Job Loss Curves

[This is a letter I sent to friends on March 7, 2009 about the worsening unemployment situation aspect of the current economic crisis. –S.H.]

Hi everybody,

The *New York Times* article below worries (appropriately!) that there may be structural changes going on in the U.S. economy which means that many of the jobs being lost right now are being *permanently lost.*

I tried to include a graphic that accompanied this article but for some reason was unable to incorporate it into this email. Anyway, that graphic compares the job loss curve so far this time around with those of other recent recessions. During recessions several decades ago the curve was shaped like a “V”; that is, fast and sharp job losses, but then almost equally fast job recoveries after the recession. But over time the job recovery part of the curve has been slower and slower, with the worst example being the extremely slow rate of new jobs added after the 2000-2001 recession. The question this time is whether there will be any job recovery at all!

Why has this trend developed? There are several factors here. One of the most important is the gradual decline of American manufacturing as a proportion of the economy. Equally important is the continual increase in productivity, especially in manufacturing, but also even in the service sector lately (because computers are finally starting to make a big difference there).

These things mean that fewer people are needed to do the same work that was done before, and even a substantially *greater* amount of work than before. So if there are to be new jobs, those jobs will have to be doing things that were *NOT* being done at all before. But these are very slow to develop.

In short, there is a tendency in the economy toward requiring an ever smaller percentage of the population in the work force.

This trend has been mostly hidden over the past couple decades by the colossal growth of a parasitic service industry, especially financial “services”. But much of that parasitic layer is now itself being dismantled, and not just temporarily so, but permanently so.

There have been writers who have seen this coming, but who perhaps were a little too prescient, and predicted it too early. (Hence they were too quickly dismissed.) One example is the non-Marxist sociologist Jeremy Rifkin, in his 1995 book *The End of Work.*

The huge additional factor this time, however, is that this overproduction crisis seems unlikely to be contained at all. In other words, what we have here is a developing full-scale depression, and not just another mild recession. No doubt this development will take several years to fully materialize, and during that period there will be some weak, partial and temporary interludes in which the *rate* of decline eases or even slightly reverses itself for a short time. Personally, I would not be surprised to see the first of these during the second half of 2009, followed by the first relapse around the end of the year or in early 2010. [It now appears that this renewed decline will not commence until the second half of 2010. –S.H.

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At any rate, the overall economic trend over the next few years will almost certainly continue to be down.

In recessions the worst unemployment levels are at the end. That is, production starts to rise before the last layoffs have occurred. IF (as I don't believe) this is just another recession, then the unemployment rate is *still* going to rise for many months, and will almost certainly rise above 10% (even using the phony official statistics).

In the First Great Depression (of the 1930s), the worst unemployment rates in most countries occurred around 1933, about 4 years into it. This time around, it will take at least that long to reach the bottom because of the much more determined government intervention this time (much greater Keynesian deficits, etc.). So I would predict that the current rise in real unemployment will continue for years, with occasional changes in the rate of increase in unemployment. (That is, the rate of *increase* in unemployment will go up and down depending on how big new government anti-depression programs are.) There might even be the possibility of a few very small and short drops in unemployment amidst the overall "secular" increase.

But the fact is that many millions of jobs are now being lost, and they will not be coming back.

When you read about how the government is promoting "job training" in the midst of all this you have to laugh! Training for *WHAT* new jobs?! That is just a joke and a fraud when the capitalist economic system will be creating few if any new jobs from now on.

There is no solution to this problem of the massive disappearance of jobs under capitalism; no solution whatsoever. And ideologically society is not yet prepared to make the leap to (real) socialism. So we are in for some very prolonged, very hard times.

Scott

New York Times
March 7, 2009

Job Losses Hint at Vast Remaking of Economy

By Peter S. Goodman and Jack Healy

As government data revealed that 651,000 more jobs disappeared in February, a sense took hold that growing joblessness may reflect a wrenching restructuring of the American economy.

The unemployment rate surged to 8.1 percent, from 7.6 percent in January, its highest level in a quarter-century. In key industries — manufacturing, financial services and retail — layoffs have accelerated so quickly in recent months as to suggest that many companies are abandoning whole areas of business.

“These jobs aren’t coming back,” said John E. Silvia, chief economist at Wachovia in Charlotte, N.C. “A lot of production either isn’t going to happen at all, or it’s going to happen somewhere other than the United States. There are going to be fewer stores, fewer factories, fewer financial services operations. Firms are making strategic decisions that they don’t want to be in their businesses.”

This dynamic has proved true in past recessions as well, with fading industries pushed to the brink during downturns before others emerged to create jobs when economic growth inevitably resumed. But with job losses so enormous over such a short period of time, some economists argue that the latest crisis challenges the traditional American response to hard times.

