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WHITE-COLLAR JOBS

Has the decline of knowledge work begun?

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When Starbucks announced that it was laying off more than 1,000 corporate employees, it highlighted a disturbing trend for white-collar workers: Over the past few years, they have seen a steeper rise in unemployment than other groups, and slower wage growth.

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It also added fuel to a debate that has preoccupied economists for much of that time: Are the recent job losses merely a temporary development? Or do they signal something more ominous and irreversible?

After sitting below 4% for more than two years, the overall unemployment rate has topped that threshold since May.

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Economists say that the job market remains strong by historical standards and that much of the recent weakening appears connected to the economic impact of the pandemic. Companies hired aggressively amid surging demand, then shifted to layoffs once the Federal Reserve began raising interest rates. Many of these companies have sought to make their operations leaner under pressure from investors.

But amid rapid advances in artificial intelligence and President Donald Trump's targeting of federal agencies, which disproportionately support white-collar jobs, some wonder if a permanent decline for knowledge work has begun.

"We're seeing a meaningful transition in the way work is done in the white-collar world," said Carl Tannenbaum, the chief economist of Northern Trust. "I tell people a wave is coming."

To date, few industries epitomize the shift of the last few years better than the making of video games, which began a boom in 2020 as couch-bound Americans sought out new forms of home entertainment. The industry hired aggressively before reversing course and embarking on a period of layoffs. Thousands of video game workers lost jobs last year and the year before.

The scale of the job loss was such that the host of the Game Developers Choice Awards complained about "record layoffs" during her opening monologue in 2024. That same year, a unionization trend that had begun with lower-paid quality assurance testers spread to better-paid workers like game producers, designers and engineers at companies that make the hit games Fallout and World of Warcraft.

At Bethesda Game Studios, which is owned by Microsoft and makes Fallout, workers said they unionized partly because they were alarmed by rounds of layoffs at the company in 2023 and 2024 and felt that a union would give them leverage in a softening labor market.

"It was the first time that Bethesda had experienced layoffs in a very, very long time," said Taylor Welling, a producer at the studio. "That sort of scared a lot of people."

Microsoft declined to comment.

Unemployment in finance and related industries, while still low, increased by about a quarter from 2022 to 2024, as rising interest rates slowed demand for mortgages and companies sought to become leaner. On an earnings call last summer, the CEO of Wells Fargo noted that the company's "efficiency initiatives" had pruned the company's workforce for 16 straight quarters, including a nearly 50% reduction of workers in the company's home lending division since 2023.

Last fall, Wells Fargo laid off about one-quarter of the roughly 45 employees on its conduct management intake team, which reviews accusations of company misconduct against customers and employees. Heather Rolfes, a lawyer who was let go, said that she believed the company was seeking to save money by shrinking its U.S. workforce and that she and her colleagues were a tempting target because they had recently sought to unionize.

A Wells Fargo spokesperson said in a statement that the layoffs had nothing to do with the union and that "we regularly review and adjust staffing levels to align with market conditions." He noted that two managers on the team had also lost their jobs.

Atif Rafiq, the author of a book on corporate strategy who has held senior positions at McDonald's and Amazon, said many companies were seeking to emulate Amazon's model of building cross-functional teams that reduce barriers between workers with different expertise, like coding and marketing. In the process, they may discover redundancies and undertake layoffs.

In a memo announcing the layoffs at Starbucks, CEO Brian Niccol cited a goal of "removing layers and duplication and creating smaller, more nimble teams." Nissan offered a similar rationale for management cuts announced.

Overall, the latest data from the Federal Reserve Bank of New York show that the unemployment rate for college grads has risen 30% since bottoming out in September 2022 (to 2.6% from 2%), versus about 18% for all workers (to 4% from 3.4%). An analysis by Julia Pollak, chief economist of ZipRecruiter, shows that unemployment has been most elevated among those with bachelor's degrees or some college but no degree, while unemployment has been steady or falling at the very top and bottom of the education ladder — for those with advanced degrees or without a high school diploma.

Hiring rates have slowed more for jobs requiring a college degree than for other jobs, according to ADP Research, which studies the labor market.

Some economists say these trends may be short term in nature and little cause for concern on their own. Lawrence Katz, a labor economist at Harvard University, noted that the uptick in unemployment for college-educated workers was only modestly larger than the increase in unemployment overall and that unemployment for both groups remained low by historical measures.

Katz argued that slower growth in wages for upper-middle-class workers could simply reflect a discount that these workers effectively accepted in return for being able to work from home. Data from the liberal Economic Policy Institute shows that wages for workers in the 70th and 80th percentiles of the income distribution have grown more slowly than those of any other group since 2019.

But there are other signs that the returns on a college degree may have shifted over a longer period. The gap in wages between those with a college degree and those without one grew steadily beginning in 1980 but flattened during the past 15 years, though it remains high.

The flattening may partly reflect the fact that there are more college-educated workers for employers to choose from, as college attendance has increased. But some economists argue that it reflects employers' reduced need for college graduates — for example, fewer jobs like bookkeeping as information technology has become more sophisticated. Such jobs don't necessarily require a college degree but were often attractive to graduates because they once paid them a relatively high wage.

And artificial intelligence could reduce that need further by increasing the automation of white-collar jobs. A recent academic paper found that software developers who used an AI coding assistant improved a key measure of productivity by more than 25% and that the productivity gains appeared to be largest among the least experienced developers. The result suggested that adopting AI could reduce the wage premium enjoyed by more experienced coders, since it would erode their productivity advantages over novices.

Mert Demirer, a Massachusetts Institute of Technology economist who was a co-author of the paper, said in an interview that a software developer's job could change over the longer term so that the human coder became a kind of project manager overseeing multiple AI assistants. In that case, wages could rise as the human became more productive. And AI could end up expanding employment among coders if cheaper software led to even greater demand.

Still, many tech executives and their investors appear to see AI as a way to trim their staffing. A software engineer at a large tech company who declined to be named for fear of harming his job prospects said his team was about half the size it was last year and that he and his co-workers were expected to do roughly the same amount of work by relying on an AI assistant.

Overall, the unemployment rate in tech and related industries jumped by more than half from 2022 to 2024, to 4.4% from 2.9%.