

ECONOMIC SCENE

Rapid productivity growth probably did not cause slow post-recession job growth.

By ALAN B. KRUEGER

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THE latest reports from the Labor Department suggest that what might be called the Energizer Bunny recession in the job market -- it just keeps going and going -- might finally have come to an end.

If sustained job growth has indeed arrived, why did it take so long? Although there are no definitive answers, it is possible to piece together some plausible stories and to rule out others.

A popular explanation for why it has taken at least 20 months from the official end of the recession for job growth to resume -- seven and a half times as long as the average in other postwar recoveries -- is that exceptionally fast productivity growth made hiring workers unnecessary. On Monday, President Bush endorsed this view, telling BMW workers in Greer, S.C., "You see, high productivity, it creates a short-term problem, unemployment."

Implicitly, this view argues that for some reason there are limits to how fast the gross domestic product (that is, output of goods and services) can grow, so, by definition, faster labor productivity growth results in slower job growth.

Many have argued that this predicament afflicted Europe in the 1980's, causing an ailment known as "Euro-sclerosis," or prolonged job stagnation.

The argument is more plausible in Europe, where government policy restrains entrepreneurship and growth, in part because of limits set by the European Monetary Union. (A forthcoming book by William Lewis, former director of the McKinsey Global Institute, argues that even in Europe productivity growth was not a cause of stagnant job growth.)

On examination, rapid productivity growth is unlikely to account for the dismal job picture in the United States over the last two and a half years.

First, there is no reason the gross domestic product could not have grown faster once productivity accelerated. Monetary and fiscal policy have not restrained growth.

Second, in the United States greater job growth tends to accompany faster productivity growth, over either a quarter or a year, as well as over longer periods. Productivity growth usually surges at the beginning of a recovery, but the job losses are unusual this time. Furthermore, during the second-longest jobless recovery on record, which occurred during the previous Bush administration, productivity growth was lower than it is now, so accelerating productivity is not the only potential cause of a jobless recovery.

Lawrence Katz, an economist at Harvard and the National Bureau of Economic Research, raises another possibility: maybe recoveries that follow longer booms have weaker job growth initially because companies postponed restructuring during the boom. Therefore, more time is needed for companies to reorganize work, which spills over into the recovery phase.

Indeed, the recessions in 1991 and 2001, notable for extended jobless recoveries afterward, both followed long booms. But in the eight earlier postwar recessions, longer booms were typically followed by shorter jobless recoveries, not longer ones. For example, after the recession following the 1960's boom -- the second longest, after the Clinton boom -- job growth resumed immediately.

Mr. Lewis noted that fiscal, monetary and geopolitical environments are much more uncertain now than they were in the 1990's. "That makes business people run lean and be cautious about investing in new capacity," he said.

Another factor is that the Bush tax cuts were aimed not specifically at job creation but at consumption and savings. In previous recessions, countercyclical policy was more focused on job creation. For example, President Jimmy Carter introduced the New Jobs Tax Credit, which gave employers a tax rebate if they expanded employment. Studies by the economists Jeffrey M. Perloff, Michael L. Wachter and John Bishop suggested that the tax credit spurred job growth.

Where will the new jobs come from? This is a question economists grow weary of hearing during recessions. I sometimes respond by asking, "Isn't it remarkable that larger countries have more jobs?" This highlights the role of the work force in job creation, and that, in the long run, employment is largely determined by supply.

Looking across countries over five-year periods, the growth in the working-age population is a powerful predictor of job growth, especially in the United States. Our strong job growth in the 1990's is also a useful reminder that job growth does eventually resume after recessions, provided the population is growing.

But predicting the sectors where job growth will occur is another matter. Remember "The Graduate"? The plastics industry, in which Benjamin was advised to pursue a career, has lost 40 percent of its jobs since the movie was released in 1967, contracting even more than the rest of manufacturing.

Prediction is difficult because the labor market is continually changing. A quarter of all workers are now in occupations that were not listed in the Census Bureau's occupation codes in 1967.

Even among longstanding occupations, job growth is difficult to predict. A study by Ronald L. Oaxaca and Larry L. Leslie of the University of Arizona, for example, shows that past forecasts of job growth for engineers and scientists turned out to be wildly inaccurate. How could anyone have predicted how an unanticipated event, like the end of the cold war, would affect the demand for engineers and scientists?

Still, some plausible predictions can be made about job creation. Most important, the skills of the work force will largely determine the mix of jobs people hold, and the standard of living they enjoy. Thus, the projected slowdown in the educational attainment of the work force, unless counteracted, does not bode well.

Additionally, the projected slowdown in the growth of the working-age population should lead to slower job growth. For this reason, the focus should shift to the growth in jobs per member of the working-age population.

Of course, prediction is difficult. It is possible that we may experience a period of "U.S.-sclerosis," as Ronald Schettkat, an economist at Utrecht University in the Netherlands, suggests in a new study. But such a result is not inevitable and has been averted in the past.