



Economics Group

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Contrary to Myth, Early Recoveries are Typically “Jobless”

Jobless recoveries are not unusual, in fact, they are the norm. In addition, the decline in blue-collar jobs has been a secular theme since at least 1983. Finally, labor force growth has slowed over the last forty years.

Long-term Labor Market Trends: Hard Realities

Pro-cyclical fiscal and monetary policies face an uphill battle in overcoming secular trends to stimulate job growth in the years ahead. Our estimates are that job growth will resume in 2010, but the pace of gains, especially in the private sector, will likely be disappointing compared to prior recoveries and certainly voter expectations.

For example, in the top graph, we have plotted the difference in the growth rates of real gross domestic product and employment. What is immediately obvious is that economic growth outpaces employment gains in the early period of each recovery, making each recovery appear to be jobless. Commentators frequently suggest that this pattern emerged with the recovery that began in 2001, but actually job growth has lagged economic growth in each recovery since 1970.

Blue Collar America: Secular Change in the Labor Force

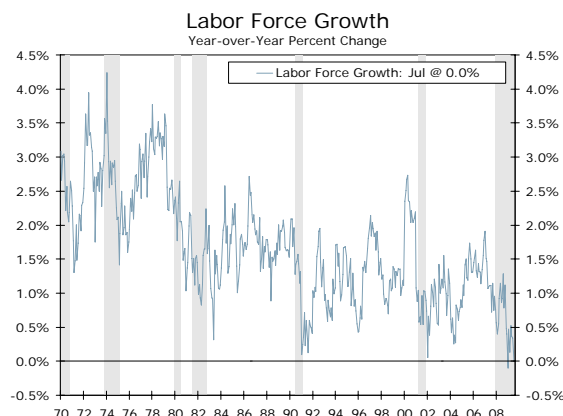
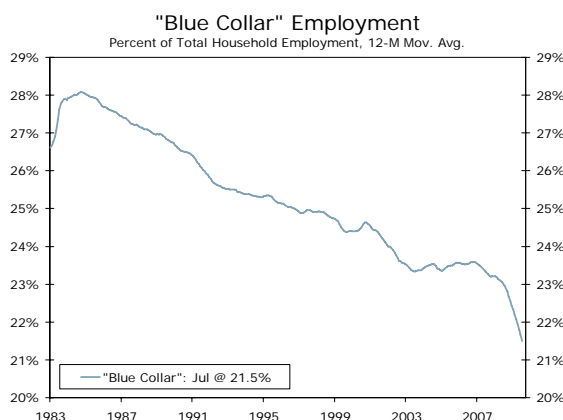
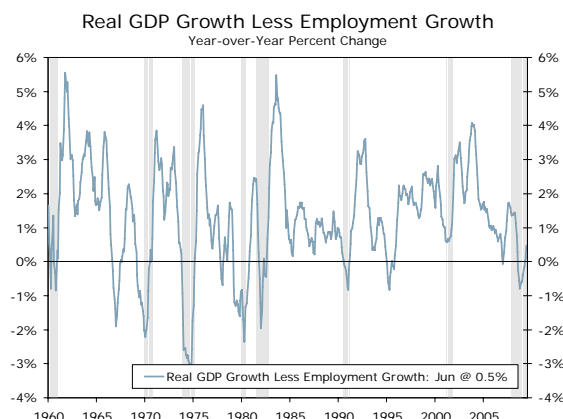
The blue collar composition of the American labor force continues a long-run decline (middle graph). Here, we follow the BLS definition of blue collar as: precision, production, craft, and repair occupations; machine operators, assemblers, and inspectors; transportation and material-moving occupations; and handlers, equipment cleaners, helpers, and laborers. This secular decline is the natural outgrowth of rising and continuing productivity gains in those same sectors. Continued improvements in the quality of capital and communications have generated output gains in manufacturing, for example, with fewer workers.

This secular pattern suggests that the American workforce is likely to become increasingly a service-oriented labor force with a strong bias toward rewards for greater education, computer literacy and a person-to-person service orientation.

Labor Force Growth: Ominous Secular Slowdown

Over the last forty years, there has been an irregular but relentless deceleration in labor force growth. Unfortunately, such a slowdown hints at a decline in labor's input to society's production function. Overtime this deceleration suggests a slower pace of potential growth and thereby greater limits on a society's ability to produce the goods and services that its members desire.

In fact, this pattern may help explain why the American economy has also been characterized by trade deficits and greater credit leverage, with a parallel dependence on borrowing from abroad to support a standard of living that cannot be supported given the labor supply. All of this suggests that the current dissonance in the economy and economic policy may reflect deeper issues in the realities of change in the labor market.



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