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HISTORICALLY DEEP JOB LOSS, BUT NOT AN UNUSUAL RECOVERY

Decline in government jobs noteworthy recovery feature

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Two years since the *end* of the Great Recession, nearly 14 million Americans are unemployed and the unemployment rate remains over 9% (figures as of May 2011). The stubborn woes of the job market have led many to claim that economic policies enacted in recent years (particularly those strongly associated with the Obama administration) have delayed a more rapid recovery.

This claim is wrong. It is important to be clear about the actual root cause of today's economic problems: *the depth and severity of the recession that began in December 2007, the worst since the Great Depression.* The pace of private-sector job creation during the economic *recovery* that began in June 2009 is, in fact, faster than during the previous recovery and in line with the recovery of the early 1990s. The current ongoing decline in government jobs, however, is a historic anomaly.

Of course, the comparatively positive or in-line rate of private-sector job creation should not let today's policymakers off the hook—the nation's labor market remains terribly weak and the current slow pace of jobs growth overall will needlessly consign millions of Americans to joblessness for years to come. Effective job creation policies must become a true national priority.

This analysis compares employment trends over the first 23 months of the current recovery (June 2009 through May 2011) with trends during the first 23 months of other post-World War II recoveries. According to our analysis, the current overall employment trend actually compares *favorably* with the trend in the previous recovery in the early 2000s:

- Total employment is now higher than it was at the bottom of the downturn in June 2009, while at the equivalent stage of the previous recovery total employment was still below its level at the recession's trough.
- Nearly one million more workers have private-sector jobs than when the recovery began. Twenty-three months into the previous recovery, there were still one million *fewer* private-sector jobs than when the economy turned around.
- The overall level of employment grew over the first 23 months of the current recovery even though the nation was pulling out of a financial collapse and even though the number of government workers *fell* considerably. During the previous recovery, however, the number of government workers increased during the first 23 months of the recovery.

When the current overall employment trend is also compared with the trend in the recovery that began in March 1991, we find:

- Private-sector employment has grown at a similar pace during this recovery as during the recovery of the early 1990s. But in contrast to the falloff in government employment during the current recovery, government employment rose during the equivalent stage of the early 1990s.
- The reasonably favorable private-sector jobs trend during the current recovery compared with the last two is inconsistent with claims that an upsurge in regulations or uncertainty in areas such as tax policy are holding back private-sector job creation. For example, Congress in the early 2000s was not generally focused on a wave of regulations as a deterrent to the recovery. The unfavorable government-sector jobs trend during the current recovery, however, is consistent with concerns that further cutbacks in government spending could act as an additional drag on jobs and the economy.

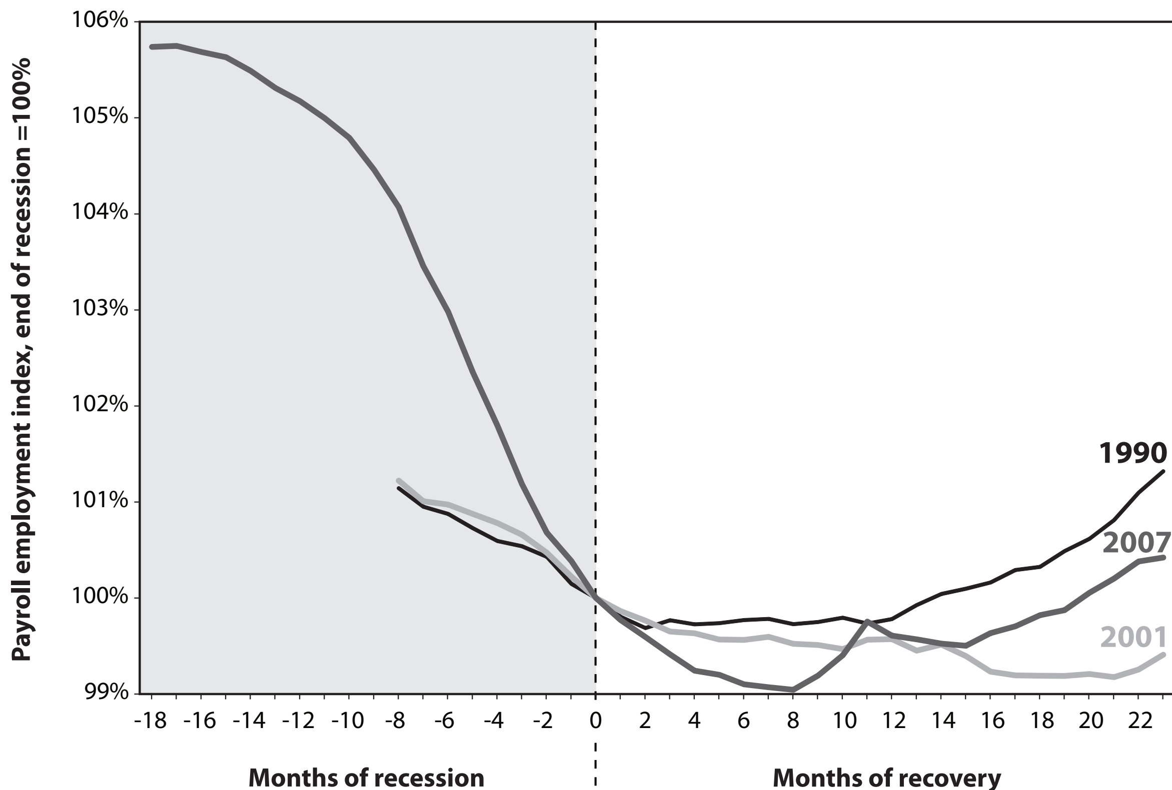
Broad comparisons to even earlier recoveries are also made here. The clear finding is that private-sector and government employment trends during the current recovery, as well as during the previous two recoveries, compare quite unfavorably to all other post-World War II recoveries (except for the period following the first leg of the double-dip recession during the early 1980s).

