

Bad recession, bad recovery, bad trends

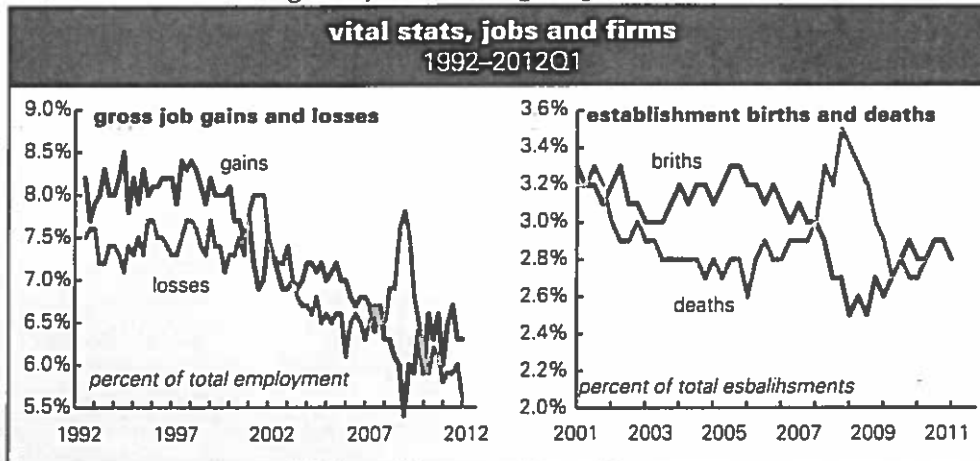
Despite more than three years of official recovery, it still feels like a recession. According to Sentier Research, a project of two Census Bureau alums who put out a monthly estimate of household income consistent with the yearly Census figures, real incomes fell 2.6% during the recession and another 11.4% in the first two years of the recovery—meaning that the early “recovery” hurt four times as much as recession. Income bottomed in August 2011, 26 months after the downturn’s official end, and rose 3.1% through December 2012 (the latest available)—good by modern standards, but after steep, persistent declines. Longer term, household incomes are almost 8% below where they were in 2000.

What’s produced this wretchedness? Sharp job losses, weak re-employment of the jobless, an excess of crappy jobs lately, all compounding nasty long-term trends.

Job losses during the Great Recession were massive. We lost 7.5 million jobs during the official downturn (December 2007–June 2009), and another 1.3 million through the employment trough in February 2010. Everything about that was unusual. In percentage terms, the 5.4% job loss during the recession was more than twice the post-1950 average, and the largest since the 1945 recession—but that was part of a war demobilization that was quickly reversed. And the recovery has been miserable. We’ve regained just over half the number of jobs lost. In an average post-World War II recovery, we’d have regained all the lost jobs inside a year and be well ahead by now. Had this recovery followed the average pattern, there’d be about 8 million more jobs than there are now. Instead of finding new jobs after a spell of unemployment, vast numbers of jobless have dropped out of the labor force.

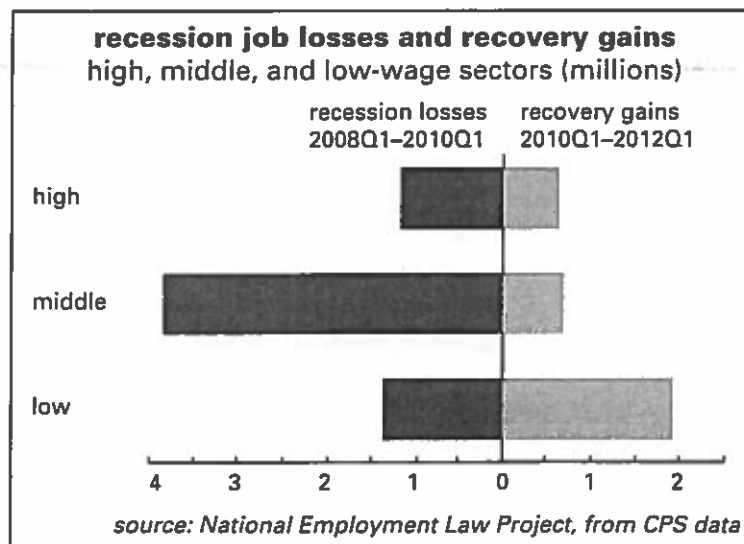
Vital stats. The employment contours of the last couple of decades could be periodized like this: after a weak beginning in the early 1990s, the job market had its best run in decades during the mid- and late-1990s. Employment peaked in early 2001, contracted into 2002, and then grew only modestly during the mid-2000s expansion. It then fell apart in the Great Recession and has recovered weakly since.

