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Chapter 13 Economic Challenges

This article from the September 2003 *Wall Street Journal Classroom Edition* describes a structural change in the U.S. economy that is roiling the job market, destroying some employment categories and creating new ones. “My Job Just Vanished” by *Wall Street Journal* Staff Reporter Jon Hilsenrath highlights the importance of productivity in an economic recovery and its impact on labor markets.

Before reading the article below, you may want to look up the following terms: *creative destruction, cyclical change, dynamism, imminent, protracted, recession, sheltered, structural change, swath, thorny, and wrenching.*

What do you call an economy that has started recovering from recession but keeps destroying jobs?

Economist Robert Hall has been puzzling over that thorny question for more than a year: Mr. Hall heads a committee of researchers who try to determine when U.S. recessions begin and end. Last May, 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. But it hasn’t happened.

Instead of expanding employment, companies are continuing to shed jobs at a furious pace. Since March 2001, when the recession began, the U.S. economy has lost more than two 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 federal statistics.

In short, despite signs of an overall economic recovery, the U.S. is experiencing the most protracted job-market downturn since the Great Depression. It has affected a remarkably broad swath of workers—from young to old, and from high-school dropouts to the highly educated.

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—but how long it is taking to play out and how broad-based 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.

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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 eventually be called back when business was up again. The other half experienced structural changes—meaning jobs that were eliminated were never meant to come back. Ms. Groshen says this split 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 work from existing employees. Over the long run, most economists agree that 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.”

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 former Labor Secretary Robert Reich. “After 1991, most people didn’t get their old jobs back. Those jobs went abroad, or they were automated out of existence.”

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 were production workers at a Maytag refrigeration plant in Galesburg, Ill. Stung by competition from China and Korea, Maytag is shutting the plant and moving its operations to Mexico. 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 long, this job downturn

has also been unusually broad. In the past, recessions tended to be toughest on 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. 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. Because these workers have specific, often technical, skills, it sometimes takes them longer to find a job that matches those skills.

For some workers, job searches are dragging on long after their unemployment benefits have expired and they have plowed through their savings. In the past 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

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Key3Media Group, where she earned \$65,000 a year 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 saleswoman 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," she says. "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."

Economists have a term for the wrenching adjustments to today's economy: "creative destruc-

tion." The term was coined by Austrian-American economist 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.

Indeed, while manufacturing has shed 1.7 million jobs in the past 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."

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QUESTIONS FOR DISCUSSION

1. Why did the United States appear to be experiencing a jobless recovery?

2. **Analyzing Information** Economist Erica Groshen found that 75 percent of jobs are in industries going through structural change, an increase from previous recessions. What is the significance of this change in today's economy?

3. **Demonstrating Reasoned Judgment** Find an example to suggest that displaced workers returning to the work force can adapt to changes in the labor market.

4. **Drawing Conclusions** The health-care and education sectors have added jobs. Given what you know about structural change in the economy and productivity gains, why do you think jobs in these two areas have increased faster than other areas?
