The U.S. Labor Market: Still Anemic Two Years “After” the End of the Recession

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Without implication, these remarks draw heavily on joint research with Steven J. Davis, Jason Faberman, Ron Jarmin and Javier Miranda
Overview

- Anemic recovery apparent in net employment growth, GDP growth and unemployment
- Looking at underlying labor market flows provides insights into:
  - Specific areas of weakness
  - Possible sources of this anemic recovery
  - Policy debate
Aggregate Job Creation and Destruction (Quarterly)

Creation is all expanding and entering establishments. Destruction is all contracting and exiting establishments.
Layoffs (JOLTS) move with job destruction (BED), and quits (JOLTS) moves opposite to both. In booms, job destruction accommodated more by quits. In recessions, destruction is closely tracked by layoffs.
Hires and vacancies (JOLTS) tend to move with job creation (BED).

Greater volatility of hires reflects volatility of quits. Worker churning is reduced in recessions.
Implications for Unemployment Inflows and Outflows

The chart illustrates the time series data of the Moving Average (MA) of CPS Unemployment Escape Rate and CPS Unemployment Inflow Rate from 1967 to 2011. The MA(3) of CPS Unemployment Escape Rate is represented by a blue line, while the CPS Unemployment Inflow Rate is depicted by a brown line. The data points are shaded in gray to emphasize certain periods.

- MA(3) of CPS Unemployment Escape Rate
- CPS Unemployment Inflow Rate
Net Employment Growth by Base Year Firm Size

- Base Year Size
- Base Year Size with Age Controls
Figure 1: Shares of Employment, Job Creation and Destruction by Broad Firm (Current) Size and Age Classes – Annual Average Rates 1992-2005
Up or Out Dynamics of Young U.S. Firms

Firm Age

Net Employment Growth (Continuing Firms)
Job Destruction from Exit
Net Job Creation Levels by Employer Size
Net Job Creation Rates by Employer Size
Job Creation Levels by Employer Size

Job Creation

Quarter

Gross Job Gains (millions)

Size Class

(1-19) (20-99) (100-499) (500+)
Job Destruction Levels by Employer Size
Gross Job Creation and Destruction Rates, U.S. Private Sector
Job Creation and Business Startup Rates, U.S. Private Sector

- Gross Job Creation
- Job Creation (Startups) -- Right Axis
- Job Creation (New Establishments) -- Right Axis

Data points for the years 1980 to 2009.
## Trends in Gross Flows and Net Job Creation

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Gross Job Creation</td>
<td>18.2</td>
<td>16.7</td>
<td>15.8</td>
</tr>
<tr>
<td>Job Creation (Startups)</td>
<td>3.5</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Gross Job Destruction</td>
<td>16.2</td>
<td>14.8</td>
<td>14.9</td>
</tr>
<tr>
<td>Net Job Growth</td>
<td>2.0</td>
<td>1.9</td>
<td>0.9</td>
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- **Gross Job Creation** refers to the overall increase in jobs due to new job opportunities.
- **Job Creation (Startups)** specifically highlights the creation of new job opportunities through startups.
- **Gross Job Destruction** indicates the reduction in jobs due to layoffs and closures.
- **Net Job Growth** represents the overall change in the job market, calculated as the difference between gross job creation and gross job destruction.
Challenges of Targeting Policy to Businesses?

- Much attention still to targeting Small Businesses
  - But results show job creating prowess misleading
  - It is largely driven by startups and young (small) businesses
  - Should we target startups and young businesses?
  - Part of ongoing creative destruction process
  - Enormous heterogeneity
  - Idiosyncratic factors dominate
90th and 10th Percentiles of Net Employment Growth Rates for Surviving U.S. Private Sector Firms by Firm Age (2003-05)
# Industry as Predictor of Size and Growth of Firms?

<table>
<thead>
<tr>
<th>Event Description</th>
<th>R-squared from 6-digit NAICS effects</th>
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<tbody>
<tr>
<td>Probability Firm has less than 20 employees</td>
<td>0.12</td>
</tr>
<tr>
<td>Net Firm Growth Rate (All Firms)</td>
<td>0.06</td>
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<tr>
<td>Net Firm Growth Rate (Small Firms)</td>
<td>0.06</td>
</tr>
<tr>
<td>Probability firm is a high growth firm (defined as Net_Rate &gt; 0.2)</td>
<td>0.04</td>
</tr>
<tr>
<td>Probability firm is a high growth firm (defined as: Net_Rate &gt; 0.2 and Net_Level &gt; 10)</td>
<td>0.03</td>
</tr>
</tbody>
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Sample: All U.S. Private Sector Firms, 2003-05
What’s Different?

- Why has the U.S. exhibited such a slow recovery relative to the last severe downturn in 1982?
  - Financial crisis?
    - Households vs. Firms (what type of firms)?
  - Uncertainty?
    - Economic vs. Policy
  - Evidence from flows shows that startups and small businesses are an important part of the anemic recovery.
    - Where does this evidence fit in with what is different?
    - Decline in startups and volatility pre-dates recent recession.
    - Interaction of shocks and institutions?
    - Why the secular decline in startups and business dynamism?