

MAINE DEPARTMENT OF LABOR

Center for Workforce
Research and Information

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Adjusted statewide unemployment rate decreased from 8.2% to 8.0%.....page 4

Nonfarm employment declined by 19,300 over the year.....page 6

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the*

MAINE DEPARTMENT OF LABOR
Center for Workforce
Research and Information

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*The Maine Department
of Labor provides equal
opportunity employment and
programs. Auxiliary aids and
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LABOR MARKET DIGEST

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Changing the Fortunes of America's Workforce: A Human Capital Challenge

In a recent report titled *Changing the Fortunes of America's Workforce: A Human Capital Challenge*, the McKinsey Global Institute examines possible causes of rising income inequality in the United States from 1991 to 2005. During that period inflation-adjusted incomes of the highest earners advanced, those in the middle increased slowly, and those at the bottom were little changed. The report attempts to estimate the contribution of fundamental changes in the economy's mix of industries and occupations to rising income dispersion.

The study found that growth in labor income, which accounts for 75 to 85 percent of household pretax income, was the most significant source of diverging rates of household income growth and that understanding the patchwork of the labor market is the key to understanding diverging rates of income growth.

The report examines eight clusters of industry/occupation pairs of jobs in which employees experienced similar income levels, income growth, and employment growth over the period. The analysis reveals that 71 percent of U.S. workers are in jobs for which there has been a decrease in demand from employers, an increase in supply of eligible workers, or both. Those workers posted much slower income growth than those in

jobs for which there has been an increase in employer demand or decrease in worker supply.

Incomes and employment for the top-earning 22 percent of workers grew fast, mostly because new technologies and new opportunities in global markets ramped up demand for advanced skills. Education played a critical role in giving workers access to higher-earning job clusters. An undersupply of workers with the skills to fill the kinds of jobs fostered by new technologies in more complex organizations helped people with those skills gain income premiums. Having the appropriate education or training is the ticket to higher earnings.

The analysis showed that migration and declining unionization depressed compensation for labor in manual, repetitive and administrative support jobs in the lowest-earning clusters across all industries. At a deeper structural level, global economic integration and technological advances combined to produce permanent changes in skill requirements. The challenge raised by the 27 percent of workers in jobs where demand and incomes are both falling is to equip them with skills relevant to sectors that are growing.

The report concludes that unless our human capital is developed, the nation risks persisting income inequality, with lower income clusters never benefiting from the recovery, but notes

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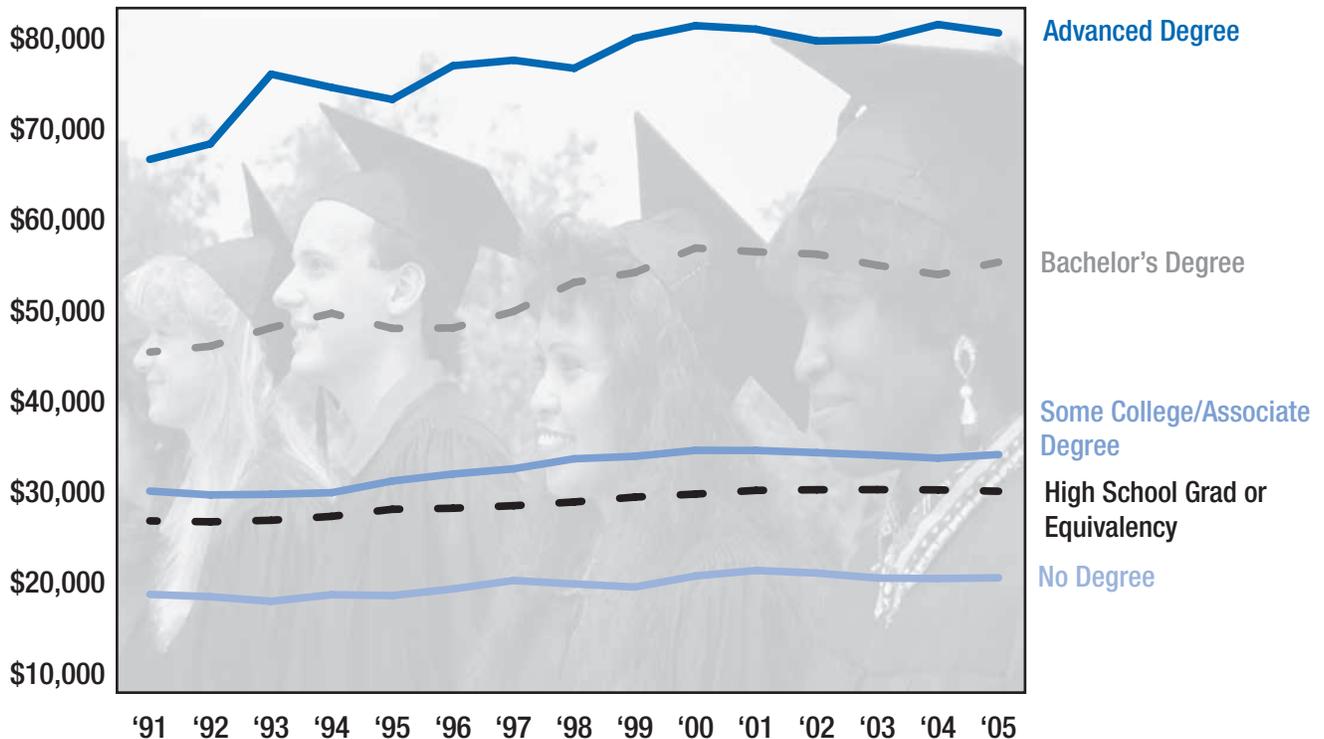
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that the U.S. met a similar challenge a century ago as we transitioned from an agriculture-based to industrial economy. The key to success of that transition was a transformation of our educational system; our priority now should be to upgrade the skills of our workforce as rapidly as possible.

The report is available at www.mckinsey.com/mgi/publications/changing_fortunes/.

Inflation-adjusted average earnings of U.S. workers have increased fastest among those with bachelor's and advanced degrees

(in 2005 dollars)



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