

WHAT'S HOLDING BACK JOB GROWTH?



POLARIZATION-OFFSHORING

While it's clear that polarization in the labor market has occurred over the decades, it's not clear whether it accelerated during the Great Recession.

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SKILLS MISMATCH

Skills mismatch may be part of the story for the slow job growth that the economy has experienced, but it's not the full story.

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General economic weakness in the wake of a severe financial crisis is perhaps the biggest reason the labor market has not rebounded more quickly. Yet there is no single, simple answer to this question. We examine a few of the particular forces that continued to limit employment growth during 2013.



DYNAMISM & SMALL BUSINESS

The Atlanta Fed has investigated trends in a variety of firm types to better understand why labor market progress continued to be slow in 2013.

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UNCERTAINTY

The past several years have been marked by high levels of policy-related uncertainty. How has this affected the economy?

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ARE JOBS GOING OVERSEAS FASTER?



Since the 1990s, corporations have moved large numbers of jobs, especially in manufacturing, out of the United States to countries with lower labor costs. Yet that fact itself does not mean that offshoring results in no additional job creation here in the United States.

In fact, Atlanta Fed economists have looked at the net effect of offshoring and found evidence of some countervailing job creation that occurs as a result. For instance, when a manufacturer of hand-held electronic devices sends its manufacturing overseas, that might increase the overall competitiveness of the firm, pointed out Atlanta Fed research economist Federico Mandelman. Consequently, the firm could hire more higher-wage domestic workers such as marketers or product designers.

A paper prepared for a 2010 Atlanta Fed conference on immigration concluded that offshoring has little or no effect on domestic employment. “Increased offshoring reduces the share of native employment in an industry while...stimulating overall industry employment via the productivity effect such that offshoring has no aggregate impact on the level of native employment,” wrote the economists Gianmarco Ottaviano, Giovanni Peri, and Greg Wright.

Labor market polarization has hollowed out middle of jobs spectrum

The U.S. labor market has become polarized over the past three decades: employment growth has been strong for both high- and low-skill occupations, while jobs for middle-skilled workers have disappeared. Real wages have followed a different pattern. Wages for high-skill occupations have increased; earnings of low- and middle-skilled workers generally have not.

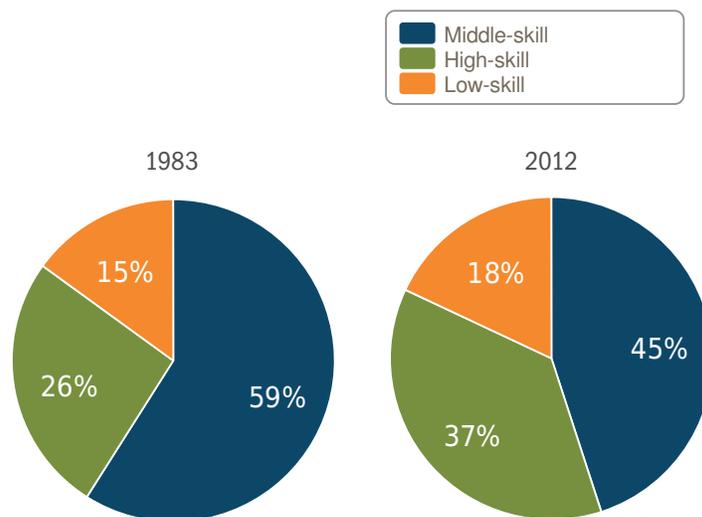
Along with technological change and immigration of low-skilled workers, offshoring appears to be a significant factor in labor market polarization, Mandelman has found. Jobs done by middle-skilled workers are the jobs that are typically offshored. In addition, research shows that the weakening of labor unions over time may have contributed to the decline of middle-skill jobs.

