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## *The Labor Market and the Employment Service*

**T**HE function of the labor market is to guide the allocation of labor among uses. The labor market is the medium through which information relative to alternative uses of labor is transmitted. The market is operating efficiently when laborers with equal productive capacities receive the same real (marginal) return in all employment.<sup>1</sup> In addition to occupational choice, labor use decisions include choice of location and choice of amount of investment in the human agent. Information relative to costs and returns is needed for making each of these decisions, and the labor market must transmit this information.

The economic progress of the United States is a tribute in large part to the effectiveness with which the labor market has operated in transferring labor among uses. As real incomes of people have increased, the demand for nonfarm goods and services has expanded more than the demand for farm products. Birth rates have been relatively low in urban centers where the bulk of the industrial goods and services are produced. In addition to the comparatively high birth rates in rural areas, changes in farm technology have made it profitable for farmers to substitute large quantities of capital for labor in the production of farm commodities. Thus, the labor market has been called upon to transfer large quantities of labor from farm to nonfarm employment in order to produce the goods and services in greatest demand.

The astounding rate of growth in the productive capacity of the United States economy has called for complex adjustments in industrial location and labor migration. Between 1920 and 1954, the net change from farm to nonfarm residences in the United States was about 24,000,000 persons.<sup>2</sup> Since 1950 the average net migration from farm to nonfarm residences has exceeded one million persons per year.<sup>3</sup> In spite of this phenomenal rate of migration, little progress has been made in closing the gap in returns for comparable labor services in farm and nonfarm employment.

Agricultural economists have complained for two decades that labor is underemployed in agriculture and have contended that the most

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<sup>1</sup>Johnson, D. Gale, "Functioning of the labor market," *Jour. Farm Econ.*, Vol. 33, Feb., 1951, p. 75.

<sup>2</sup>Farm population—migration to and from farms, 1920-54," AMS-10, USDA.

<sup>3</sup>This does not include the large number who have maintained farm residences but who have transferred to nonfarm employment.

efficient organization of the economy can be attained only by transferring labor from farm to nonfarm employment at an increased rate. This conference is concerned with ways of decreasing the gap in returns for comparable labor in farm and nonfarm uses. This paper will concentrate on the operation of current employment services and indicate some of the areas in which labor market operations need to be improved.

### COMPARABILITY OF APPARENT REAL INCOME

Decisions regarding labor use involve appraisal of returns to the owners of labor from alternative uses of the labor. Thus, information which enables the decision maker to decide when one situation is preferable to another must be transmitted by the labor market. If people are able to determine the conditions under which they are willing to exchange one occupational situation for another, the labor market problem becomes one of transmitting information relative to returns that will enable individuals to obtain equal satisfaction from alternative labor uses. If the individual is provided with sufficient information to rank the situations available to him, he can allocate his labor to its most efficient use.

However, supplying people with the income data necessary for making occupational decisions is not easy. Suppose, for example, that an individual is considering migrating from a farm to a nonfarm residence. The prospective migrant may wish to know the level of income which will be required in the urban setting to provide him with the same level of utility as he received in the rural setting. It is difficult for labor market agencies to provide him with this type of information. The potential migrant is interested in the differences in costs of obtaining a particular level of living in an urban as compared with a rural environment. The problem involves construction of an index of cost of living.<sup>4</sup>

One approach to this problem is to take the bundle of goods and services purchased at the farm level and to price it in terms of the prevailing prices in the urban area. This would provide the individual with information concerning the income that would be required to purchase in the urban setting the same quantity of goods and services as he had previously purchased in the rural area. This would be a simple problem if the relative prices of farm and nonfarm products were the same in the rural and urban locations, but relative prices of farm and nonfarm goods likely will differ in rural and urban locations. If relative prices in the two locations differ, a migrant would not purchase the same quantities of goods and services in the urban location as he purchased in the rural location even though he had just enough income to purchase the same quantity of goods and services. In an urban location the prices of nonfarm products would be relatively lower than in a rural location and the prices of farm products would be relatively higher. Under these price conditions, a migrant to an urban area would be

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<sup>4</sup>See Stigler, G. J., *Theory of Price*, Macmillan Company, New York, 1954, pp. 87-91.

expected to purchase more nonfarm products and less farm products than he purchased as a farm resident. In doing so, he could attain a higher level of utility than he would if he purchased the same combination of goods that he purchased in the rural location. Therefore, this method of estimating differences in costs of living overestimates the amount of income that will be required to provide an incentive for transfer of labor from farm to nonfarm employment.

