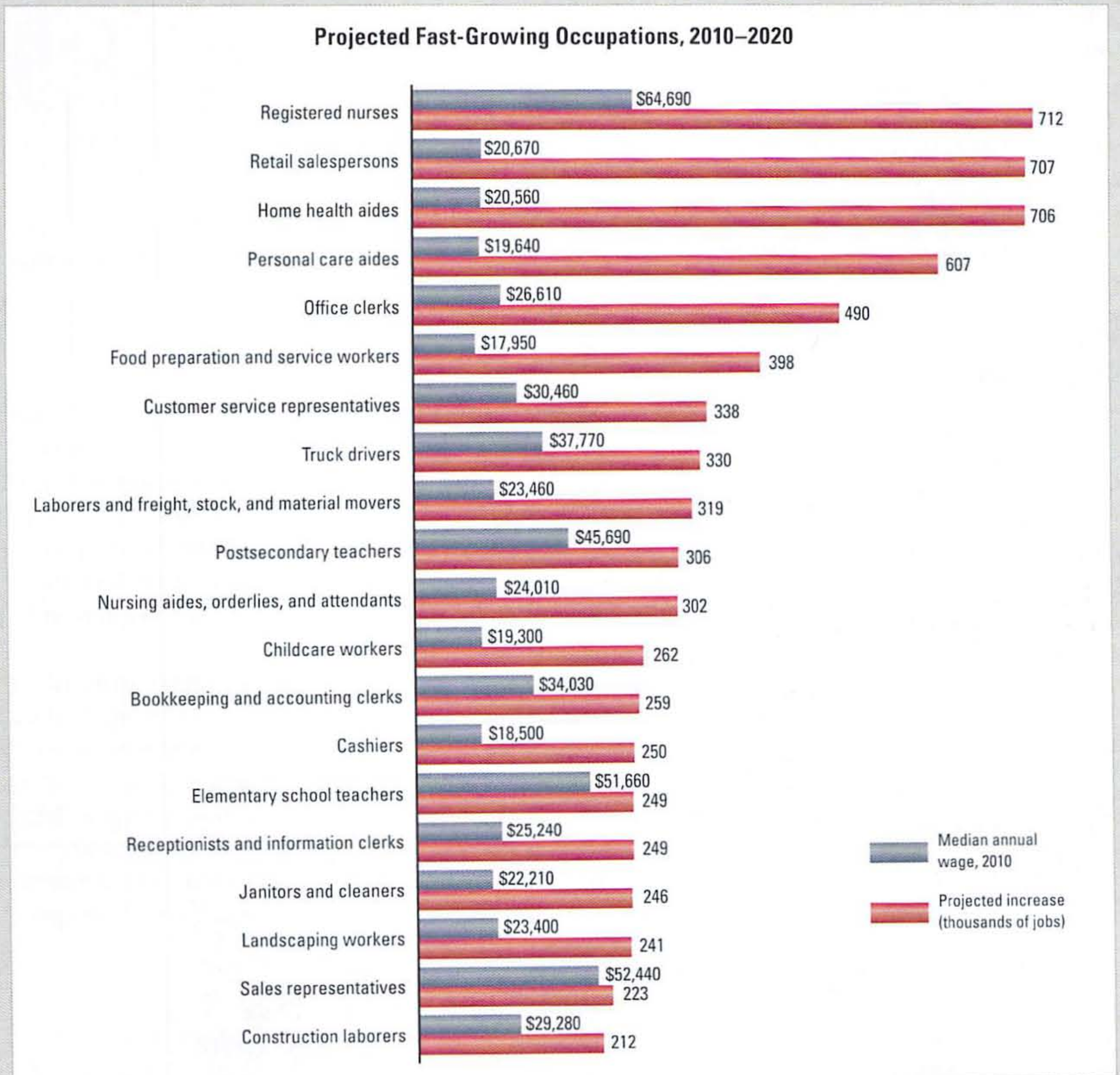
One key aspect of globalization is the growing practice of **offshoring,** or relocating work and jobs to other countries. Offshoring occurs in two ways. An American firm can either move part of its operations to a facility it sets up in another country or contract with a company in another country to handle some aspect of its operations.

Firms move work offshore to reduce costs. The sportswear company Nike, for example, contracts with factories in more than 40 countries, including

Figure 10.2C

Identifying Fast-Growing Occupations

This graph shows the 20 fastest-growing occupations by 2020 as identified by the Bureau of Labor Statistics. Note that most of these fast-growing jobs are in the service sector.

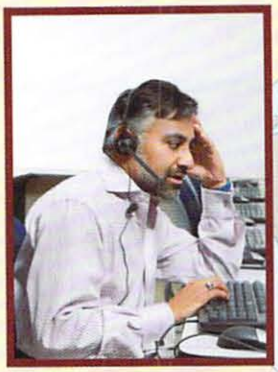


Source: Bureau of Labor Statistics.