Comparing the Great Recession to previous recessions

Figure A compares employment losses during the Great Recession and subsequent job gains since the current recovery began with those during the previous two recessions. Specifically, the lines in Figure A show the level of payroll employment at different times in the recession/recovery relative to the end of the recession for each of the past three recessions. So for example, payroll employment fell more than 5% between the start and end of the current recession and is now only slightly above where it was at the end of the recession. Unlike many presentations of this data, the figure normalizes the indices at the end of each recession to enable comparisons among recessions. To the right of the dotted vertical line, one can see the performance of the economy in the *recovery* phase—and there is little to distinguish in the trajectory of the three lines. To the left of the dotted vertical line, one can see just how far payroll employment fell during the *recession* phase—and here the enormous difference in scale between the most recent and previous recessions is apparent.

FIGURE A

Employment changes during and after the last three recessions



NOTE: The line for each recession begins at the official start of the recession, so the length of the line to the left of zero indicates the length of each recession.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

In short, job loss during the Great Recession was well over twice as large (measured as a share of the total workforce) as during either of the previous two recessions. In fact, the Great Recession is far outside the experience of not just the prior two recessions, but any recession this country has seen since the Great Depression. While the labor market has now been adding jobs for 15 months, the overall jobs hole remains historically large because of just how far jobs fell during the recession.

Comparing the current jobs recovery to the last recovery

According to the National Bureau of Economic Research, the economy hit its recession trough in June 2009. (The NBER looks at the combination of a range of economic indicators to determine the month in which a recovery began, and the combination of these indicators can indicate a recovery even if employment growth has not begun.) Employment data now available up through May 2011 represent 23 months of the official recovery. This brief relies on historical data from the establishment payroll survey of the Bureau of Labor Statistics (BLS 2011).

A comparison of this recovery to the last one in the early 2000s is apt because certain characteristics of the current economy (such as the extent and nature of globalization) will naturally share more in common with the

economy of a decade ago than earlier economies. Further, both recessions were spurred by bursting asset-market bubbles and both led the Federal Reserve to keep the short-term rates that it frequently adjusts to achieve desired economic outcomes (the federal funds and discount rates) at extraordinarily low levels for extended periods of time. Much research has shown that recessions associated with financial crises tend to be followed by slower recoveries. (For example, a recent cross-country study of recoveries by the International Monetary Fund—Kannan 2010—found that "recoveries from recessions associated with financial crises in advanced economies tend to be sluggish affairs," with economic growth initially lagging that from other recoveries.)

Comparing the 23 months of this recovery with the first 23 months of the previous recovery (which began after the economy hit bottom in November 2001), we reach the following conclusions:

- Overall employment is 0.4 percent higher 23 months into the recovery than it was when the recovery began. At the equivalent point of the previous recovery, employment was 0.6 percent *lower* than it was at the trough of the recession (**Table 1**).
- Private-sector employment is 0.9 percent (or 980,000 jobs) higher than it was when the economy bottomed out; 23 months into the previous recovery, private-sector employment was still 0.9 percent (or 1 million jobs) *below* its level at the recession's trough (Table 1).
- Government employment is now 1.9 percent *lower* than it was at the start of the recovery, a drop of 430,000 jobs. In contrast, government employment rose by 1.1 percent (or 232,000 jobs) during the equivalent part of the last recovery (Table 1).

