When Does a Competitive Market Produce "Good" Flexibility?

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This presentation argues that the widespread belief that labor market flexibility invariably produces good economic outcomes and that competitive labor markets create ideal flexibility while institutions constrain optimal adjustments is erroneous. Like fat and cholesterol there is good and bad flexibility, both in terms of price changes and quantity changes. New establishment level data shows that the market-driven US labor system does not produce Invisible Hand market clearing and flexibility but rather has become balkanized, with large increases in the dispersion of earnings among establishments that seems to contribute to increasingly lengthy jobless recoveries. It appears as if the Invisible Hand needs some visible institutional help to produce good flexibility.