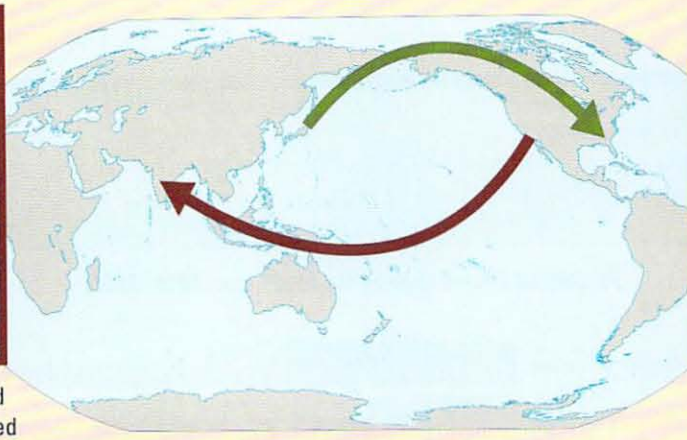
Key Concept

Offshoring and Inshoring

In a global economy, jobs move more easily than ever before across national boundaries. Offshoring occurs when jobs are moved out of the country. Inshoring occurs when jobs are brought into the country. Either way, jobs are moving to places where workers have a comparative advantage.



Offshoring of jobs occurred when U.S. companies moved some of their customer service call centers to India.



Inshoring of jobs occurred when Japanese automakers moved the assembly of some cars to the United States.

Vietnam and China. These are countries where Nike can achieve higher output for every dollar it spends on labor than it can in the United States. As Charles Wheelan explains,

> *There are industries in which American workers are not productive enough to justify their relatively high wages, such as manufacturing textiles and shoes. These are industries that require relatively unskilled labor, which is more expensive in this country than in the developing world. Can a Vietnamese peasant sew basketball shoes together? Yes—and for a lot less than the American minimum wage.*
>
> —Charles Wheelan, *Naked Economics: Undressing the Dismal Science*, 2003

Offshoring is also occurring in the service sector. Many computer programming and call-center operations, for example, have been offshored to India. With a large number of well-educated, English-speaking workers available at relatively low wages, India has a comparative advantage in these services.

Moving work offshore has both costs and benefits. It lowers the cost of production of many goods. This, is turn, translates into lower prices for American consumers. The tradeoff for that benefit, however, is a loss of jobs in some sectors of the economy.

Globalization also brings jobs into the U.S. labor market. Many foreign firms have opened operations in this country. They do so to take advantage of the high levels of human capital available here. This process, known as **inshoring,** creates jobs for American workers. Foreign automakers, for example, employ about 80,000 workers in their U.S. manufacturing plants.

As globalization increases, American businesses will face growing competition from foreign producers. This competition may cause job losses in some U.S. industries, but it will also create new jobs in others. Looking at the big picture, economists argue that foreign competition is good for businesses and economies. It forces producers to become more competitive by developing their own comparative advantages.

10.3 What Determines How Much Workers Earn?

When Catherine Winters received a job offer in 2006, the company that wanted to hire her suggested a salary that she was free to accept or reject. How did the company decide how much to offer? How did she decide whether the offer was fair? Both questions could be answered by looking at the wage rates for other, similar positions in the job market. In general, wage rates are determined by the same principle that determines the price of goods and services: supply and demand.

Wages Reflect the Value of What Workers Produce

A number of factors influence wage rates. One has to do with the skills and training required for a job. Economists categorize jobs according to four general skill levels.

Unskilled. These jobs require no specialized skills or training. Most workers at this level earn a low hourly wage. Examples of unskilled jobs include janitors, busboys, and seasonal farmworkers.

Semiskilled. Workers at this level have some specialized skills and training, including the ability to use simple tools or equipment. Employees are supervised, and wages are paid on an hourly basis. Jobs include cashiers, construction workers, taxi drivers, and fast food cooks.

Skilled. This level requires specialized skills and training. Workers need little or no supervision, but most are still paid on an hourly basis. Examples include police officers, carpenters, bank tellers, and factory workers who operate complicated machinery.

Professional. This level includes "white collar" jobs that require advanced training and specialized skills. Professional workers receive a salary. Jobs include doctors, lawyers, teachers, airline pilots, and computer specialists.

In general, wages are based on skill level. As skills and training increase, so do wages. More importantly, however, workers command wages that reflect the market value of what they produce. Surgeons are paid more than nurses, for example, because the market places a higher value on surgery than it does on general nursing care.

For the same reason, more productive workers tend to receive higher wages than less productive workers. As economist Robert Frank notes, "Workers tend to be paid in rough proportion to the value they add to their employer's bottom line."

Competition among employers to hire workers also helps to raise wages. Figure 10.3A illustrates this point by looking at the effect of competition on wages for apple pickers. In this scenario, Farmer A begins the harvest season by paying his apple pickers \$7.00 an hour. Farmer B, faced with a shortage of workers, decides to offer \$8.00 an hour. Lured by the higher wages, a number of workers leave Farmer A and go to work for Farmer B. As a result of this competition for workers, Farmer A must also raise wages in order to attract and retain new workers.

Figure 10.3A

Analyzing the Effect of Competition on Wages

Competition for apple pickers helps determine market wages. The same is true in other competitive labor markets.

Farmer A pays apple pickers a wage far below the value of their harvest. | Farmer B attracts apple pickers from Farmer A by offering a higher wage. | Farmer A and others raise their wages to compete for pickers. | Apple pickers receive a wage that better reflects the value they produce.