An alternative method of estimating the amount of income necessary to provide the same level of living in urban as in rural areas is to estimate the income that would be required in rural locations to purchase the same quantity of goods and services as are purchased by urban residents. Again, the problem is complicated by differences in relative prices of farm and nonfarm products in the two locations, which would result in changes in consumption patterns. Pricing of the goods and services consumed in urban locations in terms of the prices existing in rural locations underestimates the amount of income that would be needed by a migrant to attain the same level of living as he had in the rural location.

If prices differ in two locations, money incomes must be reduced to an equivalent basis in order to estimate income needed to maintain a particular level of living. This, we have seen, is a difficult problem. It is further complicated by the fact that the extent to which purchases of farm and nonfarm products are changed in response to price changes varies among individuals. Hence, the degree of error in using the above methods of estimating incomes needed in urban areas to attain the same level of living as in a rural area will vary among individuals.

In spite of the weaknesses of cost-of-living indexes, a great deal more work is needed in this area. More work is needed in the construction of budgets for specific quantities of goods and services purchased by representative families. Also needed are studies of the experiences and consumption patterns of migrants who have roughly comparable purchasing power in urban areas as they possessed in rural areas. Such studies should also provide insights into the changes that take place in preference functions after migration. These are problem areas in which interregional research should be especially beneficial.

Insofar as money incomes are concerned, two other adjustments are necessary in establishing actuarial equivalence of incomes. Resource use decisions should be based on net returns for resource services. Any transfer costs of migration and other additional costs of changing occupations must be considered if returns in alternative uses are to be comparable.

Actuarial equivalence is especially difficult to establish in the case of decisions to increase investment in the human agent. The number of income periods and the distribution of income over time must be considered. A person would not be expected to invest in increasing the productivity of his labor unless the difference between the present discounted value of his expected earnings after investment and the present discounted value of his earnings without the investment exceeds the amount

of the investment. This brings up a point which should be stressed. Actions taken in the labor market are not independent of conditions in the capital market. The labor market transmits information with respect to the returns for labor services. Decisions regarding investment in the human agent, however, must be concerned with the price of capital and the opportunity return from alternative uses of capital. As the productivity of labor depends upon the amount of capital combined with labor, capital and the labor markets are directly linked. Capital must be available to provide farm labor with the training and skills needed in nonfarm employment and to finance migration to nonfarm employment. The problem is complicated by the fact that families with low productivity labor in agriculture have less capital to finance changes in labor use than families which are already employing labor in its most productive uses. In fact, one reason for the low productivity of labor is the small amount of capital used per worker.

Another major consideration in labor use decisions is the fact that the degree of risk associated with some occupational choices is greater than with others. The importance of risk in labor use depends upon the degree of risk associated with choices and the value of additional income to individuals. Friedman and Savage have pointed out possible effects of risk for individuals placing different values on additional income and have indicated certain conditions under which resource use of low-income families would be highly stable as compared with resource use of high-income families.<sup>5</sup>

#### NONPECUNIARY ASPECTS OF EMPLOYMENT DECISIONS

Another complicating factor in the problem of occupational choice is the fact that migration and occupational decisions are based upon levels of utility and that these include nonmonetary components as well as monetary components. Information transmitted in the labor market, therefore, must concern the total bundle of conditions, cultural factors, and other so-called sociological conditions, as well as money returns. An individual may be unable to attain the same level of utility in urban as in rural locations even if he purchases the same quantities of goods and services. The whole cultural complex may differ among communities, resulting in differences in community status, and, consequently, in levels of utility even when the same bundle of goods is consumed.

