McKinsey&Company

AUGUST 2011

McKinsey Quarterly

The US employment challenge: Perspectives from Carl Camden and Michael Spence

The CEO of a global staffing firm and a Nobel laureate economist discuss the changing face of US employment and the obstacles to job creation.

The US economy has lost seven million jobs since 2007 and remains in the grip of a weak and largely jobless recovery that could take five more years to restore prerecession levels of employment, McKinsey research indicates.

In this video, two experts examine the jobs issue from two different vantage points. Carl Camden, CEO of Kelly Services, a global staffing company that manages external workforces for corporations around the world, describes fundamental changes that have occurred in the nature of work. In response to globalization and fast-changing technology, entire categories of jobs can now disappear with breathtaking rapidity. That has led to a big expansion worldwide in the number of people who work under new forms of employment: part-time, temporary, contract, even fractional workers who put in their hours where and when they can. But while the US workplace has changed, Camden argues that tax and benefit policies have failed to keep up.

Michael Spence, recipient of the 2001 Nobel Prize in Economics and author of *The Next Convergence: The Future of Economic Growth in a Multispeed World* (Farrar, Straus and Giroux, May 2011), sees structural changes in the economy that present major challenges to job creation. A loss of middle-class jobs in the tradable sector—mostly manufacturing—was offset largely by jobs in the non-tradable or service sector during the housing bubble, thanks to debt-fueled consumer spending. When that binge ended, many of those service jobs disappeared as well. Filling the void will be neither easy nor quick.

Hear what these two experts have to say about jobs in America.

Kelly Services CEO Carl Camden on the future of work

Free-agent nation

What we do not have taking place in the policy debates in this country is a recognition of a fundamental shift in employment. Today, job life cycles have become incredibly short. The ability of a job to appear and disappear, either in terms of a location or a whole category of jobs like bank tellers, as an example, is very, very rapid.

So jobs aren't permanent, locations aren't permanent, and workers are returning back to what I would call a free-agent type of work style. Independent contractors, part-time employees who move in and out of the workforce, temporary employees, consultants who move in and out of the workforce—that group of individuals in most of the industrialized world is already 25 to 35 percent of the workforce, on its way to becoming 50 percent of the workforce, I think, over the next decade.

Technology has made it possible for people to work at home much easier with a good degree of control over that work, still being able to maintain by the center. We maintain at-home call centers, and one of the things that that makes available to companies and the workforce is the deployment of individuals who can be fractionally deployed.

Now they might be willing to work eight hours a day, but if you're a stay-at-home mom it might be that you need those eight hours to be broken up in chunks of two hours here, three hours there, an hour here, which accumulate to a number of hours oriented around perhaps when your child is sleeping, when your partner is home and able to help deal with child care, in the middle of the night when everybody's asleep.

And so we see a lot of workers getting rid of the idea that you work an eight-hour block. So even if they're working eight hours, we find increasing numbers of workers, especially those who are in the at-home workforce, breaking up the day into pieces so that they work it over the course of a 16-hour period.

I think that that ability to fractionalize workers so that they can organize work around their life— you know, we've come through a period of time in the US where the ethos was you organized your life around your work. I think one of the exciting positive social changes that I see coming out of things like home sourcing is an ability for people to achieve a much better level of work-life balance and able to organize work around their life demands instead of the reverse.

Managing the new external workforce

When I joined Kelly [Services] in 1995, we had signed a contract with a large pharmaceutical company for $50 million a year in consolidated staffing spend—biggest contract we had ever heard of in the staffing industry. Today, as we're selling talent supply chain management, we've signed several deals that are measured in the billions, a billion plus a year.

Now we're managing that. We won't be providing all of that labor, but that's how dramatically our industry has changed in the course of 15 years. So if I start at the very upper end, we're being hired by some of the world's largest firms to manage all of their talent that they deploy outside of the walls of their company.

Most individuals aren't aware, but large global corporations generally have two to three times as many people working on their behalf as they have working directly for them. And we, Kelly, are providing an ability to manage that external workforce in a holistic fashion on a global basis. Well, that's tremendously different than what we've done.