How Demand and Supply Work in the Labor Market
Farmer A and Farmer B are imaginary, but they illustrate a real dynamic that shapes the labor market: the interaction of supply and demand. Employers create the demand for labor, and workers seeking jobs create the supply. Wages move toward equilibrium in the labor market just as prices move toward equilibrium in the market for goods and services.

The demand for labor comes from businesses and government agencies that compete with each other to hire workers. Demand changes over time with the state of the economy. When the economy is doing well, the quantity of labor demanded goes up, and just as an increased demand for goods tends to raise prices, an increased demand for labor tends to boost wages. In the case of Farmers A and B, competition for apple pickers forced wages up.

Conversely, wages tend to fall when the supply of labor increases or the demand for labor decreases. When the number of people seeking jobs exceeds the quantity demanded, employers can offer lower wages and still find people who are willing to work.

Immigration can play a role in increasing the labor supply and lowering wage rates. In recent decades, competition for jobs from new immigrants has helped to depress wages at the lower end of the labor market. That is one reason why many less-skilled workers oppose increased immigration.

The labor supply is also affected by the tradeoff between work and leisure. When wages are low, people may be less inclined to work and more inclined to pursue other activities. When wages are high, however, workers tend to sacrifice leisure activities in favor of work.

In making such decisions, people are following the costs-versus-benefits principle. For example, suppose you plan to spend time with your friends one afternoon when a neighbor offers you a job cleaning her garage. If she were to offer $5 for an afternoon of work, you would probably say no. But if she were to offer $100, you would probably take the job. In this case, the benefit of earning $100 would outweigh the cost of not seeing your friends.

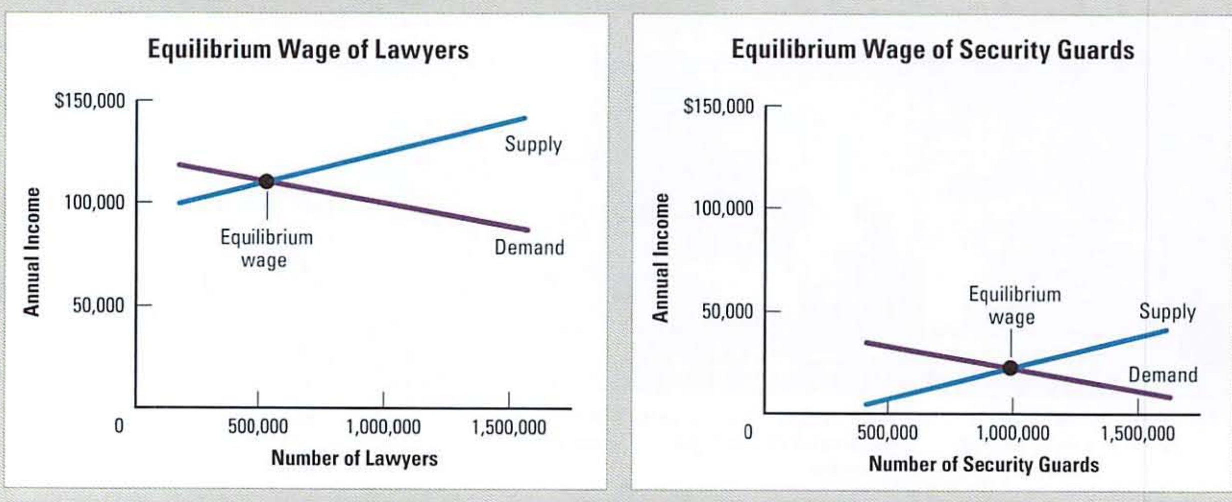
Over time, wages tend to move toward equilibrium, the point at which the quantity of labor demanded equals the quantity of labor supplied. An **equilibrium wage** is a wage rate that results in neither a surplus nor a shortage of qualified workers.

Figure 10.3B

Comparing Equilibrium Wages

When wages reach equilibrium, the number of people willing to work at that wage equals the number of people that employers are willing to hire at that wage. That equilibrium point is generally higher in occupations that require extensive education and training.

- Note that the supply of lawyers is low relative to demand, which drives wages up.
- The supply of security guards, in contrast, is high relative to demand, which pushes wages down.



If the wage for a job is too high, a surplus of workers will apply for the job and employers will lower the wage. If the wage is too low, too few people will apply, and the wage will have to rise to attract more workers. Only when the wage reaches equilibrium will demand and supply be in balance.

The graphs in Figure 10.3B show equilibrium wages for two occupations: lawyer and security guard. The wages for these jobs differ for two main reasons. First, the skill level and training required of lawyers is much greater than that required of security guards. Lawyers invest a great deal of time and money in their education. Therefore the supply of lawyers is smaller than the supply of security guards. The second reason is that lawyers perform a higher-value service than security guards do. People are willing to pay more for a lawyer than a security guard. Since the lawyer's labor is more highly valued, the labor warrants a higher wage.

Other Factors that Affect Wages

A number of other factors can also affect wages, including minimum wage laws, working conditions, and cost of living.