Marshall called attention to the fact that since labor must be delivered by the seller, nonpecuniary considerations are likely to be more important in the choice of uses for labor than for other resources. The prospective migrant must be informed of the conditions existing in urban employment and urban life if he is to make rational decisions in regard to labor use. Again, by analyzing the experiences of migrants, we may

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<sup>5</sup>Friedman, M., and Savage, L. J., "The utility analysis of choice involving risk," *Jour. Polit. Econ.*, Vol. 56, pp. 279-304.

be able to improve our theory and to provide more adequate information for migration decisions.

### CURRENT LABOR MARKET INFORMATION

Employment services have been created to improve the operation of the labor market. The Employment Service Division of the U. S. Department of Labor provides labor market information on employment conditions throughout the United States. Interoffice and interstate communication systems enable the employment service to act quickly in transmitting information relative to job opportunities from one office or area to another. Most industrial areas in each state are canvassed monthly to determine trends in the labor market. Changes in employment during recent months are noted, and employment during the next few months is projected. The number of jobless people in each area also is estimated. In the event that an industry needs employees, the employment service advertises through the press, the radio, and television in an effort to provide this information to prospective employees.

The employment service disseminates much of the information currently available concerning labor market conditions. It provides information on employer, the location of the job, the hours of work, rate of pay, expected duration of employment, and location and characteristics of the job, whether it involves union membership, the terms of transportation to the job, and general living conditions in the area in which the job is located. The occupational title and number of openings are also specified. Under the heading of "living conditions," housing accommodations and costs in the vicinity of the job are indicated. Other information on costs of living and on sociological conditions are not provided.

The employment service does not have a current detailed file of job opportunities in each area. Such a file would be very expensive to maintain, and it is questionable whether the additional gains would exceed the additional costs. Some people are of the opinion that the volume of long-distance migration is not sufficient to warrant maintaining an active file on job opportunities in distant areas. More information on the distance mobility and occupational mobility of farm people is needed as a basis for determining the types of labor market information that are likely to be most useful in making occupational choices.

The continued stream of migrants from low-income agricultural areas to nonfarm areas is evidence that the labor market is functioning to transfer labor in the direction that would be expected on the basis of returns for labor services. On the other hand, the fact that the return for labor services in low-income areas continues to be much less than the return for labor services in other areas suggests that improvement is needed in transmitting labor market information. There is other evidence of lack of knowledge with respect to labor market conditions. For example, prospective employers invariably find that the quantity of labor available for employment in a plant located in a low-income agricultural

area is substantially greater than had been estimated prior to location in the area. Estimates of the supply of labor probably are even less accurate than estimates of the supply of farm products. More household analysis is needed to obtain a better understanding of the supply of labor.

More accurate information with respect to labor market conditions also is needed by rural people if the labor market is to function efficiently. For example, a study in North Carolina indicates that during 1950, when nonfarm employment opportunities were expanding rapidly as a result of the Korean War, only 2 percent of the adult members of farm-operator families living on low-production farms in the Southern Piedmont area of the state attempted to obtain nonfarm employment through local employment service offices. In 1951, however, after being questioned in a survey about their visits to local employment offices, persons from 15 percent of the families attempted to obtain nonfarm employment, and approximately 10 percent of the families transferred to nonfarm employment during that year.

Smith provides even more striking evidence of the malfunctioning of the labor market in transmitting accurate information in regard to job opportunities.<sup>6</sup> In a study of recent migrants to Indianapolis, he found that only 13 percent of the Negro migrants to Indianapolis had accurate information on availability and nature of employment prior to migration. Seventy-six percent of them reported that they obtained employment more easily than they had anticipated, and 11 percent had more difficulty than they had anticipated. Twenty-eight percent of the Southern whites possessed accurate information on the nature and availability of employment prior to migration, compared with 54 percent who encountered less difficulty than they had expected, and 8 percent who encountered more difficulty. A higher percentage of the Northern whites (55 percent) had accurate information, indicating that proximity to employment influences the accuracy of labor market information.