Labor market polarization has been associated with job losses in occupations that involve routine tasks, which are typically found in the middle of the skill distribution. Routine occupations include blue-collar manufacturing jobs and office and administrative support. These workers tend to follow well-defined procedures that can be coded in computer software, executed by machines, moved to lower-wage countries, or assumed by immigrants who will generally work for lower wages than native workers.

It’s clear that labor market polarization has occurred over decades. But economists debate whether and how much polarization accelerated during the Great Recession and other downturns. Researchers at the Kansas City Fed concluded in a 2013 paper that while labor market polarization is a long-term phenomenon affecting all economic sectors, it intensifies during recessions. The rapid pace of polarization during recessions, according to the research, stems from the decline in the share of middle-skill occupations in manufacturing and, to a lesser extent, in construction.

MIDDLE-SKILL JOBS IN DECLINE

Percentage of nonfarm, civilian workers aged 16-64 who are not self-employed



Sources: Census data and calculations of Didem Tüzemen and Jonathan Willis, Kansas City Fed

SKILLS MISMATCH A FACTOR IN LABOR MARKET WOES



Skills mismatch, the situation in which workers lack the skills that employers need, appears to account for some of the rise in unemployment during the Great Recession.

Joblessness caused by skills mismatch can arise as the result of an economic downturn when job losses are concentrated in certain industries but job openings are in other industries. Between 2007 and 2013, about half of all jobs lost were in manufacturing and construction, while roughly 90 percent of new positions opened in other industries, according to the U.S. Bureau of Labor Statistics. That disparity suggests that “sectoral mismatch” may have increased. This sectoral imbalance of job losses and job openings held true in the Southeast as well as the nation.

Skills mismatch is a real issue. However, the evidence is not conclusive on the degree to which higher joblessness during 2013 was caused primarily by persistent mismatch between available jobs and the skills of people seeking to fill them. Unemployment declined through the year roughly in proportion to the increase in job openings, which might suggest that more vacancies will absorb more job seekers. On the other hand, an Atlanta Fed poll of employers and providers of training and social services to low-wage earners in the Southeast revealed that lack of technical skills and lack of experience were the two biggest hurdles to low-wage individuals seeking jobs. On balance, though, it appears that skills mismatch may be part of the story for the less-than-desirable job growth the economy has experienced—but it’s far from the full story.

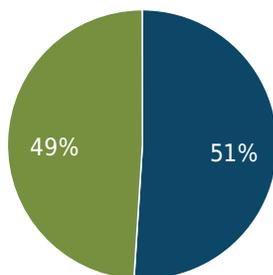
The mismatch can also partly explain why there is an unusually large share of unemployed individuals who have been unemployed for a long time.

JOBS MISMATCH

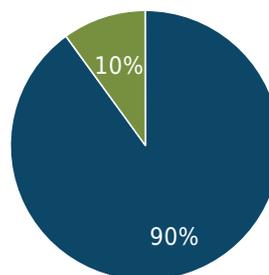
Share of total jobs lost: 12/2007-02/2010



Share of total jobs lost: 12/2007-02/2010



Share of job openings: 03/2010-10/2013



Note: February 2010 was the low point of U.S. nonfarm employment.

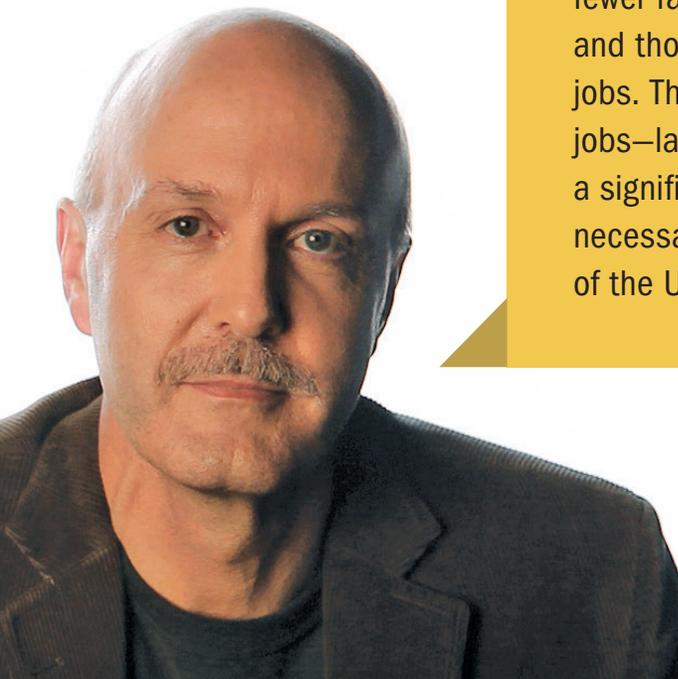
Source: U.S. Bureau of Labor Statistics Job Openings and Labor Turnover Survey