Minimum wage laws. Minimum wage laws passed by the federal and state governments can raise wages for low-skill jobs above the equilibrium level. State minimum wage rates vary and may differ from the federal rate. Most workers qualify for the minimum wage, but exceptions exist. Workers who do not qualify include people who are self-employed, such as babysitters and newspaper carriers, and the employees of very small businesses. Around half of all Americans who earn the minimum wage are young workers between the ages of 16 and 24.

Working conditions. Jobs with working conditions that are uncomfortable, stressful, or dangerous may also pay higher wages than less-demanding jobs at similar skill levels. For example, Alaskan crab-fishing crews earn more than fishing crews elsewhere, in part because working conditions are so dangerous in the seas off Alaska. Similarly, air traffic controllers work under highly stressful conditions and receive relatively high wages to compensate for that stress.

Location and cost of living. In some parts of the United States, employers may be willing to pay extra to attract qualified workers. A rural hospital, for example, may pay doctors more than a city hospital because the remote location limits the supply of doctors.

The cost of living in a region also affects wages. Living costs in California, for example, are higher than in Louisiana. Wages reflect this difference. For

Crab fishing is one of the most lucrative but dangerous jobs in the world. Violent winter storms and subzero temperatures make working conditions perilous. To compensate for these dangers, Alaskan crab-fishing crews earn higher wages than those who fish in less hazardous waters.

"That $20 deduction is for new benefits—like the $10 raise you just got."

Many jobs come with benefits in addition to a salary or wages. Such benefits usually include health insurance and paid vacation time. The rising cost of benefits is squeezing employers, who may compensate by holding down wages—or even, as this cartoon implies, rolling them back.

example, software engineers in California made an average of around $99,000 in 2013, compared to just over $76,000 for software engineers in Louisiana.

Rising cost of fringe benefits. The cost of fringe benefits also affects wages. **Fringe benefits** are nonwage compensations offered to workers in addition to their pay. Typical benefits include health insurance, paid vacation time, and retirement plans.

The cost of such benefits has risen in recent years. Health insurance in particular has become increasingly expensive. In 1980, employers nationwide spent about $60 billion on private health insurance for their workers. In 2010, employers spent over $560 billion on private health insurance. These rising costs have helped to depress wages in some industries, as employers compensate for high health care costs by holding down wages.

Foreign competition. Competition for jobs in the global market also helps to depress wages. As more companies offshore key tasks to low-wage countries, wage rates in the United States face downward pressure. For example, many American furniture manufacturers now offshore production to low-wage countries such as China. Faced with factory closings, furniture workers in the United States may agree to accept lower wages in order to keep their jobs.

The Wage Gap and Affirmative Action

Historically, wages have also been influenced by discrimination against certain groups in society. **Wage discrimination** occurs when some workers are paid less to do the same job as other workers because of their ethnicity, gender, or other personal characteristics.

The Civil Rights Act of 1964 outlawed discrimination based on gender, race, religion, and country of origin. Nevertheless, a **wage gap**—a difference in the wages earned by different groups in society—still exists. For example, since 1964, the wage gap between men and women has narrowed, but women earn only about four-fifths of what men earn. In 2012, the median weekly income for white men working full-time was $879. For white women, the figure was $710.

A gender-based wage gap exists in every group surveyed: Asian American, white, African American, and Hispanic. Wage gaps also exist among the four groups, with Asian Americans earning the highest median salaries and Hispanics the lowest.

If discrimination is illegal, why does the wage gap persist? Economists attribute it in part to different levels of human capital among different groups. For example, African Americans, on average, have less education than whites and Asians. This education gap is itself a legacy of discrimination that denied blacks equal access to education for many years. Women, on average, have less job experience than men. This "experience gap" exists in part because women have only entered the labor force in large numbers in recent decades. Women are also more likely to interrupt their careers to raise children.

Even though differences in human capital contribute to the wage gap, studies show that discrimination still exists in the labor market. Many economists contend that the remedy for this problem is market competition. They argue that firms that discriminate will not be able to compete in the long run because they do not take advantage of the whole pool of qualified workers. Firms that do not discriminate will be more profitable than those that do.

Nevertheless, there are limits to the power of market forces to end discrimination. The United

