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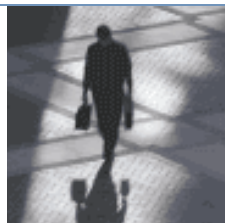
PAGE ONE

This Recovery Feels Like Recession: Economy Expands, Payrolls Shrink

By JON E. HILSENATH
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Economist Robert Hall has been puzzling over a thorny question for nearly a year: What do you call an economy that has started expanding again but keeps destroying jobs?

Mr. Hall heads a committee at the National Bureau of Economic Research, an academic group in Cambridge, Mass., that declares when U.S. recessions begin and end. In May of last year, Mr. Hall and his colleagues believed the latest recession might be over. Consumers were spending more and economic output was rising. All that the committee members needed to see was a few months of uninterrupted job growth to announce the end of the recession. "It seemed like the timing was imminent," he says.



LEFT BEHIND
Casualties
Of a Changing
Job Market

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But Mr. Hall is still waiting. Instead of expanding employment, companies are continuing to shed jobs at a furious pace -- 525,000 nonfarm payroll positions in the past three months alone. Since March 2001, when the recession began, the U.S. economy has lost 2.1 million jobs. The total number of people unemployed -- including discouraged workers who would prefer to work but have stopped looking -- is about 9.2 million. And the number of people who are working part time because they can't find full-time work is 4.8 million, up 46% since 2001, according to the Bureau of Labor Statistics.

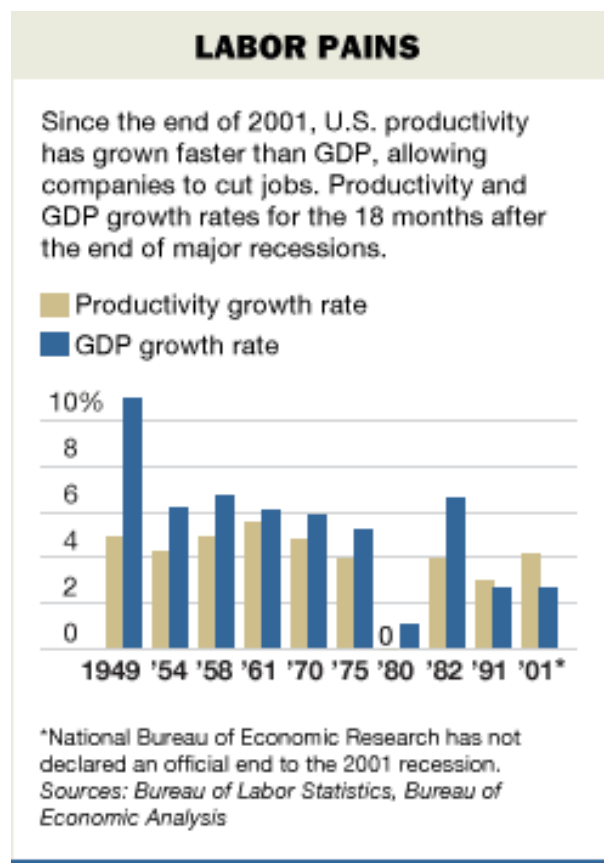
In short, the U.S. is experiencing the most protracted job-market downturn since the Great Depression. It has left behind a remarkably broad swath of workers -- from young to old, and from high-school dropouts to the highly educated -- even as the economy has started growing again.

Why is this happening? The labor market is in the midst of structural change, with numerous industries, from manufacturers to brokerage firms and airlines to hotels, adjusting to a new economic order after the boom of the late 1990s. Intensifying competition from abroad, slow growth at home and a relentless push for productivity are driving this change. What has surprised economists is not so much how harsh the

adjustment has been -- after all, the unemployment rate remains relatively low at 6% -- but how long it is taking to play out and how broadbased it has become.

Erica Groshen, a labor economist with the Federal Reserve Bank of New York, recently studied employment trends in 70 industries over the past 30 years. She found that the structural change is vast. "Before in a recession you had a lot of companies giving people temporary layoffs, saying, 'We'll call you back when we need you,'" she says. "That is not what firms do anymore."