TABLE 1

Employment changes 23 months into the last three recoveries

	Employment (thousands)		
	Total	***Private***	***Government***
June 2009	130,493	107,936	22,557
May 2011	131,043	108,916	22,127
Change	550	980	-430
% change	0.4%	0.9%	-1.9%
November 2001	130,901	109,575	21,326
October 2003	130,128	108,570	21,558
Change	-773	-1,005	232
% change	-0.6%	-0.9%	1.1%
March 1991	108,535	90,047	18,488
February 1993	109,967	91,065	18,902
Change	1,432	1,018	414
% change	1.3%	1.1%	2.2%

SOURCE: Bureau of Labor Statistics, 2011.

- Nearly all the decline in government employment during this recovery has occurred at the local level. Local government employment is 407,000 lower than it was at the start of the recovery, with 187,000 of the losses occurring among local education workers. State government employment is 60,000 lower than at the recession's trough; federal government employment is 37,000 higher. The ripple effects of the cutbacks in government spending that have led to these local and state government employment losses also reduce private sector employment (Pollack, 2009).

Comparing this jobs recovery to the recovery of the early 1990s

While private-sector job creation in the current recovery has been roughly equivalent with private job creation in the recovery starting in March 1991, government employment in the current recovery fares much worse. As Table 1 also indicates:

- Twenty-three months into the recovery of the early 1990s, private-sector employment had grown by 1.1 percent compared with a 0.9 percent increase so far during this recovery. (It bears noting that job creation picked up considerably as the 1990s recovery progressed.) Twenty-three months into the early 1990s recovery, government employment was up 2.2 percent; in contrast, government employment has dropped 1.9 percent this time around.
- Largely because of the more favorable growth in government employment, overall job creation during the recovery of the 1990s occurred at a faster pace (up by 1.3 percent over the first 23 months of the recovery) than during this recovery (a 0.4 percent increase).

Comparisons to other post-World War II recoveries

The United States experienced eight economic recoveries from 1949 through the recovery starting in 1982. With the exception of the recovery from the first leg of the double-dip recession of the early 1980s, jobs grew at a much faster pace during those recoveries than during the current recovery or during the previous two recoveries.

On average, 23 months into the eight earlier recoveries, overall employment levels were 6.2 percent higher than when the recoveries began, private-sector employment was 6.5 percent higher, and government employment was 4.9 percent higher (see **Table 2**). Excluding the recovery from the first leg of the double-dip recession, overall employment gains 23 months into the recoveries averaged between 4.8 percent and 11.7 percent. Whether regarding private-sector or government employment, job trends during the last three recoveries failed to approach these levels of growth.

TABLE 2

Employment gains during recent recoveries versus earlier recoveries

	Change in employment 23 months after the recessions' troughs		
Post-WWII recoveries	*Overall*	*Private*	*Government*
Average of first 8 recoveries (1949-82)	6.2%	6.5%	4.9%
Average of last 3 recoveries since 1991	0.4	0.4	0.5

SOURCE: Bureau of Labor Statistics, 2011.

Implications

This review suggests that the slow pace of job creation during the current recovery is not altogether dissimilar from job creation during the previous two recoveries. While each of these three recoveries followed recessions that were spurred at least in part by financial market distress, the greater severity of the financial dislocations associated with the Great Recession of 2007 make it somewhat surprising that the current recovery has actually not been worse. Indeed, private-sector job creation during this recovery compares favorably with job creation during the last recovery and similarly to job creation during the recovery of the early 1990s.

Among other potential implications, these findings are inconsistent with the widely asserted claim that private-sector job creation is currently thwarted by an unusually large wave of new regulations or uncertainty in areas such as tax policy. For instance, strong, repeated claims that uncertainty over more stringent environmental regulations was holding back job growth were not made during the recovery of the early 2000s.

Another implication of these findings concerns the most unusual aspect of this recovery compared with virtually all other recoveries: the direction of government employment. The overall number of people employed by government is *lower* now than it was at the start of the recovery. It is even lower now than at the start of the recession. These trends depart from rising government employment at this stage of the previous two recoveries as well as rising government employment during all other eight post-World War II recoveries, except for the recovery from the first stage of the double-dip recession of the early 1980s.

Because government employment has been a feature of previous recoveries but not this one, policymakers should think carefully about further government spending reductions. Among other damaging consequences, such reductions could result in government employment declines continuing to tamp down overall employment. In fact, if government employment growth in the current recovery matched the average of the last two recoveries (1.7% growth), the economy today would have 800,000 more jobs, even disregarding the ripple effects on private sector employment. This would not solve all of today's labor market crises, of course, but these jobs would knock at least a half of a percentage point off of the current unemployment rate.

Most broadly, as underscored in this review of job trends during recovery periods, the most recent three job recoveries lag behind the recoveries that occurred between the end of World War II and the early 1980s. Because the scale of job destruction during the Great Recession was much larger than in any recession since World War II, we should not expect a rapid return to labor market health without purposeful policy changes aimed at reinvigorating job creation in this country.

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