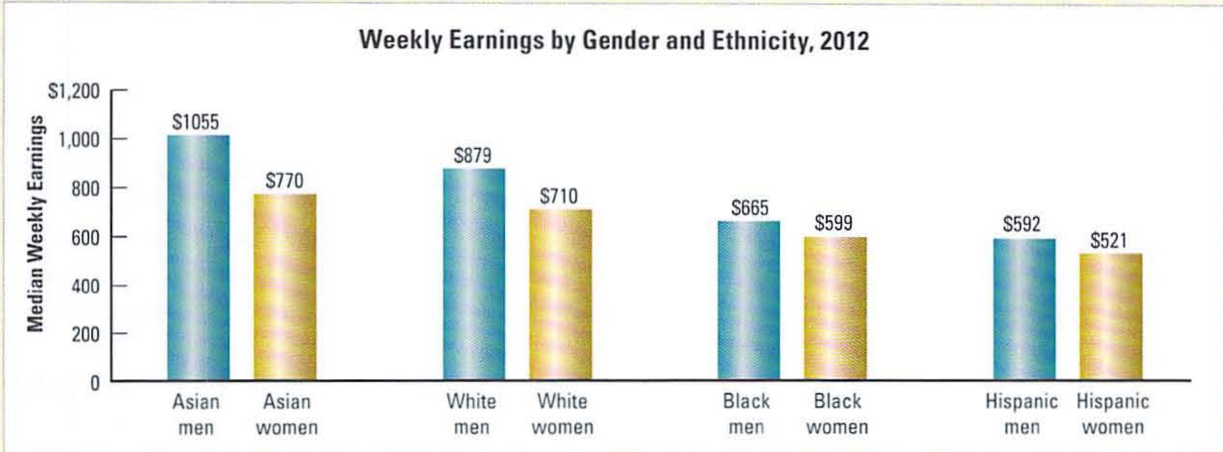
Key Concept

The Wage Gap

The term *wage gap* is used to describe the unequal earnings of various groups in society.

- The line graph shows that the wage gap between men and women has narrowed since the 1970s. According to some economists, when the wages of men and women of similar age and background are compared, the wage gap shrinks to just a few percentage points.
- The bar graph shows the 2012 median weekly wages of men and women by ethnic group.

Source: Institute for Women's Policy Research.



Source: Bureau of Labor Statistics.

States has antidiscrimination laws to help fill the gap. **Affirmative action** initiatives are also intended to prevent discrimination. These initiatives call on employers to take positive steps to increase the presence of historically underrepresented groups in employment, education, and business.

Affirmative action policies have aroused controversy. This is especially true for policies that give preferential treatment to women and minorities. This type of affirmative action has come under attack from critics who say it discriminates against white males. In a series of landmark cases, the U.S. Supreme Court has narrowly upheld affirmative action in such areas as college admissions. However, the debate continues as to whether affirmative action is the appropriate means to achieve equal opportunity for all.

10.4 How Can You Increase Your Human Capital?

Though she probably did not realize it at the time, Catherine Winters took a major step toward a career when she got involved with Second Life. The skills she developed through Second Life expanded her human capital and eventually led to a steady job. Developing one's human capital is the key to success in the job market. But how does a person go about doing that?

The Starting Point: Aptitudes, Interests, and Aspirations

Developing your human capital is a lifelong pursuit. It continues as long as you are expanding your skills, experience, and knowledge.

The first step in building your human capital is to identify your aptitudes, interests, and aspirations. In other words, start by thinking about what you are good at, what you like to do, and what you hope to accomplish in your working life.

This assessment can only be done through honest self-evaluation. It is important to be realistic about your skills and abilities, but it is also important to pursue your dreams. It is not always easy to assess yourself. Fortunately, there are some tools that can help. Career counselors can offer useful advice and help steer you in the right direction. Many self-help books focus on helping readers to find and develop a career path. Aptitude tests and skills inventories can also help you analyze your abilities and interests.

Becoming Qualified: Education, Certification, and Licensing

Education is one of the main routes to developing human capital. A good general education gives you many tools for success in the working world. A more advanced education will help you progress even further. There are many ways to advance your education beyond high school. Besides the traditional four-year college or university, there are community colleges, technical institutes, job-training programs, and online courses.

Higher education may also qualify you for certification or licensing to practice a particular profession. **Certification** is an official recognition that a person is qualified in his or her field. In some professions, certification is required by law. Teachers, for example, must be state certified to teach in public schools. Doctors must pass state licensing exams to practice medicine. In other fields, certification is voluntary. However, certification is usually recommended as a way for aspiring professionals to show their competence and commitment to their field.

Education will also help you earn more money. The difference in wages paid to high school and college graduates has grown over the years. In general, wages are rising faster for more educated, more skilled workers than for less educated, less skilled workers. In 1980, men with college degrees earned an average of 44 percent more than men without degrees. By 2012, this gap had widened further, increasing to 79 percent.

The value of a college degree is increasing for several reasons. As U.S. businesses seek a comparative advantage in the global economy, the demand for well-educated knowledge workers is growing. Many employers believe that a college education makes workers more productive. Others see a college degree as a sign of motivation and general ability. Either way, a college degree serves as a screening device that employers can use to identify high-value employees.