During recessions in the 1970s and 1980s, about half of all jobs were in industries that tended to go through cyclical swings, Ms. Groshen says -- meaning laid-off workers would be called back. The other half experienced structural changes -- meaning jobs that were eliminated were never meant to come back. Ms. Groshen says this started to change in the 1990 recession and has intensified in this downturn. Today, she says, 75% of jobs are in industries going through structural change.



Payrolls in the electronics sector, and for producers of industrial equipment, have declined for 28 straight months. In communications, payrolls have fallen for 24 months. In the securities and airline industries, they have fallen in 16 of the past 24 months.

In some ways, this is the downside of a productivity boom that created much optimism about the economy during the 1990s. Productivity growth means that companies are squeezing more output from existing workers. Over the long run, most economists agree productivity growth is good for workers, because it tends to lead to higher wages. But in the short run, it is creating a problem. Worker productivity has been growing faster than the overall economy. That has allowed corporate executives to meet small increases in demand while still eliminating jobs.

"You end up with a jobless recovery," says Jared Bernstein, a labor economist with the Economic Policy Institute, a left-leaning think tank in Washington. "It is indistinguishable from recession for many working families."

A common definition for a recession is two consecutive quarters of contracting gross domestic product. The nation's GDP -- the broadest measure of economic output -- has expanded at an average annual rate of 2.7% since the fourth quarter of 2001. During the same period, the productivity of the nation's work force -- which is defined as its output per hour of work -- has expanded at a much faster rate of 4.2%. While worker productivity often increases in the early stages of a recovery, this time the mismatch between productivity and overall economic growth is unprecedented.

At the beginning of eight recoveries between 1948 and 1982, GDP grew faster than productivity. In those cases, companies had to add workers to meet demand for their goods and services. During the recovery of 1991, productivity grew slightly faster than output in the early stages, but the difference wasn't as stark as it is now.

"If you want people to have jobs, your demand-side growth has to be much stronger," says Harry Holzer, a labor economist at Georgetown University. The nation would need a 3.5% growth rate in GDP for the unemployment rate not to get worse, he says, but "3.5% is looking optimistic for this year. This might be quite a protracted downturn."

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Permanent job losses are also the result of the competition created by globalization, which has forced companies to cut positions in the U.S. and move them to places such as Mexico, China or India, where labor is much cheaper. "Before the 1991 recession, most people got their old jobs back," says Robert Reich, former Labor Department Secretary and now a

professor of economic and social issues at Brandeis

University. "After 1991, most people didn't get their old jobs back. Those jobs went abroad, or they were automated out of existence."

On April 15, **A.O. Smith Corp.**, a Milwaukee-based producer of electric motors, announced that its net earnings rose 13% in the first three months of the year from a year earlier, to \$13.7 million. A sign of economic recovery? Maybe. But five days earlier, the company told employees at its plant in McMinnville, Tenn., that it was eliminating 300 jobs there and moving production of motors for air-conditioning and ventilation systems to Juarez, Mexico. "The reason we're doing this is to improve our cost position," said Ed O'Connor, vice president of public affairs. "We have got to continue to be competitive."

These changes help to create a remarkable degree of dynamism in the economy, as workers find their way out of shrinking industries and into ones where jobs are available. Terri Brooks, 42 years old, and her daughter, Michelle Stauffer, 23, are making just such a shift. Both are production workers at a **Maytag Corp.** refrigeration plant in Galesburg, Ill. Stung by competition from China and Korea, Maytag is shutting the plant and moving its operations to Mexico. Ms. Stauffer, who works the night shift, will lose her job in July; Ms. Brooks will lose hers next year. So mother and daughter are taking classes part time at nearby Carl Sandberg College, where Ms. Brooks is training to be a medical secretary and her daughter is signed up to become a dental hygienist.

"I figure there will always be a job in the medical field," says Ms. Brooks.

In addition to being protracted, this downturn has also become an equal opportunity recession. In the past, recessions tended to have the greatest ferocity for less-educated workers and younger workers. But this downturn -- because it has been spread out across so many industries -- has created a broader class of job-market casualties. Age is no longer an important distinction. And well-educated workers, used to being sheltered in a slump, have been hit hard.

In the last three years, the unemployment rate for college graduates over 25, who enjoyed the lion's share of the economy's gains during the 1980s and 1990s, has risen by 1.6 percentage points, not much less than the 2.1-percentage-point increase for high-school dropouts. Many educated workers were concentrated in industries hit hardest by the downturn, such as technology and finance. The unemployment rate for computer scientists and mathematicians rose from 0.7% in February 1998 to about 6% at the end of 2002, according to research by the Economic Policy Institute.