Though it’s not an obvious point until you make it, such ebbs and flows in the job market are the net result of many employer actions that create and destroy jobs. The Bureau of Labor Statistics publishes figures on gross gains and losses as part of their business employment dynamics program. For example, in the second quarter of 2012 (the most recent available), employers created 7.0 million new jobs and destroyed 6.4 million existing ones, for a net gain of 600,000. But that net gain was the result of over 13 million gross gains and losses.



As the employment dynamics graph shows, though, while the rate of gross job gains and losses in the 1990s stayed quite high, turnover fell sharply in the new century. The rate of job loss spiked, and of job creation collapsed, in 2008 and 2009, but lately both the gain and loss lines

recovered to very low levels compared to the 1990s. So far in the recovery, gross job gains remain below the worst levels of the 2001 recession. The only consolation is that the gross rate of job loss is near record lows. But if you add the gross gain and loss numbers together, you get a rate of overall turnover that is close to the lowest in the 20-year history of the series. In other words, the U.S. economy has lost a lot of its dynamism. Though this has often been a brutal place, the energy offered some compensation for the meanness—but now it’s mostly just mean.



Another sign of that is the slowdown in new business formation, graphed to the right of the employment dynamics history. The number of business failures (aka establishment deaths) soared during the Great Recession—and began rising before things fell apart—but has come down since. (The death line stops before the birth line because deaths take longer to confirm.) The birth line has recovered weakly, but remains below its mid-2000s levels (themselves below 1990s levels as measured by other surveys.) Births matter a lot for future job growth, because the most

vigorous hiring is done by young firms. The slow rate of business formation has a lot to do with why employment growth has been so weak.

Crappy recovery. What kind of jobs were lost in the recession and gained in the recovery? Losses were concentrated in the middle of the pay distribution, and gains have been concentrated at the low end, as the graph at the bottom of p. 3 shows. Nearly 4 million jobs in the middle of the distribution disappeared, but only about a quarter of them had been recovered by the beginning of 2012. The disparity was less dramatic at the high end—but at the low end, we've gained more jobs than were lost.

As a result, real hourly wages for the average “nonsupervisory” worker—about 80% of the private sector workforce—are down over 1% since the job market bottomed out in February 2010. It's likely that this is more a function of the changing mix of jobs—the weighting of the recovery towards the low end—than what's happening with the pay of individual workers who stay in the same job or field. In fact, just four exemplary low-wage sectors—retail, temp, leisure and hospitality (which includes hotels and restaurants)—are responsible for 41% of the gains in employment since February 2010, nearly twice their share of overall employment. Meanwhile, government, a decently paying sector, especially for nonelite/nonmale workers, has shrunk through the recovery, falling over 2%, with all levels from federal

down to local, showing negative signs. Of course, right-wing yahoos welcome the shrinkage of the public sector, but tell that to a laid-off teacher.

Longer term. These recent developments reinforce trends that have been grinding away since the 1970s. Graphed on p. 5 are long-wage wage and salary movements at various points in the distribution (drawn

from the Economic Policy Institute's *State of Working America* database). The first thing that stands out is how much more money workers at the 95th percentile make (i.e., those who make more than 94% of the employed population) than everyone else, and how their advantage has widened over time.

So great is that advantage—and so great its widening—that the scale of the graph makes it difficult to see what's going on below the penthouse level. A measure of the widening: in 1973, a worker at the 95th percentile made 3.8 times as much as one at the 20th and 2.4 times as much as one at the 50th. In 2011, those had swelled to 6.1 and 3.1 respectively. And these figures exclude investment income, which would make the disparity even wider, since the upper orders are the ones with most of the assets.