Gaining Work Experience and On-the-Job Training

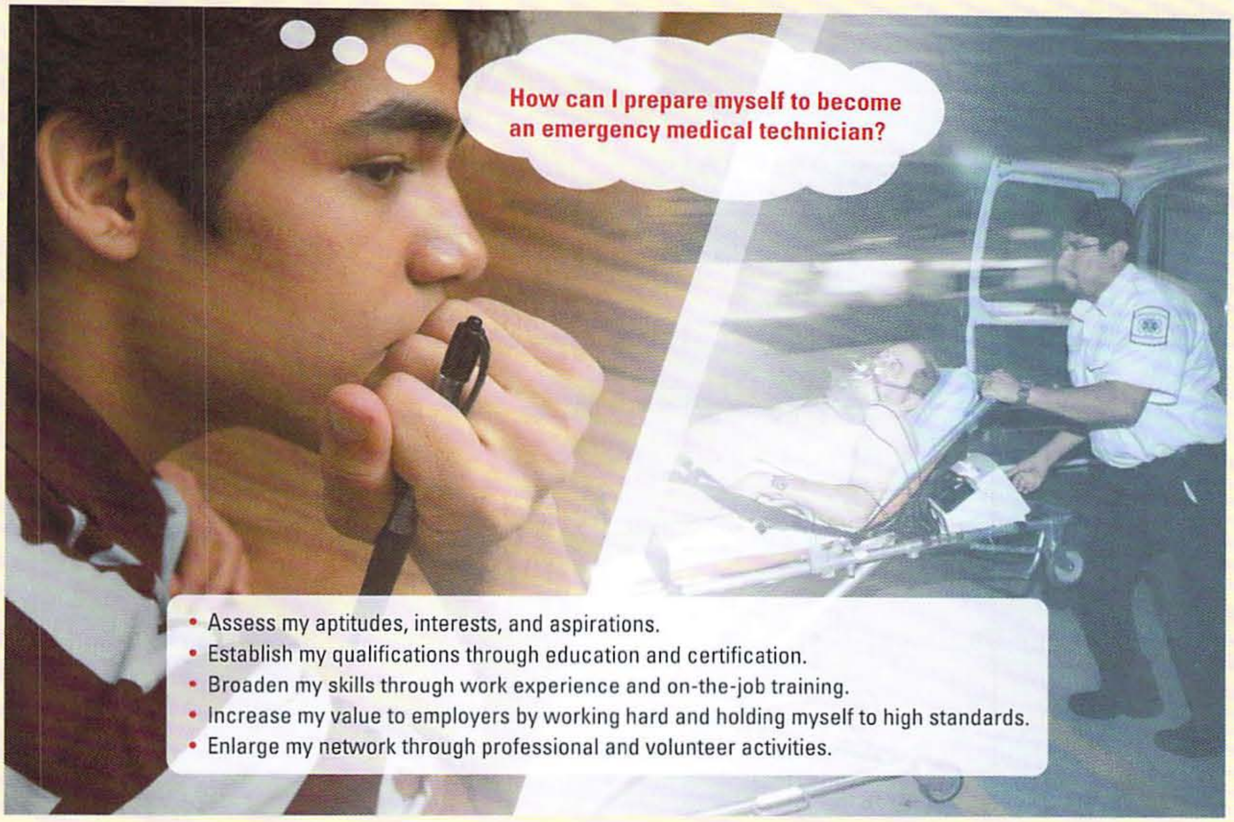
Another way to build your human capital is through work experience and on-the-job training. When hiring new workers, employers often look for people

All states require certification or a license to practice certain professions. After graduating from nursing school, this registered nurse had to pass a national licensing exam to get a job. Licensing exams help ensure that people in certain professions are competent in their fields.

Key Concept

Building Human Capital

Building your human capital is a lifelong project. This illustration shows how a young person might develop the human capital needed to land a job as an emergency medical technician (EMT).



who have significant experience and have developed useful job skills. The importance of work experience explains why wages tend to rise the longer a person has been in the labor force.

Of course, getting a job can be difficult when you lack work experience in the first place. But it is not impossible. Some employers prefer to hire people they can train on the job. A restaurant, for example, might hire a cook trainee who would start out doing low-level kitchen tasks. Over time, a cook trainee would learn how the kitchen works and how to prepare items on the menu. For a trainee who is dependable and willing to work hard, on-the-job training can be the first step on a career path.

Another way to get a job when you have no experience is to seek out an entry-level position in a field that interests you. Typically, entry-level jobs—such as office assistant and sales assistant—do not pay much. But they can provide valuable experience and allow you to start building a work history. By starting at the bottom, you show your willingness to work and to gain the experience and skills you need to move up the job ladder.

Increasing Personal Productivity: Effort and High Standards

The level of energy and enthusiasm that workers bring to a job also increases their value to employers. The workers who stand out are often those who make the greatest effort and hold themselves to the highest standards.

In some jobs, workers are rewarded based on how much they produce. This is true in many sales jobs, for example, where people work on commission and earn a percentage of everything they sell. Other jobs may pay year-end bonuses or offer salary increases based on worker productivity. In either case, workers enhance their job opportunities by making the effort to work hard and excel at what they do.

Building a Personal-Professional Network

People can also develop their human capital by building a personal-professional network of friends and colleagues. One way to do this is to join a professional association, labor union, or other type of occupational group. Belonging to such a group can help people develop work contacts and create a sense of community in their chosen field.

Other ways of building a personal-professional network include getting involved in community affairs, volunteering, or participating in a local sports team. Such activities help people expand their connections within the community. These connections can have positive effects on their working lives by creating new job contacts and new opportunities for professional growth.

10.5 What Role Do Unions Play in the Labor Market?

On the first Monday in September, many of us attend picnics and other events associated with Labor Day. The roots of this holiday go back to 1882, when labor organizers in New York City held a parade to celebrate the role of workers in American life. The celebration became an annual event and soon spread to other cities. In 1894, Congress passed a law making Labor Day an official national holiday.