Educated workers seem especially prone to bouts of long-term unemployment in this downturn. Of the 1.9 million workers who have been unemployed for six months or more, one in five is a former executive, professional or manager, according to a study by the National Employment Law Project, a nonprofit advocacy group for the unemployed. Because these workers have specific, often technical, skills it sometimes takes them longer to find a job that matches those skills.

On the surface, the job market might not look all that bad. At 6%, the unemployment rate is only a little above its average of 5.6% during the past 55 years. In 1982, in contrast, it reached 10.8%. In 1992, it reached 7.8%. But for the 8.4 million Americans who are now unemployed, the protracted nature of this downturn means it has been excruciatingly difficult to get work again. For some, job searches are dragging on long after their unemployment benefits have expired and they have plowed through their savings. In the last year, nearly 2.8 million people have exhausted unemployment benefits.

Many others are scrambling in ways that don't get picked up in unemployment statistics. They're taking lower-paying jobs, going back to school to get new skills, or becoming independent consultants and picking up small projects when they can. "A lot of people are losing ground economically," says Mr. Reich.

One of those people is Wanda Whitson, a 47-year-old college graduate. In December 2001, she lost her job as a public-relations manager with Key3Media Group Inc., which produces technology trade shows. Ms. Whitson earned \$65,000 and traveled around the country. Eighteen months later, she hasn't been able to find full-time work. To make ends meet, she's working as a salesperson at a Crate & Barrel store in Boston, earning about \$7 an hour. She has also been doing temp work, ranging from checking coats at a local book fair to working as an administrative assistant for a finance company. But it isn't enough to cover all of her expenses. "It's a little scary. I'm down to the point where in three or four months, if something doesn't come along, I don't know what I'm going to do," she says.

Economists have a term for the wrenching adjustments to today's economy: "creative destruction." The term was coined by an Austrian-American economist named Joseph Schumpeter after the Great Depression ended. In a capitalist economy, Mr. Schumpeter argued, weak industries and companies had to be destroyed in order for thriving ones to take root. He called it a "perennial gale of creative destruction."

While manufacturing has shed 1.7 million jobs in the last two years, the health-care sector has added 522,000. The education field has added another 190,000. Mr. Reich, the former Labor Secretary, says this kind of growth leaves him feeling that the trends in the job market will ultimately prove to be positive events. "The labor market is extremely flexible," he says. "People are adapting."

But the shifts put many workers on an especially difficult journey. One problem with today's long bouts of unemployment is that the longer an individual stays out of work, the more likely he or she is to take a new job at a much lower salary. Another big concern is finding a job that provides health insurance. Federal law requires employers to allow dismissed workers to stay on their health plans for about 18 months. But for many people, long-term unemployment means that coverage is running out.

These trends have implications for policy makers, too. Workers typically receive 26 weeks of state unemployment benefits after they are laid off. The system was set up as part of the Social Security Act in 1935. Now, workers can also receive an additional 13 weeks of federal aid. But because many people are experiencing exceptionally long spells looking for work, millions are running through all of their

unemployment insurance before they find a new job. According to Labor Department statistics, 43% of those who sign up for insurance exhaust their 26-week benefits, the highest rate in at least 30 years.

One solution would be to offer unemployment insurance for a longer period of time. But economists are reluctant to propose that because they fear it would reduce the incentive for unemployed people to search for work. Germany, for instance, offers unemployment insurance for 12 to 32 months and other assistance can continue indefinitely; its unemployment rate is 10.7%.

At the National Bureau for Economic Research, the enduring job-market weakness has sparked a debate about some very basic economic questions. Like this one: How do you know when a recession ends? Some members, including Robert Gordon, a Northwestern University professor and an expert on productivity trends, believe the recession actually ended a long time ago, because overall output, as measured by indicators such as gross domestic product and national income, have been rising since late 2001. "There clearly was a trough," says Mr. Gordon.

But Mr. Hall, a Stanford University professor, isn't so sure. "I don't want to say that a recession is over if more and more people are unemployed and job growth is negative," he says. For now, he says, he prefers to wait a little longer.

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