



Job creation has slowed, but so has job destruction

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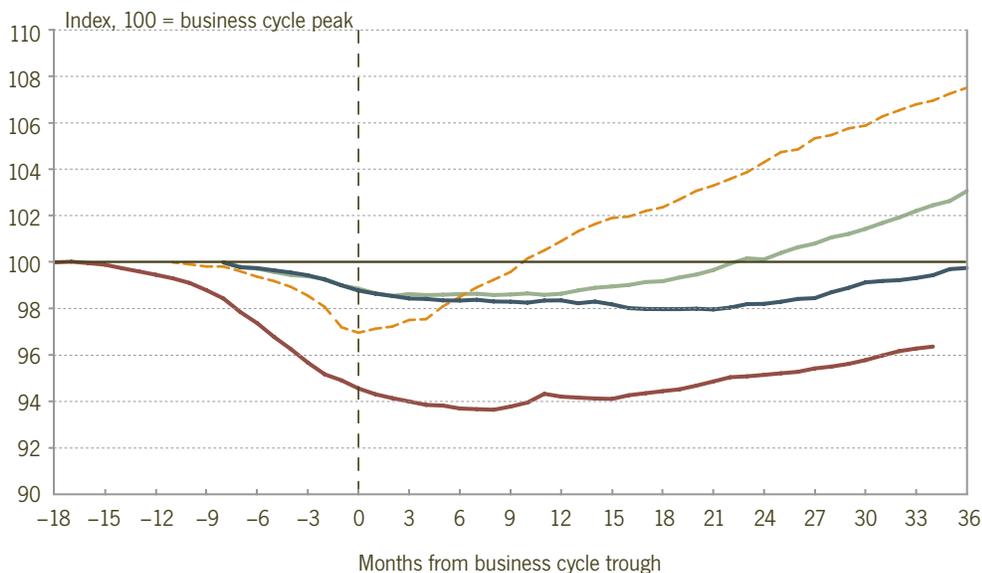
The pace of job creation and job destruction has fallen in recent decades. This might suggest a new normal of slow employment growth during recoveries.

Although the pace of job gains has been slow during the current recovery, in many ways the current trajectory is not all that surprising. Other recent recoveries also proceeded slowly.

While all recoveries in the post–World War II period until 1990 had generated enough jobs in their first 12 months to recover the jobs lost in the prior recession, no matter how severe that recession had been, the 1990–91 recession broke that pattern. And the term “jobless recovery” was introduced to the American vocabulary.

Many wondered whether the underlying structure of the U.S. economy had changed, possibly shifting from a more manufacturing-intensive employment base to one dominated by the service sector. Others implicated a move by employers away from temporary layoffs toward more permanent workforce reductions, consistent with the introduction of new technologies into their operations. No consensus explanation has emerged, but the sluggish employment growth that once seemed like a peculiarity of the recovery in the 1990s now seems typical.

Payroll Employment



Average, post-WWII business cycles before 1990^a

1990

2001

2007

^a Average includes eight cycles and is computed only when at least four cycles are available.

Source: Bureau of Labor Statistics.

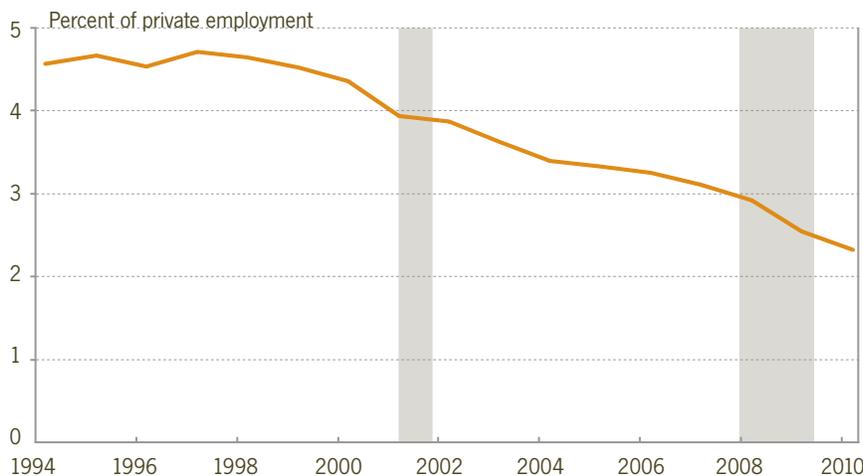
Gross Job Flows, Average Annual Rate as a Percentage of Total U.S. Employment

	GROSS JOB FLOWS				NET JOB GROWTH
	Creation		Destruction	Reallocation ^a	
	Total	Startups			
1980s	18.2	3.5	16.2	34.4	2.0
1990s	16.7	3.0	14.8	31.5	1.9
2000s	15.8	2.6	14.9	30.7	0.9

a. Reallocation is the sum of gross job creation and destruction.

Source: John Haltiwanger, Ron Jarmin, and Javier Miranda. 2011. "Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008–2009 Recession." Kauffman Foundation, Business Dynamics Statistics Briefing (March).

Jobs Created by New Businesses



Notes: Establishments less than one year old; shaded bars indicate recessions.

Source: Bureau of Labor Statistics.

To be sure, all recoveries are unique. But is there something in the way the U.S. labor market now functions that may make employment recoveries more protracted than they once were? One possibility is that the labor market simply isn't as dynamic as it used to be, slowing its recoveries.

The U.S. economy generates an almost staggering number of new jobs every year—generally on the order of 15 to 20 percent of existing employment, with a slightly smaller proportion of jobs lost. However, this churning, as economists call it, has slowed over time.

The Census Bureau shows a small but significant decline in gross job gains since the 1980s. The United States has gone from generating new jobs at an annual pace roughly equal to about 18 percent of existing employment in the 1980s, to 17 percent by the 1990s, and then to less than 16 percent during the 2000s. We also see this decline in dynamism of job creation from new firms.

According to the Bureau, new-firm job creation followed a pattern similar to the overall movement in gross job gains.

In the 1980s, startups created jobs at an average rate of about 3.5 percent of existing employment, but the comparable figures for the 1990s and 2000s were 3 and 2.6 percent, respectively. Labor Department data show a similar and sharper decline in jobs created by businesses less than a year old. The number of jobs created by these new businesses fell from 4.1 million in 1994 to 2.5 million in 2010.

This decline in job creation and job destruction is consistent with the patterns of job-finding and job-separation rates explored on pages 12–13 of this report. Both the job-finding and job-separation rates of workers have also fallen over the past several decades.

What is important to recall, however, is that this slowing in job and worker flows does not mean a rise in the natural rate of unemployment. Rather, it is consistent with a world where it takes longer for the labor market to adjust back to full employment levels. And it may mean that we all need to get accustomed to longer, slower employment recoveries.