Figures such as these lead us to believe that the rate of migration from agriculture would have been higher if farm people had more accurate information in regard to the nature and availability of employment. Unfortunately, such a conclusion is not warranted. In spite of the fact that most of the migrants had encountered less difficulty in obtaining employment than they had anticipated, Smith found that 44 percent of them "were dissatisfied to the extent that they were hoping or actively planning to return to farming."<sup>7</sup>

It is doubtful, of course, if such a high percentage of the migrants will return to farming. On the other hand, the fact that they were dissatisfied indicates that their expectations with respect to urban employment have not been realized.

The operation of the labor market in transferring labor from farm

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<sup>6</sup>Smith, Elton D., "Nonfarm employment information for rural people," *Jour. Farm Econ.*, Vol. 38, pp. 813-27.

<sup>7</sup>*Ibid.*, p. 820.

to nonfarm occupations can be improved through closer coordination of the agencies working in the labor market area to provide better data with respect to costs of living, living conditions in urban areas, problems in urban adjustments, and through improved screening and advising of migrants. It would be interesting to know the percentage of migrants that seek the counsel of employment agencies in making migration decisions and that are resettled in urban areas with the guidance of social welfare organizations. The work of these agencies currently is hampered by the opposition of those who think they will suffer losses as a result of migration. Economists can help to provide a more objective attitude toward migration through study of the mobility potential of farm people and through analysis of the potential effects of large scale emigration and immigration.

Providing information relative to investment in the human agent is another area in which the labor market performs very poorly. Long-term decisions, such as those involving investment in the human agent, probably are based on even less accurate information than current occupational choices. Very little research information is available concerning returns from investment in the human agent. We need only look at our colleges and universities to see how poorly information currently is transmitted to students in regard to potential costs and returns from various occupations. The extremely high proportion of engineering students who are unable to meet the requirements for degrees currently is a cause for great concern in most of our land-grant colleges.

We need more information on the productive capacity of rural people. The work of D. Gale Johnson suggests that the nonfarm labor capacity of farm people is about 90 percent of the earning capacity of urban residents.<sup>8</sup> Work at North Carolina suggests that nonfarm earnings of farm and nonfarm residents are about equal after farm residents have as much as five years of nonfarm employment experience.<sup>9</sup> Both of these studies represent crude estimates and more refined studies are needed to determine the mobility potential of farm people and to provide a better basis for investment decisions.

We also need to conduct studies to determine the employment potential in agriculture. Very little information is available on the demand for people trained in agriculture. Most studies have stopped after pointing out that additional labor needs to be transferred from farm to nonfarm employment. We know that there is more labor on farms than can be employed in agriculture at rates of return approximately equal to the earnings of comparable labor in nonfarm employment. Policy makers and industrial employers want to know how much labor needs to be transferred from agriculture to equalize returns.

Since long-run forces determine income possibilities in farm and

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<sup>8</sup>Johnson, D. Gale, "Comparability of labor capacities of farm and nonfarm labor," *Amer. Econ. Rev.*, Vol. 43, June, 1953, pp. 296-314.

<sup>9</sup>Bishop, C. E., and Sutherland, J. G., "Resource use and incomes of families on small farms," *N. C. Agr. Exp. Sta. A. E. Series 30*, 1953, p. 35.

nonfarm occupations, we need to provide reliable outlook information to farm youth as a basis for occupational choice. Information is needed relative to the number of people who can expect to earn incomes in agriculture equal to or greater than they can earn in industry. Broad aggregate data will not be sufficient. The types and sizes of farms and the amount of capital required to develop an efficient agriculture must be spelled out in sufficient detail for use by professional agricultural workers and by individual farmers in local economic development.

