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)

Job Creation and Job Destruction are measured as the percent of total employment. Job Creation is all expanding and entering establishments. Job 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

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

Categories: a) 1 to 4, b) 5 to 9, c) 10 to 19, d) 20 to 49, e) 50 to 99, f) 100 to 249, g) 250 to 499, h) 500 to 999, i) 1000 to 2499, k) 2500 to 4999, j) 5000 to 9999, l) 10,000 +
Figure 1: Shares of Employment, Job Creation and Destruction by Broad Firm (Current) Size and Age Classes – Annual Average Rates 1992-2005

[Bar chart showing shares of employment, job creation, and job destruction for different size and age classes of firms.]
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

![Graph showing net job creation levels by employer size over time. The graph indicates fluctuations in job creation across different employer size classes from 1992 to 2011. Size classes include (1-19), (20-99), (100-499), and (500+). The y-axis represents net job creation in millions, ranging from -1.0 to 1.0. Grey shaded areas denote recession periods.]
Gross Job Creation Levels by Employer Size
Job Destruction Levels by Employer Size

The graph illustrates the number of job destructions by employer size from 1992 to 2011. The data is categorized by different size classes:

- **1-19** (1992-2001)
- **20-99** (2001-2011)
- **100-499** (1992-2001)
- **500+** (1992-2001)

The graph shows fluctuations in job destruction rates over the years, with notable spikes in 2001 and 2008-2009.
Gross Job Creation and Destruction Rates, U.S. Private Sector
Trends in Gross Flows and Net Job Creation

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<tbody>
<tr>
<td>Gross Job Creation</td>
<td>18.2</td>
<td>16.7</td>
<td>15.8</td>
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<tr>
<td>Job Creation (Startups)</td>
<td>3.5</td>
<td>3.0</td>
<td>2.6</td>
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<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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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>
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<tr>
<th>Probability Firm has less than 20 employees</th>
<th>R-squared from 6-digit NAICS effects</th>
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<td>0.12</td>
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| Net Firm Growth Rate (All Firms)           | 0.06                                 |
|--------------------------------------------|                                     |

| Net Firm Growth Rate (Small Firms)         | 0.06                                 |
|--------------------------------------------|                                     |

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<th>Probability firm is a high growth firm (defined as Net_Rate &gt; .2)</th>
<th>0.04</th>
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<th>Probability firm is a high growth firm (defined as: Net_Rate &gt; .2 and Net_Level &gt; 10)</th>
<th>0.03</th>
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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?