Ayşegül Şahin

On wage growth, labor's share of income, and the gender unemployment gap

When she was a college student in Turkey in the 1990s, Ayşegül Şahin (pronounced "ay-she-gul sha-heen") aspired to be an electrical engineer. But while she was working on her doctorate in electrical and electronics engineering, she sampled an economics course as an elective and found it enthralling. She tried two more economics courses and liked them. Although she had finished all of her Ph.D. coursework by this point, she decided to switch fields. She ultimately won admission to an economics doctoral program in America at the University of Rochester.

"I didn't really know what I was getting into," Şahin says. "But I didn't regret it for a second afterward."

She quickly gravitated toward studying labor markets. "I found it fascinating that the most important market for most people is the labor market," she says. "Not all of us own stock, but we all own human capital."

Today, after a 14-year tenure as a labor market economist in the New York Fed's research department — she was a vice president by the time she left in 2018 — she is an economics professor at the University of Texas at Austin. She has published widely on labor economics issues such as unemployment and labor force participation, mismatch between skill supply and skill demand, gender differences in labor market outcomes, and entrepreneurship.

David A. Price interviewed Şahin by phone in June 2021.

IMAGE COURTESY: AYŞEGÜL ŞAHIN

EF: Last year, we saw the first downturn in the labor market since the Great Recession of 2007–2009. How was this recession from the pandemic and the lockdowns different from the Great Recession in how it affected the labor market?

Şahin: Well, I was in the New York Fed's research department during the Great Recession, and when the recession started, I had just begun to brief the Bank's president and the senior staff on the U.S. labor market regularly. I really lived through the Great Recession at the Fed. What was striking about the Great Recession was its persistence. Everybody kept saying at the time that inflation is around the corner, the labor market is getting tighter, but it took a very long time for the labor market to heal.

We are not seeing that this time. This was a very different shock. It was sharp, but it was transitory compared to the Great Recession. So the effect was great, but the recovery has been faster as well. I think that's the main difference.

Another big difference is that the Great Recession was a big shock to the construction sector, and we are seeing the opposite now. We've been spending more time at our houses and people want to improve their houses and they want bigger houses.

Also, we weren't really sure what was happening during the Great Recession. Things were being revealed as we went along. But this time, we knew what was happening and we knew the reason, although we didn't know how it was going to evolve.

But the biggest difference is the persistence. After the Great Recession, it took quits rates five or six years to recover. Today, the quits rate is already back to where it started from before the pandemic hit.

EF: Why is the quits rate something that you pay attention to?

Şahin: The quits rate is the number of quits during the entire month as a share of total employment. The quits rate was in Janet Yellen's dashboard when she was the chair, actually, so lots of people started paying attention to it.

When the unemployment rate increases, the labor market gets weaker and there are lots of unemployed people who are trying to find jobs. And the U.S. economy is very dynamic: People move from one job to the other, and that's how they improve their match quality.

But when there's a recession, quits go down because people become more risk averse. They don't want to risk unemployment. So if you don't like your boss or you don't like your career, you just say, "OK, I'd better wait a little bit more."

During the Great Recession, this aversion to quitting lasted for a long time. As a result, people were stuck in jobs that they were not necessarily happy about or they were not very productive at. But in this recession, quits rates bounced back quickly. One reason is because there are a lot of job openings; the second is that people want to go back and find jobs that they are better matched at.

REMOTE WORK

EF: Many people are expecting a long-term shift to remote work or hybrid arrangements even after the pandemic has passed. If this happens, what will it mean for labor markets?

Şahin: That would mean, first of all, that we will not have to live where we work. I think that's a big deal. It would affect how people are allocated geographically. They will prefer to live in low-cost states and will prefer to have bigger houses.

This, in turn, could mean the labor market becomes more national and less local, and a greater role for superstar workers, similar to the phenomenon of superstar firms like Amazon that get a great deal of the surplus. For instance, it might be that the best yoga teacher has a Zoom platform, and then there would be one million subscribers, instead of having yoga teachers doing this in the studio.

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But then on the downside, even though we think we have been very productive working from home, part of that relied on the earlier relationships we had built. We knew our co-workers, most of us, so we were able to switch to remote work and continue as we were doing. Going forward, if we start hiring people who have never met in person, it's not clear how the labor market will work. It's always a different thing when you talk remotely with somebody you've never met than if you met. I think we might be overestimating how productive remote work will be in the future. If you have a firm where a lot of people haven't met and nobody has in-person interaction, we don't know what the effects on productivity are going to be. I think that it's a bit premature to argue that we can all switch to remote work and just duplicate this past year that we thought was very productive.

EF: The Federal Open Market Committee (FOMC) has said it "will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent." Do you think wages will keep pace with price inflation during this process?

Şahin: I expect wage growth to pick up. One reason is that we have unemployment insurance benefits in place that help people look for better matches. They are probably not accepting the first job offer they get; they are able to search a bit longer. That can help them to find better-paying jobs that they are more productive at.

Another component is that some workers might ask for higher wages to be compensated for the health risk that's still out there. The virus health risk, especially for certain age groups or certain workers, is an important issue. They might say, "OK, I'm not going to work 12 hours at $12 an hour; I need to be compensated for this risk that I'm taking."