The Origins of the Union Movement

Labor Day owes its existence to the union movement, which began in the late 1800s. At the time, many U.S. workers suffered from harsh working conditions in factories and mines. They worked long hours for low pay, often in unhealthy or dangerous circumstances. If workers complained, they were likely to be fired. In response, workers formed unions to help protect their interests. These early unions were relatively small and lacked the power to negotiate with factory owners.

In the late 1800s, however, small unions began to join together to form larger labor federations. The first such federation was the Knights of Labor. Founded in 1869, it brought together both skilled and unskilled workers.

The Knights of Labor soon faced competitors. One was the American Federation of Labor. The AFL concentrated mainly on organizing skilled workers. Another was the Industrial Workers of the World. The IWW sought to unite all workers, both skilled and unskilled, under the motto "an injury to one is an injury to all."

Timeline

Key Events in the Union Movement, 1869–2005

The union movement grew with the help of labor federations and the New Deal policies of the 1930s. More recently, union membership has gradually declined.

1860 | 1875 | 1890 | 1905 | 1920

1869
Knights of Labor becomes the first U.S. labor federation.

1886
American Federation of Labor (AFL) unionizes skilled workers.

1905
Industrial Workers of the World unites all workers, skilled and unskilled.

1935
National Labor Relations Act supports unionization and collective bargaining.

Speaking for their members with one voice, union leaders bargained with employers for better pay and working conditions. If negotiations failed, unions called on workers to strike. During a strike, workers refused to work until their demands were met.

Employers fiercely resisted the union movement. Some used their influence with government officials to block union organizing. Others required employees to sign **yellow-dog contracts,** which prohibited workers from joining unions. Employers responded to strikes by hiring strikebreakers to force the strikers back to work.

The Golden Age of Labor Unions

Despite setbacks, the union movement continued to grow. During the Great Depression of the 1930s, unions enjoyed their greatest success under the New Deal policies of President Franklin D. Roosevelt.

At the president's urging, Congress passed the National Labor Relations Act in 1935. Also known as the Wagner Act, this law guaranteed workers "the right to self-organization, to form, join, or assist labor organizations, [and] to bargain collectively through representatives of their own choosing." The law also permitted closed shops. A **closed shop** is a business that will only hire workers who are union members.

Gaining the right to "bargain collectively" was a breakthrough for unions. **Collective bargaining** is a process in which workers, represented by their union, negotiate with employers for better wages and working conditions. The Wagner Act required employers to bargain in "good faith."

The Wagner Act ushered in a "golden age" of labor unionism. During this period, union membership increased and workers enjoyed rising pay and benefits. Encouraged by such success, several large unions came together in 1938 to form a new labor federation, the Congress of Industrial Organizations. The CIO would later merge with the AFL to create the AFL-CIO.

By the late 1940s, however, many in business and government felt that the Wagner Act had gone too far in empowering labor unions. In 1947, Congress passed the Taft-Hartley Act to rein in the unions. This law outlawed the closed shop and placed limits on the power of unions to organize and strike. It did, however, allow union shops. In a **union shop,** workers are required to join the union after being hired.

The Taft-Hartley Act also permitted states to pass **right-to-work laws**. These laws make it illegal to require workers to join a union as a condition of their employment. In effect, right-to-work laws ban the union shop. Currently there are some 20 **right-to-work states**. Most are located in the South and West.

1947
Taft-Hartley Act limits union powers.

1955
The two largest labor federations merge to form the AFL-CIO under the leadership of George Meany, shown here meeting with President Gerald Ford.

2012
American labor union membership drops to roughly 14.4 million, which is about 11 percent of workers.

1950 | 1965 | 1980 | 1995 | 2010

1938
Several major unions form the Congress of Industrial Organizations (CIO).

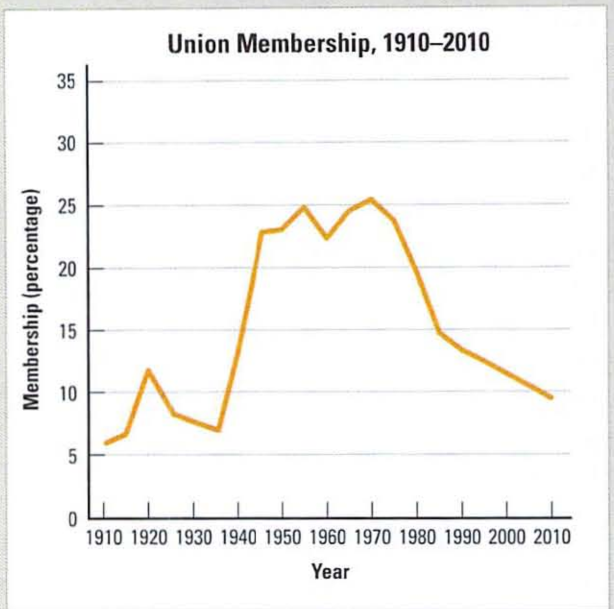
1975
Union membership peaks at 22 million before beginning to decline.

2005
Change to Win breaks with the AFL-CIO. Change to Win is largely made up of female, immigrant, and minority members of service sector unions.