The pharmaceutical industry is, again, another large company that has a talent supply chain relationship with us. Everything from the clinical trial effort, where very few people involved in clinical trials are permanent employees of the company. If you look at production facilities where you ramp up quickly up and down for medical devices, we would tend to provide the majority of those production workers, again with their supervisors being provided by the company itself.

The skill sets are amazing. We employ more PhD scientists than most universities around the world and deploy them as temporary employees. Lawyers, biotech engineers are all people that we provide on a temporary basis. There's a firm in our industry who provides CEOs.

Policy implications

The United States is operating under a model that actually was an aberration in history. It's only been a very modest period of time that the majority of individuals work in large enterprises that would be stable enough and where jobs would persist long enough that the government could use companies as the delivery mechanism for benefits.

In most of the industrialized world, companies are a tax collection agency in terms of both their own contributions and payroll deductions, but they are not the primary means of distribution of social benefits. In the United States, because we've made the employer conceptually the primary provider of health care benefits, or health care insurance to employees, we have a bewildering array of options, an incredibly inefficient system, a very diverse (in terms of what types of benefits are covered or not covered) system. And I think that that's one factor, a very important factor, that's contributed to the out-of-control cost that we have associated with health care.

We've done much the same thing with retirement. Again, we've tended to make basic retirement, beyond the Social Security, again an issue for companies rather than simply part of national policy. We need to make social benefits, if they're going to be tied to work, be a factor from employment rather than employer.

In most of the industrialized world, there's payroll deductions that pay for health care, additional retirement benefits. It doesn't matter where you work, and they accumulate in a fund that is maintained, in the case of Switzerland, by a handful of private insurance companies; in other countries, by the government. But we need to understand that policy administration needs to be based against employment, not employer.

Secondly, we need to think about the fact that individuals need to receive the support to rapidly move from one type of skills to another type of skills, and that means that we need to look at the education, especially tax-supported education infrastructure, and to say, "How do we extend it to provide rapid, intense training for individuals who move out of one job into a different type of job, and how do we extend those skills?" That should be a function of all of the tax-supported education infrastructure, from high schools through the community colleges and to the state college system.

Third, we need to look at how we approach tax policy. Right now there is no area more murky in terms of tax policy than independent contractors—how they interact with the government in terms of taxes, how they go about reporting revenue, and so on. We have a tax structure that is based primarily on an ability to, again, have companies be the administrator for tax collections.

As you have more and more individuals who are in and out of attached to the workforce in various forms, tax policy does not work for those individuals. Things like a value-added tax, as an example, as a longer-term option, as opposed to an income-revenue based tax, usually simpler to administer in lots of countries as you see these styles of employment taking place.

Nobel laureate Michael Spence on the US jobs problem

Behind the US unemployment numbers

Unemployment induced by the crisis is likely to turn out to be stubbornly high because it's in part structural, and before the crisis it was sort of hidden from view or overcome by some unusual forces that are not sustainable. In the study of the evolving structure of the American economy and the employment problem, we looked at employment over an 18-year period coming up to 2008, just before the crisis, and we looked at value added sector by sector, and we looked at value added per person.

We divided the economy as carefully as we could into a tradable and a nontradable part. So the tradable part is goods and services that can be produced in one country and consumed in another, and the nontradable side, which is the lion's share of the economy in most advanced economies, is a whole set of goods and services that have to be produced domestically, like government, healthcare, construction, et cetera, much of legal services because of legal differences in the systems across countries.

So when we looked at this, the net employment generation in the American economy was impressive—it was 27 million jobs. But almost all of it was in the nontradable side. So that meant basically there was negligible employment growth on the tradable side of the economy where we compete with other people.

Where the jobs went

When we looked at value added, the picture's very different. Overall value added increased on both sides of the economy. And when you look specifically at the tradable sector, what you find is it divides into two parts. There's a set of sectors like finance, like consulting, like computer design, and in those sectors, value added increased, employment increased, and value added per person increased. So it's all good. You could say those are sectors in which we were highly competitive.