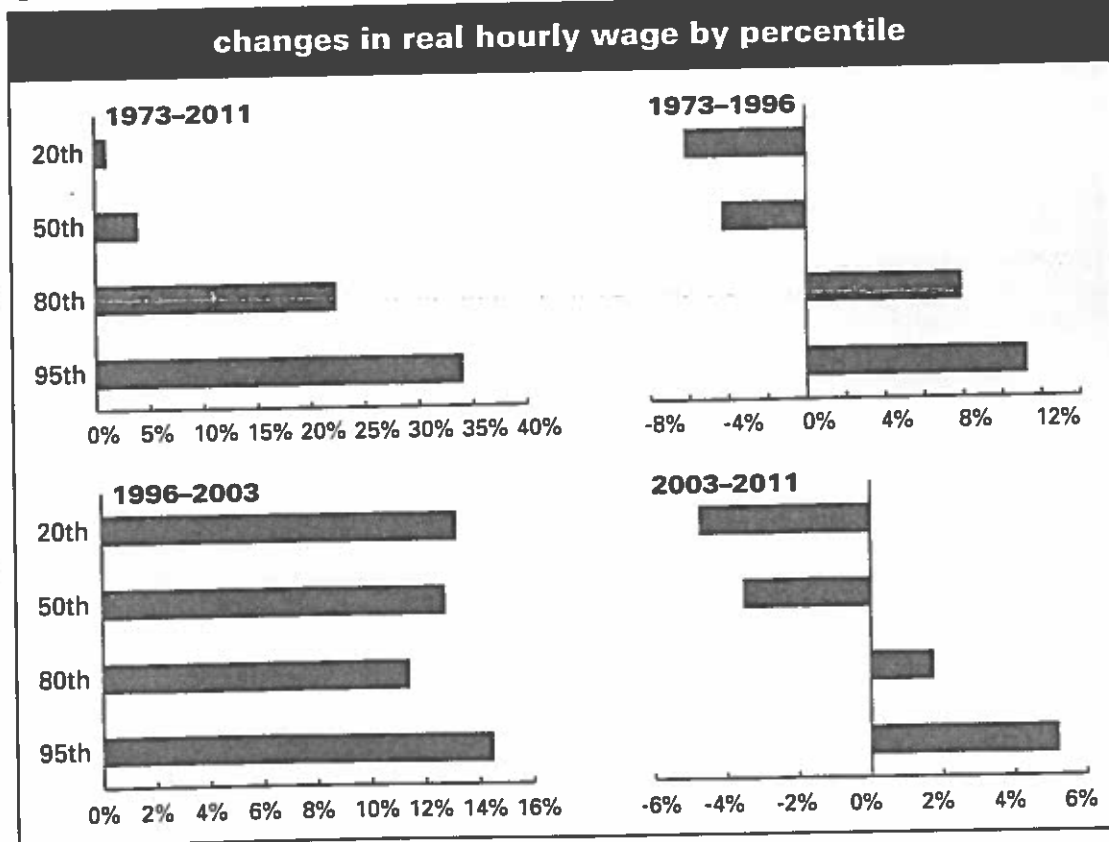
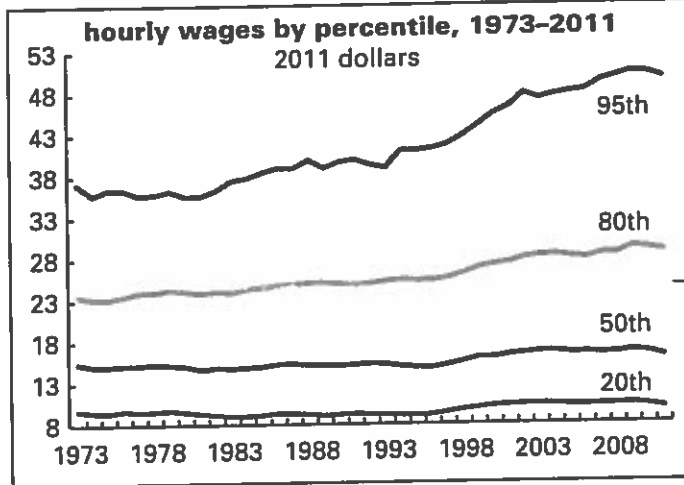
The graphs at the bottom of the page offer detail not so visible from the penthouse perspective.

As with all the income distribution figures, gains over the last few decades get bigger the further up the ladder you go.

With the exception of the 1996–2003 period, when there were strong across-the-board gains, the other periods have shown the usual staircase pattern: the higher the wage, the stronger the gain. (And the further you go below the median, the bigger the loss.)