STARTUPS

EF: You've pointed out that the startup rate in the United States — that is, the number of new companies as a share of all companies — has been declining since the late 1970s. Why is this important, and what is causing it?

Şahin: Startups are important for various reasons. First of all, they are important areas of job creation and productivity growth. I have worked on this in the last five or six years, and what we have found is that the declining startup rate is a consequence of the declining growth rate of the labor force in the U.S. economy. Because of the baby boom cohort entering the workforce in the 1970s, the labor force grew at a much higher rate — and that's a period when there were more startups in the U.S. economy. Another factor that increased the labor force was the growth of female labor force participation. Both of these factors stabilized in the 1980s, which meant declining labor force growth.

With the declining labor force growth rate, we also started seeing a decline in the startup rate. You can think of the startup rate as the birth rate of firms. What happens when the birth rate goes into decline is that the population gets older after a while. The same thing has happened with U.S. firms.

What does it mean when more firms are older? Older firms are more stable, but they are also slower. They create fewer jobs, which accounts for part of the decline in job creation.

An economy like this is more stable — the unemployment rate tends to be lower — but it also has lower productivity growth. That accounts for a lot of trends we have been seeing in the U.S. economy.

EF: Does the role of labor supply growth mean that there isn't much room for other policies, such as tax and regulatory policies, to affect the startup rate?

Şahin: There's definitely room for tax and regulatory policy to make a difference. But when you look at different sectors and different locations, as we did — we looked at around 10,000 labor markets — you see a decline in startups in more than 90 percent of them. The point that we are making is that there seems to be a common factor affecting almost all the markets in the U.S. economy. And population growth is such a common factor. Tax and regulatory policies will have to push against the strong demographic trend.

EF: Reportedly, there's been a pickup in startup formation during this pandemic period. Do you have any thoughts about what's going on there?

Şahin: Well, we have looked at what happens to the startup rate when there is reallocation in the economy. For example, we know that the manufacturing sector declined over time and the service sector grew. But if you look at the startup rate of the manufacturing sector in 1980, you could have already predicted that this sector's employment was going to decline over time. That's because its employment share was way higher than its startup employment share. The entry or lack of entry of startups into a sector gives you information about its condition before you see existing firms exiting the sector.

The startup activity that is happening now is another sign of reallocation. Where the startups are entering will be informative in terms of where the economy is going in the near future.

One caveat is that the increase in startups could be a temporary change taking place because these people wanted the freedom to decide how much risk they want to take in terms of health issues. If you work for someone, you have less control over the workplace.

GENDER AND UNEMPLOYMENT

EF: Another change since the late 1970s has been the gap between men's and women's unemployment rates. You've said that this gap practically disappeared after 1980 — except that men have higher unemployment than women during recessions. Why are men doing worse than women in terms of unemployment during recessions?

Şahin: I should first qualify that this pattern applies to all recessions except the COVID-19 recession. The reason for the pattern in the earlier recessions is that men are more likely to work in manufacturing and construction, and these sectors are typically the sectors that are affected more by recessions. It's the sectorial allocation of unemployment that accounts for these unemployment differences. At least three-quarters of construction is still men, and women are more likely to be in education and health care, which is not typically as recession sensitive.

In this pandemic recession, one big difference was which sectors were affected. This time, more sectors in which women are more likely to work were affected compared to other recessions. Construction wasn't affected — except for a brief period early in the pandemic — because it's mostly outdoors. So it's really about the recession affecting different sectors differently.

The other change you mentioned is that the gap between men's and women's unemployment rates shrank. That was for a different reason. The reason women's unemployment rate converged with men's is because they became more attached to the labor force.

If you look at 1960, say, or 1970, women took time off every time they got pregnant and had children. This meant that when they had a child, they dropped out of the labor force, and then after a couple of years they wanted to come back in. And this was increasing women's unemployment. It wasn't because of job loss; it was because of labor market interruptions.

And finally, in the 1980s, women started working throughout their pregnancies and stopped taking time off because it was possible to take paid or unpaid maternity leave and keep their positions. As a result, this drop in frictional unemployment came with a decline in women's unemployment rates.

Ayşegül Şahin

PRESENT POSITION

Richard J. Gonzalez Regents Chair in Economics, University of Texas at Austin

SELECTED ADDITIONAL AFFILIATIONS

Research Associate, National Bureau of Economic Research; Member, Panel of Economic Advisers, Congressional Budget Office; Member, Technical Advisory Committee, Bureau of Labor Statistics; Co-editor, *American Economic Journal: Macroeconomics*

EDUCATION

Ph.D. (2002), University of Rochester; M.S. (1996), Bilkent University, Ankara; B.S. (1994), Bilkent University, Ankara

EF: Still another change we have seen is that since the 1980s, labor's share of income has been going down. Has automation been an important part of this, and what can we expect for labor's share of income in the future?

Şahin: Bart Hobijn, Mike Elsby, and I looked at which sectors had the biggest drops in the labor share. What we saw is that it wasn't really related to decline in capital costs — which you could think about as an indicator of automation; it was mostly related to import penetration. Labor share declined more in sectors that had more import competition.