WHO OR WHAT CREATES THE JOBS?



Coming out of the Great Recession, one of the puzzles is, why has job creation not picked up? The Atlanta Fed recently completed a study that looked at the properties of fast-growing firms in Georgia. That study found that half of fast-growing firms could be categorized as gazelles—they were young fast-growing businesses. Turns out that older fast-growing firms actually contribute more to job creation than these young gazelle businesses.

There is evidence in the data to suggest that the dynamism of the U.S. economy has slowed over the last couple of decades. We still see fast-growing businesses, but we see fewer fast-growing businesses than we have in the past, and those fast-growing businesses are actually adding fewer jobs. The diversity of the types of businesses that create jobs—large firms, small firms, young firms, old firms—creates a significant economic policy challenge. No single policy is necessarily going to be effective in solving the jobs problem of the United States.



JOHN ROBERTSON
Vice President and Senior Economist

WHO OR WHAT CREATES THE JOBS?



A striking feature of the Great Recession was not so much the rise in the number of firms cutting their payrolls—that always happens in recessions. What was unprecedented was the dramatic collapse in the number of firms that expanded. Early in the recovery, firms continued to have the lowest rate of job creation on record, and fewer new firms were created in 2009 and 2010 than in any other time in the previous 30 years. Although the unemployment rate fell faster than expected in the latter part of 2013—roughly four-and-a-half years into the recovery—hiring rates at firms were still relatively subdued.

The Atlanta Fed has investigated trends in a variety of firm types to better understand why labor market progress continued to be slower than hoped for in 2013. Researchers started by looking at small firms, since their economic struggles are often singled out as a major reason why the U.S. jobs engine has faltered. These researchers found that all businesses were hit hard by the recession. They looked at firms across a variety of dimensions—age, size, industry, and location—to determine where the jobs are.

Small firms versus large firms

Most businesses are small. Almost 96 percent (or 4.7 million) of firms had payrolls with fewer than 50 people in 2011 (the latest census data available). These firms accounted for 28 percent of all payroll jobs. They also create many new jobs—about 40 percent of new jobs each year, on average. However, the rate of gross job gains fell sharply for small firms during the recession and recovery, in part because fewer new firms were created but also because small firms sharply curtailed hiring as heightened uncertainty and a weak economy made them more hesitant to expand.

Large firms are also an important source of new jobs. The largest 1 percent of firms account for about as many new jobs each year as do all the firms with fewer than 50 employees. But large firms have also been creating jobs at an unusually slow pace.

New firms versus young firms

Start-ups gained a lot of attention in the aftermath of the recession, in part because of the dramatic decline in new business formation. These new firms are also important because they create an outsized share of new jobs. In 2011, 8 percent of firms were new—most of them were very small—and they contributed about 16 percent (or 2.5 million) of new jobs that year. But having a continual flow of new firms each year is important because the jobs that start-ups create can be fleeting. Indeed, more than half of young firms typically fail within their first five years of operation.