The major reason for broad wage growth in the good years was an unusually tight labor market. Between 1996 and 2003, unemployment averaged 4.9%. For both other periods, it averaged 6.8%. It went briefly below 4% in 2000, a neighborhood it hadn't visited since 1970. When workers are in short supply, employers have to pay up. When

cont. on p. 7



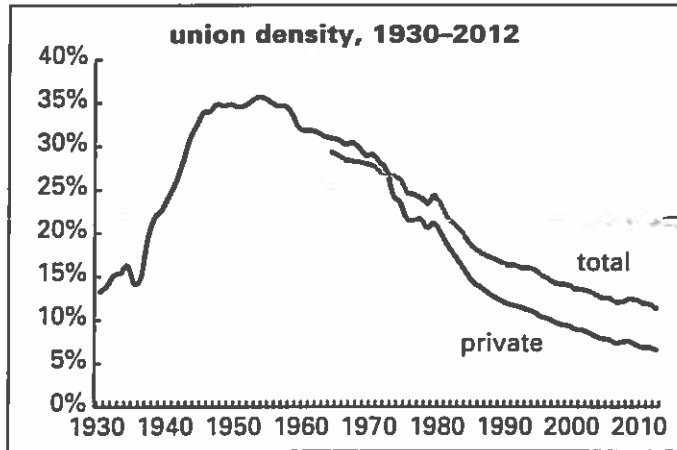
income etc. (cont. from p. 5) there's a glut, they don't. With the labor market as sick as it is now, employers aren't paying up.

Skilled evasion. But other things are driving these glum downward trends as well. The standard explanation for polarizing trends is "skill-biased technological change" (SBTC) meaning that high skill is rewarded and everyone else is falling behind in this flat world, where someone making a tenth as much as you is ready to steal your job (unless you're an investment banker). Relatedly, computers and related technologies are said to have increased the rewards for highly skilled jobs that use the gadgetry in non-routine ways, while simplifying the tasks required at lower levels, thereby depressing their pay. So, with cheap computing power, bankers can more easily craft complex derivatives and giant M&A deals that make them lots more money than they could in the pen and paper world—but workers in more modest jobs find themselves reduced to being, in Marx's great phrase, an appendage of flesh attached to a machine. First that trend hit the factory; now it's hit-

ting the office.

There are several problems with this story. One is that the wage polarization we've seen in the U.S. has happened in no other rich country. Canada comes close, a reflection no doubt of the immense gravitational pull of the U.S., but not Japan or

pational shifts can only explain half the increase in wage inequality since 1979. Some of the occupational changes over the decades are consistent with a reduction in inequality, but instead inequality increased. And that story pundits and politicians like about sending everyone to college to reduce inequality? There's actually been a deceleration in demand for college grads even as their supply has increased. The wage premium for having a bachelor's has barely risen since 2000. Word is that employers are looking for file clerks with BA's these days, so that's not doing much for the college wage premium.



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Mishel & Co. argue that much of the increase in polarization has reflected policy—tolerance of long periods of high unemployment, an eroded minimum wage (now worth in inflation-adjusted terms 16% less than what it was in 1956—see graph, p. 1), cheap imports killing domestic jobs, financialization (a point that the EPI authors don't elaborate, but were they inclined to use bold language, would mean a massive shift in income away from labor and towards capital), and the erosion of unions (see graph, p. 7). These things can be changed by people, acting through politics. Blaming SBTC is to locate the problem of the rich getting richer and everyone else just limping along at best somewhere outside human agency, which is right where the status quo likes it. □

the major European countries (including market-friendly Britain). And recent work by Lawrence Mishel, John Schmitt, and Heidi Shierholz of the Economic Policy Institute casts further doubt on this standard account. Those accounts of a rising return to skill have to cope with the fact that "occupational upgrading (shrinkage of middle-wage occupations and a corresponding expansion of high-wage occupations) has been an ongoing process for at least six decades, including ones where wage inequality declined and median real wages grew." They also find that occu-

Chart details, facing page: Fed funds, 10-year note, and money supply: Fed data. The fed funds rate is the interest rate banks charge each other for overnight loans; it is the most sensitive indicator of Fed policy. The 10-year note is the average interest rate for Treasury securities maturing in ten years. Dollar indexes are two of the Fed's indexes of the dollar's value, "broad" is composed of 26 currencies, and the "major," of seven. Data through 3/1/13.

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