The way we think about this is that in some sectors, we're really competing with the global labor market. The U.S. started importing a lot of labor-intensive goods, so even if the total labor share in the production process did not change, parts of it did not go to U.S. workers.

We found a lot of evidence for increased competition with the global labor market rather than automation accounting for the decline in the labor share. In the medium run, I expect a partial recovery in the labor share because, as I said before, I expect wages to increase. The labor market is getting even tighter, quits are going up, and workers' bargaining power is better because of the unemployment insurance benefits that have been more generous.

With respect to the long run, it's too early to make any predictions. We don't know how much more import exposure will increase, if it does increase. Automation is surely going to be a factor.

THINKING ABOUT EARLY CAREERS

EF: How should young people today think about their career path? What should they be doing or not doing if they want a well-paying, secure career?

Şahin: I always tell my graduate students and my research assistants that they should be doing what they feel passionate about. The labor market is changing a lot. There is a lot of room for creativity. Routine jobs are less important now.

I think the definition of a secure career is changing because the economy is moving very fast, but if they do what they feel passionate about, they will always adapt and they will always succeed.

When I was growing up, there was an idea that, "Oh, you should just go into the best major," and that's why I went into electrical engineering, which I did not feel passionate about. But I think it's even more important now to find your passion and invest in that.

EF: If a young person doesn't have a strong career direction on the basis of innate interests, or maybe the person is interested in things that don't particularly lead him or her in a career direction, what would be your advice then?

Şahin: When we look around, we see a lot of things. The population is aging; we clearly need a lot of support for older people. Life expectancy is increasing, but then it becomes harder and harder to live alone as you get older. In my view, the aging of the population will create demand for some fields.

Also, we need a lot of support for the education of our kids. This is not only about schools; schools do not necessarily provide child care.

So we need a lot of help to take care of children and to help take care of the now growing older population. These are jobs that cannot be automated. This type of job requires a lot of effort, but at the same time, they are really fulfilling jobs. And the need for them will only increase.

And obviously construction is doing well. Even if some things are automated in construction, there are too many details that we cannot really outsource to machines.

EF: What would you say has been the high point in your economics career?

Şahin: That's not an easy question. But one thing that I am proud of goes back to 2009 and 2010, when the unemployment rate was consistently high. At this point, the main hypothesis was that there's a lot of labor market mismatch. The idea was that we cannot easily make construction workers into nurses, so monetary policy is not going to be effective at addressing high unemployment.

Gianluca Violante, Giorgio Topa, and I acquired online vacancy data from the Conference Board. It was the first time it was used for a project like this. And we were able to come up with measures of labor market mismatch — both skill mismatch and geographic mismatch. We showed that mismatch wasn't that high, and the weakness was due to low demand,

IMAGE COURTESY: UNIVERSITY OF TEXAS AT AUSTIN

which meant there was still room for monetary policy.

And I presented this at the FOMC in 2011, and time has shown that we were right. As you know, unemployment went down to 3.5 percent before the pandemic recession. I'm proud of this because it was an academic paper used by policymakers, and hopefully it helped unemployed people find jobs. For me, this was a high point in my economics career in terms of research accomplishment.

EF: Has there been a low point in your economics career?

Şahin: Well, every time we get rejected, it's a low point. (*Laughs.*)

Probably the lowest point was when I finished my Ph.D. I graduated in 2002, and when I was on the market trying to find a job it was 2001, right after Sept. 11. Everything felt meaningless. I wasn't sure what was going to happen. There was a recession after that, and I wasn't even really thinking about finding a job. That was a very complicated time for me. And it made me think a lot about what I wanted to do.

Living through the 9/11 period while I was trying to find a job, at a time when you really don't want to think about finding a job, made me realize how stressful it is to try to deal with starting a career at a time when there has been a big shock to the economy. It happens to a lot of people.

I ended up finding a job. But that was probably the lowest point for me, and it was also a very low point for all of us.

"I think the definition of a secure career is changing because the economy is moving very fast. But if they do what they feel passionate about, they will always adapt and they will always succeed."

EF: What are you working on now?

Şahin: I'm working on trying to understand the gender wage gap with my co-authors Jason Faberman and Andi Mueller. We talked about the fact that unemployment rates by gender converged, so there's no gap in terms of the unemployment rate; if anything, women have typically done better than men when there is a recessionary shock, except during the COVID-19 recession. But even now, the female unemployment rate is lower than the male unemployment rate. What I'm trying to understand is whether the job search process is actually accounting for some of the gap that is left between men and women — the wage gap.

Even though we don't have a gap in the unemployment rate, we still see that women are paid less than men who are very similar to them in terms of their observables. When you look within occupations and within locations at men and women who are similarly aged with similar education, women still get paid less. I think we need to understand why this is happening. So I'm trying to understand whether there is something about how women move from one job to the other, how they search for jobs, how they acquire them, whether they prefer non-wage amenities to wages, or whether men are more motivated by pay than other aspects of the job. I think at this point in the debate on inequality, we really need to understand this gap between men and women in a more detailed way. **EF**