

Economics Group

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Employment: Skills and Policy Issues—Beyond Stimulus

September job losses of 190,000 combined with higher unemployment and low confidence suggest consumer spending will lag. Under the headlines are issues of structural change and policy disincentives.

Employment Lags Recovery—Jobless Recovery Persists for Now

Over recent economic recoveries, job gains have lagged and this cycle is no different. This pattern will last for the rest of 2009 and persist into spring of next year—especially for private sector jobs. That is the cyclical story, but underlying this cyclical pattern are two themes that go unsaid because the issues make hash of conventional wisdom.

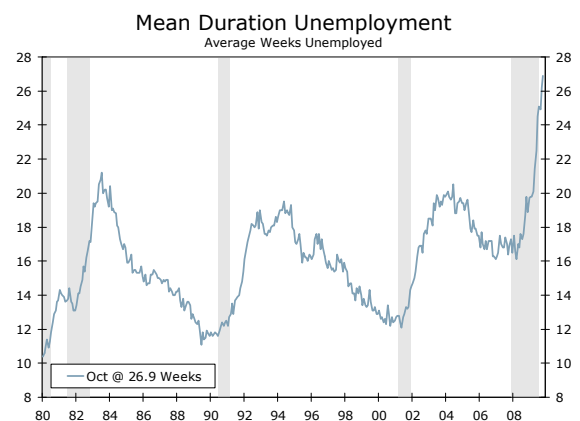
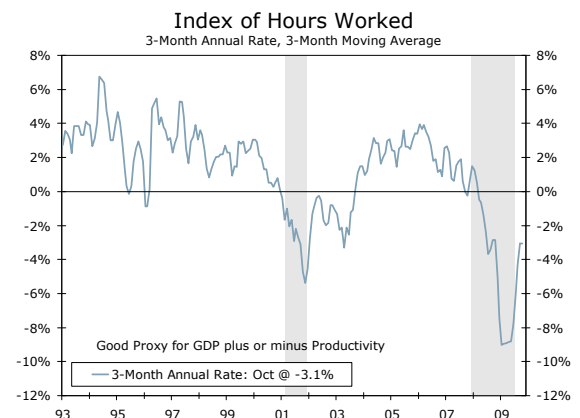
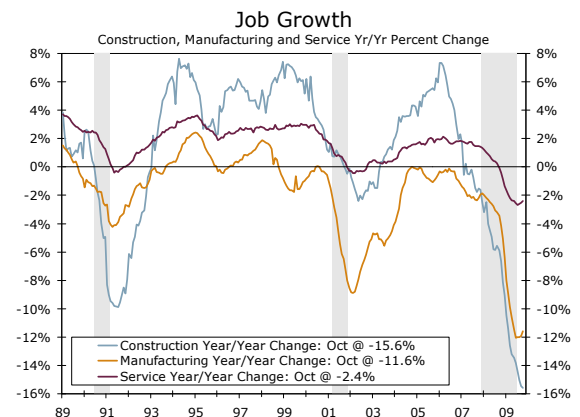
Over the last three months there has been a clear upturn in private sector employment as illustrated by the top graph. This turn has reflected improvement in the service sector. Moreover, sector differences have become more pronounced as manufacturing and construction sectors are down more than 10 percent. Slower job growth has been associated with slower wage gains and shorter hours so that earned income growth, and therefore consumer spending remains weaker than would typically be seen in recovery.

Workweek and Overtime Signals Cyclical Turn

Improvements in the average workweek in manufacturing and overtime suggest a turn in the cyclical forces on employment. In addition, the index of hours worked is close to a bottom and this is consistent with gains in total output. These improvements are solid signals that there is a recovery in place. Unfortunately, the levels of each series is also consistent with a modest gain in the economy—not a boom. The difference in the index of hours worked in the middle graph makes this very clear. This index illustrates the turn but remains far below the two percent plus index associated with the expansions of the 1990s and 2000s. Another interesting twist is that perhaps, with the outsized gains in productivity reported this week, hours worked will continue to lag prior recoveries as firms meet output goals through greater productivity than in worker hours.

Secular Breaks, Ominous Secular Change

In recent years, permanent layoffs have surpassed temporary layoffs and this is reflected in the rapid rise in the mean duration of unemployment. In addition, the disparity of unemployment by education levels signals that the demand of employers for more highly educated workers does not fit well with the available supply of workers. Current policy initiatives have perverse economic effects. Health care mandates will likely raise the cost of labor and thereby discourage hiring. Second, the increase in the minimum wage has clearly negatively impacted hiring teenage workers evident in the recent increase in teenage unemployment rates. Cap-and-trade will likely increase the cost of energy and transportation for employers and thereby reduce any funds left to hire workers. At present, the uncertainty about potential fiscal policies is more than offsetting any positive impact on jobs from the fiscal stimulus.



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