

The Economy in Perspective

The big picture point by point, or "Sunday Afternoon on the Island of La Grande Jatte" (Georges Seurat, 1886) ... Economists who study labor markets and industrial organization have long recognized the general public's incomplete view of the dynamic processes at work in the U.S. economy that create and destroy both jobs and business establishments. When the evening newscaster blithely announces that 57,000 jobs were created in September, few people recognize that between August and September a very large number of people moved into new jobs, even as a similar number left old jobs; the 57,000 figure is the net result of two gross flows moving in opposite directions. The public will hear more about these underlying factors now that the Bureau of Labor Statistics has begun regular publication of its Business Employment Dynamics (BED) data.

Because these newly available statistics are collected from more than 6 million nonfarm business establishments in the United States, they make it possible to examine employment consequences from the perspective of business establishments. For example, the BED data indicate that during the fourth quarter of last year, the net loss of 70,000 jobs from the private sector resulted from 7.746 million job additions and 7.816 million cutbacks. Jobs were added when expanding establishments contributed 6.1 million jobs and opening establishments contributed 1.6 million. During the same quarter, jobs were destroyed when contracting establishments cut 6.2 million jobs and closing establishments eliminated another 1.6 million. The result of these factors, the net loss of 70,000 jobs mentioned earlier, represents less than one-tenth of 1 percent of net employment, but comes from a nearly 15 percent reallocation of labor (7.2 percent new jobs and 7.3 percent lost jobs) in just one three-month span. During that period, roughly one-fourth of the 6.4 million establishments tracked in the BED data set added jobs, one-fourth cut jobs, and one-half displayed no change.

Clearly, when gross flows are as consistently large as those revealed in the BED data, it is time to confront the reality of how the U.S. economy operates to reallocate employment across jobs and business firms. The 1992–2000 economic expansion provides an instructive example. During that period,

job gains from expanding establishments gradually rose from 5.5 million to 7 million per quarter, but job losses from contracting establishments drifted up as well, from 5.5 million to nearly 7 million per quarter. Until 2001, the gains always exceeded the losses. Net employment advanced considerably during the long expansion period, but not without considerable movement of people from one job to another as some establishments grew and others shrank. In addition, some people joined new establishments and left closing ones, roughly 2 million of each per quarter.

The most recent recession appears as a period in which job losses from contracting establishments rose sharply while job gains from expanding establishments fell sharply. At the end of 2002, each force accounted for roughly 6 million jobs in each direction, producing no net employment gain. The pattern of establishment openings and closings has not changed materially during the recession–recovery period.

Getting below the surface of the aggregate statistics will prove useful in understanding the employment dynamics of particular industries and regions, and how reallocating both capital and labor across establishments and regions improves the nation's productivity growth over time. For example, previous studies have shown that manufacturing firms tend to make their largest job-destruction decisions during economic downturns, and that manufacturing exporters tend to cluster in certain regions while manufacturing importers cluster in others. U.S. plants' survival, employment, and output seem to be adversely affected by import competition from low-wage firms. As U.S. firms adjust, they seek to increase their plants' capital intensity and hire employees who are more highly skilled. This process leads to productivity growth, but also to worker displacement that creates difficulties for regions with high concentrations of affected establishments. As the world's economies open up to more trade, each country faces challenges in reallocating resources to their most productive uses.

Just as Georges Seurat's greatest paintings used the pointillist technique of creating the whole with tiny points of color, so too the great panorama that is the U.S. economy is often depicted best by analyzing microdata.