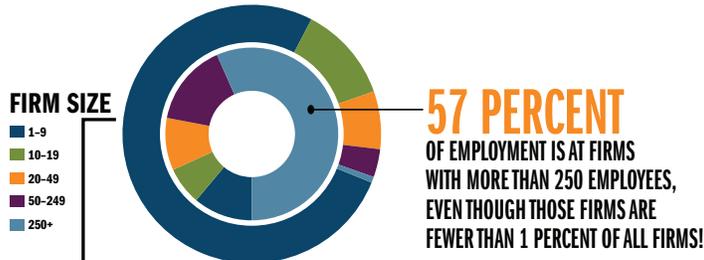
Gazelles versus gorillas

Although many firms fail in their early years, a small fraction of young firms grow very rapidly. These so-called gazelle businesses are also a significant source of job creation. A recent Atlanta Fed study looked at the properties of fast-growing Georgia firms during the 2000s and found that about half of the firms that had a high rate of employment growth were young. However, more jobs were generated by older, generally larger, fast-growing firms, sometimes called gorillas. On a national level, high-growth firms have declined as a share of all firms, from 3 percent in the late 1990s to 1.5 percent in 2011. During the same time, these fast-growing firms added fewer jobs, falling from 45 percent of jobs created at expanding firms to 34 percent.

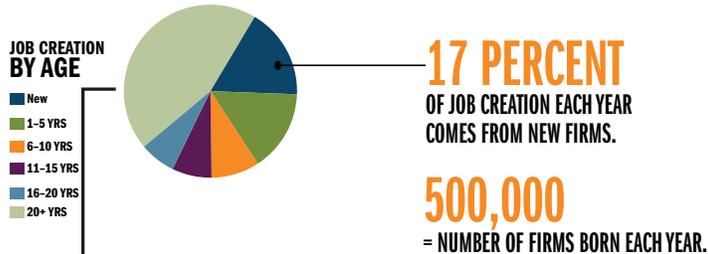
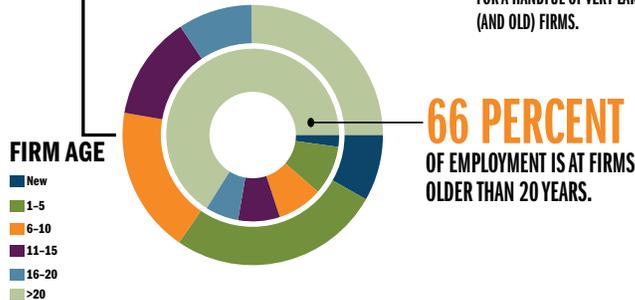
While data on these and other characteristics provide a window into the types of firms that typically create jobs, they also underscore the fact that when it comes to job creation, there is no simple solution.

WHERE DO JOBS COME FROM?

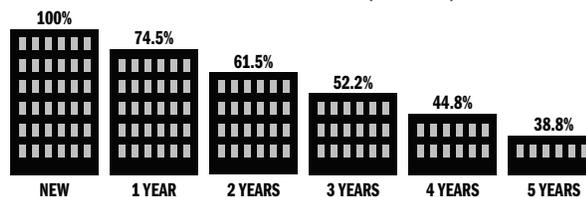
Where are the jobs? Which types of companies create the most jobs? Researchers have studied firms across a variety of dimensions looking for the answers to these questions. What they've found is that when it comes to job creation, there's no simple solution.



MOST FIRMS ARE VERY SMALL, BUT MOST EMPLOYEES WORK FOR A HANDFUL OF VERY LARGE (AND OLD) FIRMS.



AVERAGE SURVIVAL RATE OF FIRMS BY AGE OF FIRM (1983-2011)



SOURCES: U.S. CENSUS BUREAU BUSINESS DYNAMICS STATISTICS DATABASE AND DANE STANGLER, "HIGH-GROWTH FIRMS AND THE FUTURE OF THE AMERICAN ECONOMY," 2010

HAS UNCERTAINTY RESTRICTED HIRING?