For decades, the government has reacted to downturns by handing out temporary unemployment insurance checks, relying upon the resumption of economic growth to restore the jobs lost. This time, the government needs to place a greater emphasis on retraining workers for other careers, these economists say.

The grim scorecard of contraction in the American workplace released by the Labor Department on Friday largely destroyed what hopes remained for an economic recovery in the first half of this year, and it added to a growing sense that 2009 is probably a lost cause.

Most economists now assume American fortunes cannot improve before the last months of the year, as the Obama administration’s $787 billion emergency spending program begins to wash through the economy.

“The current pace of decline is breathtaking,” said Robert Barbera, chief economist at the research and trading firm ITG. “We are now falling at a near record rate in the postwar period and there’s been no change in the violent downward trajectory.”

The monthly snapshot of the national employment picture revealed an even bleaker picture as the government revised upward the job losses in December and January. The economy has shed at least 650,000 jobs for three straight months, the worst decline in percentage terms over that length of time since 1975.

Since the recession began, the economy has eliminated a net total of roughly 4.4 million jobs, with more than half of those positions — some 2.6 million — disappearing in the last four months alone. This rapid deterioration has prompted talk that some industries are being partly dismantled. Layoffs are multiplying because of dysfunction in the financial system, which is prompting even healthy companies to shed workers and shut down operations out of concern they may soon lose access to credit.

“Everybody is so fearful that companies are thinking, ‘What can we hang on to and what should we liquidate?’ ” said Martin N. Baily, a chairman of the Council of Economic Advisers under President Clinton and now a fellow at the Brookings Institution. “A lot of the reduction in employment is businesses deciding to close down operations or get out of a line of certain activity.”

American car sales have dropped to an annual pace of nine million, from some 17 million in 2007. Even if sales increase considerably, that is likely to leave a lot of unneeded auto factories.

“The decimation of employment in legacy American brands such as General Motors is a trend that’s likely to continue,” said Robert E. Hall, an economist at Stanford University’s Hoover Institution. “We have to stimulate the economy to create jobs in other areas.”

In February, 168,000 more manufacturing jobs were eliminated, bringing losses over the last year to 1.2 million. In Michigan, where the troubles of the auto industry have been particularly traumatic, the unemployment rate sits at 10.6 percent, the highest of any state in the nation.

"The people who do what I do in the Detroit area are a dime a dozen," said Kim Allgeyer, 46, a machine toolmaker in Westland, Mich., who was laid off in January from a company that makes assembly lines for the automakers. Unable to find another full-time job, he is subsisting on day labor and one-week stints for contractors. "Who's going to put me to work?" he asked. "Where's the work at? It's just a great big black hole."

Much the same can be said for financial services, which gave up 44,000 jobs in February. During the housing boom, banks hired tens of thousands of well-compensated traders, analysts and marketers to sell mortgage-backed securities and other investments. That industry is unlikely to return to its former shape.

Retailers are shuttering stores as the era of easy money fueled by rising house prices and abundant credit gives way to a period in which millions of households are forced to confine their spending to their paychecks. The economy lost 39,500 retail jobs in February, and has eliminated more than 500,000 in the last year.

President Obama pointed to the latest evidence of distress as justification for a muscular, government-led effort to generate jobs quickly.

"This country has never responded to a crisis by sitting on the sidelines and hoping for the best," the president said in an appearance in Columbus, Ohio. "Throughout our history we have met every great challenge with bold action and big ideas."

The stimulus spending bill signed last month includes $4.5 billion for job training. That only begins to address an area long neglected, said Andrew Stettner, deputy director of the National Employment Law Project in New York. In current dollars, the nation devoted the equivalent of $20 billion a year to job training in 1979, compared with only $6 billion last year, Mr. Stettner said.

"We have to seriously look at fundamentally rebuilding the economy," he said. "You've got to use this moment to retrain for jobs."

Friday's report reinforced how much the economy is being assailed at once by falling household spending power and the financial crisis, with companies resorting to wholesale layoffs after months of merely declining to hire.

Transportation and warehousing lost 49,000 jobs in February. Employment services shrank by 88,000 jobs. Hotels and restaurants lost 32,000 jobs. Health care remained a rare bright spot, adding 30,000 jobs.

Some suggested the job cuts reflected the anxiety that gripped the financial system after Lehman Brothers failed. Borrowing costs have spiked for American companies, making businesses reluctant to expand and hire. And many companies remain spooked by the Wall Street collapse.

"There was a huge increase in uncertainty and a huge hit to confidence which caused a large rethinking among businesses," said Ethan Harris, co-head of United States economics research at Barclays Capital.

In similar crises, like the stock market crash of 1987 and the near collapse of the enormous hedge fund Long Term Capital Management in 1998, dysfunction continued for about six months, Mr. Harris said. But history also shows that when fear lifts, the economy returns to wherever it was when the crisis began, he said, suggesting the recession is likely to continue for many more months.

[End]