The second set tend to be what we call manufacturing, and they are long value-added chains that can be decomposed and moved around the global economy. What happened there is that employment went down, but value added went up, so value added per person went up enormously.

And what's going on in those sectors is that the lower value added per person parts are moving to other parts of the global economy, and the upper parts—the design, managing the enterprise and so on—that's highly educated people. They're growing. They're competing in the global economy. Then when you net out the declines in the manufacturing sector against the growth in the others you get this approximate match. Very little, 600,000 jobs out of 27 million, and nearly all of them, all but 600,000 of them, were in the nontradable sector.

When you look closely at that, what you discover is that we had big growth in government, in health care, and substantial growth in other labor-intensive sectors like construction, retail, hotels, food services, restaurants, that sort of thing. And we had, of course, excess consumption for ten years at least coming into the crisis because we had an asset bubble. We thought we were rationally consuming some of our wealth each year, only it turned out not to be real.

So I think those are the factors that allowed us to absorb all the incremental employment needs of the population in the nontradable side. I think my own opinion is it's very unlikely to be a sustainable trend. The tradable sector needs to be a healthy growing part of an economy in terms of value-added output and employment. You can't just keep relying on the nontradable sector to absorb all the incremental employment in an economy like the United States.

A structural problem

The crisis clearly created unemployment. I think these underlying structural problems are going to make it difficult to solve the employment problem without addressing the structural issues as well. It's an issue that affects the range of employment options for people in the middle-income category—moderate levels of education but not the top, middle income as a result, midrange of sort of variety of kinds of skills.

So that's why there's this sort of tension and concern on the part of a substantial part of people that employment opportunities are declining. In many ways, I think it's a miracle we didn't have an unemployment problem, given the magnitude of the nonjob creation on the tradable side. So the nontradable side absorbed all these people, but I don't think it's a good bet that that will happen in the future.

The limits of job mobility

In our case, youth unemployment is a feature of the crisis, because the youth tend to come into the market and be at the end of the queue. And the concern is, if there's a dramatic shortage of employment opportunities—lots of people have said this and I think it's right—that if you find people who come out of school, say high school, and don't find a job for four, five or six years, and then the markets finally come back, you tend to lose them. Employers will go for the recent graduates. So it's a very worrying situation, both economically and socially.

In an ideal global economy where resources are mobile (we know goods and services that are mobile when they can be traded), we have capital that's highly mobile, but labor's not. In a domestic economy, if there's a surplus labor condition here and a labor shortage here, then one of two things happens: the people move to the jobs, or the jobs move to the people. Usually it's a combination of both.

In the global economy, the people can't move to the jobs. There's just too many barriers to mobility. And some of the jobs are nontradable, so that means that the jobs can't move to the people. So we have a situation in which there's a natural sort of economic answer, which is mobility of jobs and people, and we can't implement that solution for reasons that are largely social and practical.

Solutions

I think the answer to this is not obvious, but we're going to have to try to fix the ineffective parts of our educational system. We're underinvesting in things like infrastructure, and sort of across the board if you look at the numbers for the investment rates in the United States, we've just been living on consumption and we need to live a little bit more on investment, including public-sector investment.

We should have a sensible energy policy. We should build some infrastructure which has the effect—productive infrastructure, I might add—which has the effect of employing people in the short run and raising the return to certain kinds of private-sector investment in the long run, that being the driving engine.

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I think we should fix the tax system. It's complicated, it has loop holes, and it has distortions with respect to investment. It privileges housing and builds up asset prices, creating jobs in the construction industry, but not the kind we're talking about. And it's nontradable.

We tax earnings from abroad when they're repatriated, so we've created an incentive to leave them out there, an investment out there. Some of that would occur anyway because the other parts of the world are growing and so it's natural for our multinationals to invest out there. But, still, why tip the playing field against us, in that sense?

So I think there is a structural issue underlying this that needs attention. I think it's going to actually take a new policy framework that pays attention to structure and distribution and opportunity. And I think in order make sensible, pragmatic progress, it'll require cooperation between the business sector and government.