JARGONALERT

Jobless Recovery

BY AARON STEELMAN

As recessions go, the most recent downturn was relatively mild. According to the National Bureau of Economic Research, it lasted just eight months—from March to November 2001—and during that time real gross domestic product (GDP) declined only modestly before picking up again. Indeed, there are signs that the economy is gaining steam: Preliminary data show that real GDP grew 8.2 percent in the third quarter of 2003. But there remains a dark cloud in this otherwise hopeful picture: the labor market. Employment growth has been unusually weak following the recession, leading some to dub this a "jobless recovery."

According to the payroll survey conducted by the Bureau of Labor Statistics (BLS), the U.S. economy has lost 2.8 million jobs since the recession began. Roughly 2.4 million of those losses have been in the manufacturing sector. The BLS conducts another employment survey, the household survey, which shows less severe losses. By that measure, 1.3 million jobs were lost during the recession, but more than 600,000 jobs have been added since.

ILLUSTRATION BY TIMOTHY COOK

Why the difference? The payroll survey asks companies how many employees they have, while the household survey asks people whether they have jobs. As a result, the household survey captures many single-person proprietorships that are left out of the payroll survey. And in a slow economy this can be particularly important. For instance, people who lose their jobs often find it desirable to work as consultants or independent contractors until more permanent positions become available.

Also, some observers have suggested that the household survey is more effective at accounting for newly created jobs at start-up companies. "In our dynamic economy, old firms die and new ones are born. The [BLS] learns about the deaths quickly, but it takes longer to learn about the births," argues Allan Meltzer, an economist at Carnegie Mellon University. This, no doubt, was true for past recoveries. But recent revisions to the payroll survey have likely improved its coverage of new businesses.

Overall, economists tend to prefer the payroll survey to the household survey. Its primary advantage lies in its larger sample size. The data in the payroll survey come from about 400,000 businesses, covering roughly a third of total nonfarm employment. In contrast, the household survey is based on data collected from about 60,000 households.

"Whatever the verdict regarding the relative reliability of the two surveys, their differences should not obscure the fact that the U.S. labor market has been weak," stated Ben Bernanke, a member of the Federal Reserve Board of Governors, in a November 2003 speech.

One factor contributing to recent labor-market weakness is common to almost all recoveries. Businesses are typically hesitant to hire new workers until they are sure the downturn is over because they don't want to be burdened with excess labor costs should the recovery prove fleeting. It's not unusual, for instance, to see a few quarters of GDP growth before some employers decide to increase their work force.

But this alone cannot account for the type of employment weakness we have seen recently. Consider a few other possibilities.

First, some have argued that increased benefits costs—especially health insurance costs—are deterring employers from taking on new workers. For instance, benefits costs rose more than 11 percent from September 2001 to September 2003, while wages and salaries grew at just 6 percent.

Second, political uncertainty may be playing a role. The terrorist attacks of Sept. 11, 2001, and the war in Iraq have made some employers hesitant to expand their operations.

Third, structural changes in the economy could be important. In particular, many of the manufacturing jobs that were lost during the recession may be gone for good. Employers saw the recession "not as an event to be weathered but as an opportunity—or even a mandate—to reorganize production permanently, close less efficient facilities, and cull staff," write economists Erica Groshen and Simon Potter of the Federal Reserve Bank of New York.

Fourth, productivity growth continues to be strong at around 4.5 percent per year, compared to a historical average of roughly 2.5 percent. In many ways, this is a huge boon to the economy. Over time, productivity growth boosts real incomes and leads to more efficient industries. But it also can mean that employers need less labor in the short run.

While there is no single explanation for the jobless recovery, increased productivity is quantitatively "probably the most important" factor, Bernanke concludes. **RF**