The labor market faces a difficult task during the next decade. The demand for farm products will not expand fast enough relative to the supply to cause strong upward pressure on the prices of farm products. This situation will provide a continued incentive for transfer of labor from farm to nonfarm employment. Local industrial development will not take place at a sufficiently high rate to reduce greatly the need for long-distance migration of labor. The labor market will continuously face the problem of large-scale resource transfers to bring together jobs and labor in a manner consistent with realization of the economic potential of the nation.



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## *Discussion*

**P**ROFESSOR BISHOP has done a thorough job of setting forth the conceptual aspect of the labor market, spelling out the information needed by the potential migrant, and indicating the problems of providing this information.

The decrease in the number of agricultural workers from 10,890,000 in June, 1940, to 7,876,000 in June, 1956, is significant evidence that the labor market is functioning. However, in spite of this large outflow, agriculture finds itself with more labor than is needed.

How can the functioning of the labor market be made more effective in transferring still more of the labor resource out of agriculture?

The most formalized machinery through which the labor market functions is the employment services. Two other important informal media are, first, the communicative services such as newspapers, radio, and television, and second, information transmitted through relatives and friends who have migrated.

To learn if the employment services could be of more assistance I contacted the research director of the Ohio Employment Service to find out how the public employment agency is organized and functions. The basic approach is similar in most states. In each state the employment service is state administered but federally financed. It is primarily organized to process claims for unemployment compensation, to take applications for employment, and to provide information on employment opportunities and the labor supply. The establishment of a local office of the service depends primarily upon the number of claims for unemployment compensation. Since agricultural labor is not eligible for unemployment compensation, full-time or part-time offices are seldom situated in counties that are predominately farm. The exception to this is that some offices are established to service farm employers of labor or agricultural processors, such as canneries. The funds for this type of service, provided by Congress to recruit and supply labor for agriculture, were formerly administered by the Department of Agriculture. Currently, they are administered through the Department of Labor. The objective of this service is to provide labor for agriculture and not to draw labor out of agriculture. Viewed from the standpoint of the individual farmer this is a desirable service. Viewed from the economy

as a whole it may be considered as an obstacle to the draining off of surplus labor from agriculture; at least it is not a positive force.

The typical local employment office designed to handle unemployment claims and requests for employment information is generally staffed by local people. The person in charge in most offices is paid \$300 or less per month, which seldom is enough to attract the level of ability needed to obtain and handle essential information and to counsel effectively with potential migrants. Offices rarely engage in active recruiting because of the attitude of local employers, merchants, and other vested interests. This attitude of the local interests, stemming from fear of a decline in labor supply and an increase in wage rates, a shrink in consumers and a loss of political constituency, generally prevents the local office from conducting recruitment programs that might cause adverse reaction. Consequently, the offices usually only receive applications from potential migrants. Few farm people, as Bishop pointed out, approach an employment service until stimulated by some means to do so. However, studies indicate that once stimulated, increased numbers avail themselves of the services.

A thorough study of the functioning of state and local employment services from the viewpoint of increasing their effectiveness in equating the labor market would, I am certain, uncover much that could be done. A few of the more evident possibilities gleaned from my hasty exploration of operating procedure, along with the suggestions made by Bishop on information needed for aiding the potential migrant to arrive at a decision, are: (1) establishment of more offices in rural areas, (2) better paid professionally trained personnel, (3) more complete information of the type needed to help local potential migrants arrive at sound decisions, and (4) greater freedom from local influences in the conduct of an educational program as to employment opportunities. If the objective is primarily to draw off enough of the labor resource to improve significantly the supply-demand balance in agriculture as rapidly as possible, maximum progress is most likely to be made if the added offices are confined to the more productive agricultural areas. If the objective is primarily to solve the low-income problem of many rural areas and the added offices are situated in such areas, it is highly questionable if the total agricultural production will be reduced. Instead some actual increase may result through more effective farming by those who remain.