10 Percent Unemployment Forever?

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Why the good news about the economy doesn't necessarily mean that jobs are coming back anytime soon.

By Tyler Cowen, Jayme Lemke

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The U.S. economy finally appears to be picking up steam and headed toward recovery: several economic indicators — including manufacturing and services output, and sales of cars and consumer goods — have shown noticeable improvement over the last few months. Scan virtually any financial news website, and you'll see it's now a consensus that a sustained economic recovery has not only arrived — it's picking up speed.

But there's good reason to believe that the labor market won't be keeping pace. Rather than an aberration, high unemployment may be an enduring feature of the United States' economy.

We are, sadly, in a very deep pit when it comes to the labor market. The recent private-sector estimate from ADP Employer Services announced the creation of 297,000 new jobs for December, but this is the first instance of a real dent in the jobless rate since the beginning of the recession. The November report from the U.S. Bureau of Labor Statistics pegged the unemployment rate at 9.8 percent, which translates to over 15.1 million unemployed. Over 40 percent of currently unemployed workers have been out of a job for over six months, the highest percentage of long-term unemployment since World War II. The numbers look even worse if we consider the underemployed, which includes potential workers who have given up looking for a job or the 9 percent of the labor force that is made up of part-time workers who would prefer to be working full-time. At least 2.5 million people gave up looking for work in the last year alone.

Even if the December rate of job creation continues, it will be 2014 before unemployment is down to 5 percent. But last month's good news may not last. At a more conservative estimate of 150,000 jobs added per month, it could be 2024 before employment is back to 2007 levels. Keep in mind that there are 100,000-plus estimated new entrants into the workforce each month. In November, a sum total of 92,000 new jobs were created — but that didn't lower the unemployment rate.

So what happened? Why have American labor markets ended up in such a dire situation?

The simple Keynesian explanation for the initial unemployment is that aggregate demand — the country's combined spending and investment — has been too low. But it's unlikely that spending is the only problem, as unemployment is too high and too persistent relative to similar episodes of disinflation in recent history. If weak demand was the main problem, profits should be collapsing too, but they are not. Investment and corporate profits have been fine for some time now, and they are broadly within the range of pre-recession estimates.

There’s a second problem with the Keynesian story, which relies heavily on the notion that real, inflation-adjusted wages are sitting at too high a level. If unemployment causes someone real suffering, why wouldn’t he or she be willing to take a lower salary to get a job and ease the pain? But rather than falling, private-industry wages are currently on the rise — up nearly 60 cents per hour since the end of the recession. There are plenty of good theories why it is hard to cut the wages of employed workers — long-term contracts pose legal challenges, and fragile worker morale threatens to collapse under the stress of wage cuts. But it’s harder to explain why unemployed workers can’t find new jobs for less pay, especially if output is recovering, profits are high, and corporations are sitting on a lot of cash.

Trending

Many conservatives in the United States have placed the blame for high unemployment on the shoulders of President Barack Obama, arguing that his administration’s liberal agenda has complicated the recovery. But the statistics suggest otherwise. Again, corporate profits and consumer spending are fine. Indeed, it’s the sector in which the government has most directly intervened — health care — that has maintained the most robust job growth over the past two years, adding 20,000 new jobs in November alone. And don’t go blaming job losses on illegal immigrants taking jobs from documented workers: Latino immigrants have left the country in large numbers since the start of the financial crisis.

As time passes, it is harder to avoid the notion that a lot of those old jobs simply weren’t adding much to the economy. Except for the height of the housing boom — October 2007 through June 2008 — real GDP is now higher than it has been in the entirety of U.S. history. The fact that the United States has pre-crisis levels of output with fewer workers raises doubts as to whether those additional workers were producing very much in the first place. If a business owner fires 10 people and a year later output is almost back to normal, it’s pretty hard to make the argument that they were doing much in the first place.

The story runs as follows. Before the financial crash, there were lots of not-so-useful workers holding not-so-useful jobs. Employers didn’t so much bother to figure out who they were. Demand was high and revenue was booming, so rooting out the less productive workers would have involved a lot of time and trouble — plus it would have involved some morale costs with the more productive workers, who don’t like being measured and spied on. So firms simply let the problem lie.

Then came the 2008 recession, and it was no longer possible to keep so many people on payroll. A lot of businesses were then forced to face the music: Bosses had to make tough calls about who could be let go and who was worth saving. (Note that unemployment is low for workers with a college degree, only 5 percent compared with 16 percent for less educated workers with no high school degree. This is consistent with the reality that less-productive individuals, who tend to have less education, have been laid off.)

In essence, we have seen the rise of a large class of “zero marginal product workers,” to coin a term. Their productivity may not be literally zero, but it is lower than the cost of training, employing, and insuring them. That is why labor is hurting but capital is doing fine; dumping these employees is tough for the workers themselves — and arguably bad for society at large — but it simply doesn't damage profits much. It's a cold, hard reality, and one that we will have to deal with, one way or another.

So how should we interpret the recent trickle of good news? Well, one positive note is that less-productive, laid-off workers are undertaking the needed adjustments. For instance, according to a survey by the Pew Research Center, nearly 70 percent of unemployed workers have already made dramatic changes in their career or job-field choice, or are considering doing so.There also have been migrations out of expensive urban areas and into smaller and less expensive ones, such as Austin, Salt Lake City, and northern Virginia, with relatively high-performing industries and more fluid labor markets.

In other words, the U.S. economy is going through some major structural shifts. It's not a question of getting back to where we were, but rather that the economy must solve a new problem of re-employing a lot of people who were not, in reality, producing very much in the first place. That's a steeper challenge than we had realized early in the stages of this recession — and so far policymakers have failed at meeting it.

Analysts still disagree on how rapidly the U.S. economy will recover. But they're missing the point. The era of low unemployment may be in our rearview mirror for a long time to come.