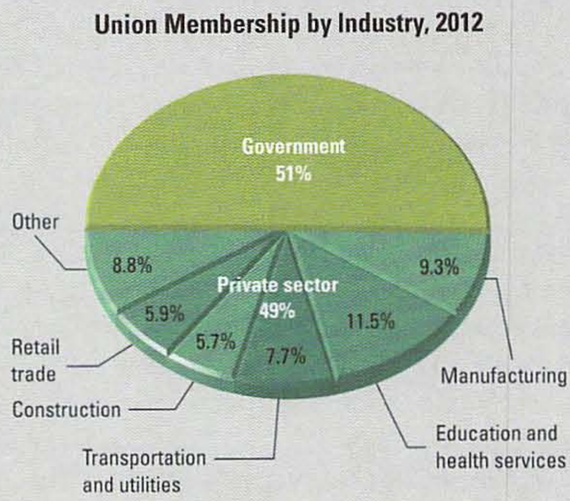
Figure 10.5

Tracking Union Members

As the line graph shows, the percentage of American workers who belong to unions rose and then fell over the past century. The circle graph shows the percentage of union members employed in various parts of the economy in 2012.



Source: Harold W. Stanley and Richard G. Niemi, *Vital Statistics on American Politics 2011–2012*, Los Angeles: CQ Press, 2011.



Sources: AFL/CIO. Bureau of Labor Statistics.

The Modern Union Movement

Despite the restrictions of the Taft-Hartley Act, the number of union members continued to increase into the 1970s. Union membership peaked at more than 22 million in 1975. But by then, as the line graph in Figure 10.5 shows, union membership as a percentage of the total labor force had begun to decline. In 1970, one out of every four American workers belonged to a union. By 2012, that number was about one in nine.

The profile of union members has also changed since the 1970s. A generation or two ago, the typical union member was a factory worker. Today, as the circle graph in Figure 10.5 shows, that worker is more likely to be a government employee, such as a teacher or a police officer, than a factory worker.

Economists cite a number of reasons for the drop in union membership. One is the loss of manufacturing jobs and the rise of service industries. Historically, service workers have been difficult to organize. Women, who make up an increasing share of the labor force, have been less inclined to join unions. In addition, the government now guarantees many of the rights unions once had to fight for, such as workplace safety and an eight-hour workday. Also, polls show that less than 10 percent of workers are dissatisfied with their jobs. The great majority also have a strong sense of loyalty to the companies for which they work.

In a bid to reverse the downward trend in union membership, seven major unions representing 6 million members broke away from the AFL-CIO in 2005. They then joined forces to create the Change to Win federation. This new labor federation is largely made up of service-sector unions that represent female, immigrant, and minority workers.

Despite the formation of Change to Win, union influence appears to be continuing its decline. States are increasingly turning to legislation to try to limit the power of unions. Legislators in Michigan, traditionally a state with a strong union presence, passed right-to-work laws in late 2012. This legislation, which could cripple union funding and other laws like it in other states, could prove to be yet another blow to the already declining labor movement.

Bread-and-Butter Unionism Today: Wages, Benefits, and Job Security

To reach its goal of expanding union membership, Change to Win is concentrating on **bread-and-butter unionism**. This means focusing on the economic issues that affect workers' daily lives. Change to Win summarizes these issues as "a paycheck that can support a family, affordable health care, a secure retirement and dignity on the job."

By focusing on these bread-and-butter issues, unions perform a vital function for many American workers. They work to secure better pay and improved benefits for their members. They try to save workers' jobs when companies engage in outsourcing and offshoring. They provide information to workers about their rights as employees. Some unions provide training to help workers improve their job skills. By helping to build human capital in this way, unions not only provide benefits to their members, but also to the organizations that employ them.

This brings us back to the question we began with: *Why is it important to develop your human capital?* The answer is both simple and complex. Human capital is one of the most important factors that determine a worker's value in the labor market. But human capital is not a simple set of skills. It also encompasses aptitudes, knowledge, experience, motivation, energy, and attitude. As you prepare to enter the labor market, remember that your human capital is your most valuable resource. The more you develop it now, the more success you will enjoy in the world of work.

Summary

Changes in the labor market are having an effect on the jobs and wages available to American workers. As the labor market evolves, it becomes more important than ever for workers to develop their human capital.

What trends are shaping today's labor market? An influx of women and minorities has changed the labor force in recent decades. In addition, job growth has shifted from manufacturing to the service sector, and knowledge workers have become increasingly important. Globalization is also having an impact as foreign trade and competition have increased both the offshoring and inshoring of jobs.

What determines how much workers earn? Wage rates reflect various factors in the labor market. Wages primarily depend on the skill level of workers and the value of what they produce. Like the price of goods and services, wages are set by supply and demand. Wage rates move toward equilibrium as the demand for workers with the skills needed for a given job and the supply of such workers come into balance.

What can you do to increase your human capital? The first step to increasing your human capital is to identify your abilities, interests, and goals. After that, get the education you will need to meet any licensing or certification requirements. Other key steps include gaining work experience, holding yourself to high performance standards, and building a network of friends and colleagues.

What role do unions play in the labor market? Historically, unions have helped workers defend their rights and improve their pay and working conditions. Although union membership has declined in recent decades, unions today are still helping many workers achieve concrete gains in the workplace.