Heightened uncertainty is one of several forces that weighed on the economy and hiring in 2013. Much of the uncertainty emanated from the government sector, especially regarding fiscal policy. Other factors clouded the outlook, too, including uncertainty about health care costs and the Affordable Care Act, and the economic outlook.

Although fiscal and monetary policy uncertainty seemed to ebb somewhat earlier in the year, it returned full force in the fall as the two-week federal government shutdown and the debt ceiling standoff dealt a blow to consumer and business confidence. Congress resolved the budget issue by the end of the year.

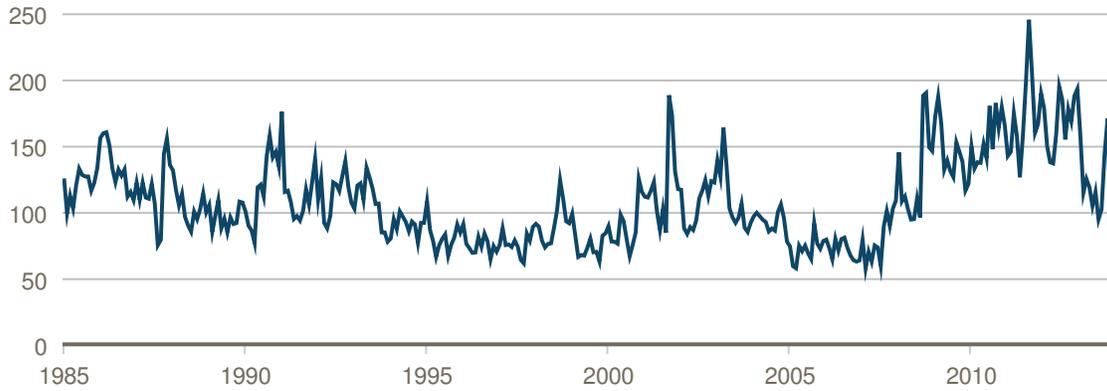
The question of how uncertainty affects the economy has been particularly relevant in the current recovery, although it has interested economists for some time. (Fed Chairman Ben Bernanke studied the topic earlier in his career.) According to a measure of economic policy uncertainty developed by economists Scott Baker, Nick Bloom, and Steven Davis, the past several years have been marked by historically high levels of policy-related uncertainty.

The crux of the problem is that firms—unsure of what lies ahead for taxes, regulations, and the economy—may delay investing and hiring. Anecdotal evidence gathered as part of the monetary policy process supports this theory. As the Federal Open Market Committee prepared to meet in October, the Beige Book noted that “employers continued to report hiring hesitancy related to changes in healthcare regulation and fiscal policy uncertainty.”

The Atlanta Fed’s Small Business Survey also honed in on the issue. Nearly half of respondents to the third-quarter 2013 survey reported a higher level of uncertainty relative to the first quarter. Moreover, many firms indicated that uncertainty was having a greater than usual impact on their decisions. Among them, about 20 percent expected their workforce to decrease and roughly half expected no change to their headcount.

The evidence linking heightened uncertainty and sluggish economic growth is not just the anecdotal sort. An emerging body of research supports these linkages, too. Last year, a much-cited report by research firm Macroeconomic Advisers attempted to quantify the economic effect of fiscal policy uncertainty, estimating that since 2009 it has shaved 0.3 percentage point per year from U.S. GDP. In 2013 alone, fiscal policy uncertainty kept the unemployment rate higher by 0.6 percentage point—the equivalent of 900,000 jobs, the report said.

MONTHLY U.S. ECONOMIC POLICY UNCERTAINTY INDEX



Source: Scott Baker, Nicholas Bloom, and Steven J. Davis at www.PolicyUncertainty.com.

IMPACT OF UNCERTAINTY ON BUSINESS DECISIONS COMPARED TO PRIOR SIX MONTHS



Note: 268 firms participated in both surveys.
Source: Atlanta Fed Small Business Survey