ECONOMIC SCENE

Bush and Kerry are talking about good jobs versus bad jobs. A lot of workers just want to know what the average pay is.

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THE job quality debate is heating up again. Democrats led by John Kerry argue that the modest job growth of the last year has been concentrated in bad jobs. Republicans, led by the Bush administration, counter that good jobs are being created.

To evaluate these arguments -- especially at a time when wages are growing slowly -- one needs a clear definition of a good job. Confusion over the definition has led to much debate over the facts.

Neoclassical economics hardly recognizes a distinction between good jobs and bad ones. All workers are supposed to be in jobs that reward them appropriately for their performance, which depends on their skills and effort. Supply and demand for workers determine their appropriate pay, benefits and working conditions, and there is little else to say.

In this view, all jobs are good jobs, because pay is based on merit. There are good and bad workers, which is why pay varies, but not good and bad jobs.

If an employer offered more than the prevailing wage and benefits for a job, he or she would be besieged by a queue of willing workers who would bid the wage down to the competitive level. Any profit-maximizing employer would not pay more than is necessary, so competitive pressures should eliminate unusually good jobs.

Another school of thought, dating back at least to Sumner Slicter and other institutional labor economists of the 1940's, rejects the notion that the labor market is as competitive as the neoclassicists presume. Instead, they argue that some companies pay higher wages than others for equivalent workers because unions restrict competition, or because managers find it desirable to share profits with workers, or because paying relatively high wages increases worker productivity and loyalty.

The labor market differs from other markets because the item being exchanged -- labor -- has an independent will. Pay plays a dual role: it motivates workers, as well as balances supply and demand. If workers do not believe that they are treated fairly or paid adequately, they are prone to shirk.

Furthermore, some employers have "monopsony" power over workers, meaning that they can pay less than the competitive amount without losing their work force. Economists used to think that monopsony power went out with company towns, but an expanding line of research, thoroughly summarized in a recent book by Alan Manning called "Monopsony in Motion" (Princeton University Press, 2003), shows that monopsony power can exist even when there are many employers in a market, if workers are immobile or imperfectly informed about alternative job offerings.

Modern labor economics is an uneasy blend of these schools of thought.

A workable definition of a good job, therefore, is a job that offers more than the prevailing wage and benefits to a worker of a given skill level. Consider two companies that employ janitors to do the same work in the same locale. With perfect competition, they must be paid the same. But many labor economists would be surprised if one job did not pay more than the other.

The research on good and bad jobs focuses primarily on union jobs, various industry sectors and large companies. There is little question that union jobs pay more than the going rate for workers of a given skill level. Union jobs have been dwindling for decades, however. Only 13 percent of the work force were union members in 2003, down from 20 percent in 1983.

Research on differences in pay and benefits across industries finds that workers who switch industries -- but stay in the same occupation -- receive higher pay if they move from low-paying industries, like restaurants and gasoline stations, to high-paying ones, like autos, construction or finance. A janitor at a financial services firm, for example, is typically paid more than a janitor at a fast-food restaurant across the street.

Furthermore, the high-paying industries today were also high-paying industries in the past.

So changes in the distribution of employment across industries yield some information about the growth in good jobs. Alan Greenspan, the Federal Reserve chairman, aptly summarized the recent trends as pointing to a "slight shift toward industries with lower average earnings, but at the same time an upgrading within the industries with respect to occupations."

From June 2003 to June 2004, by my calculation, these two shifts have essentially canceled out. But one could argue that occupation is more reflective of worker skills than of job quality. Even if McDonald's hires more accountants, it is of little solace to a janitor at McDonald's who is hoping to get a better-paying job as a janitor at Citibank.

Industry shifts are a more relevant measure of how the job mix has changed for workers with a constant set of skills. Looked at by industry alone, the job shifts in the last three years would be expected to depress the average wage by a modest 0.5 percent.

Still, industry shifts only indirectly measure the quality of new jobs. Industry is used as a proxy because there is no registry of the pay in jobs that are being gained and lost.

The job quality debate also misses the important point that changes in pay and benefits for workers in continuing jobs swamp any impact of job shifts when it comes to workers' living standards. In any year, relatively few workers change industry or occupation. Indeed, 88 percent of workers had only one employer over the course of 2002, let alone made a change in industry.

The most relevant measure of worker well-being is undoubtedly the actual wage paid, which reflects developments in new and continuing jobs. Here, the trends are consistent across data sources: wage growth slowed over the last few years, especially after taking account of inflation.

The average real hourly wage of production and nonsupervisory workers, who make up 80 percent of the private work force, actually fell over the last 12 months; the increase in the wage rate was one percentage point less than the inflation rate. No Olympic judge would give high marks to such sluggish wage growth, although the healthy wage growth during the 2001 recession deserves honorable mention.

So why is there a job quality debate?

Apart from obvious partisan attempts to characterize the job growth numbers, to some extent the debate goes to the heart of the major economic policy issues of the 20th century. If the labor market corresponded to the competitive ideal, in which all jobs offered appropriate compensation based on workers' merit, there would be little need for civil rights legislation, unemployment benefits, safety and health regulation, the minimum wage, or Social Security. Expect the debate to continue.