Mitchell's Musings 11-28-11: The Recovery Has Left Many People Jobless – But is it Really a "Jobless Recovery"?

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The New York Times carried an op ed dated November 24 which dealt with high unemployment.[1] Obviously, high unemployment remains a major problem and needs discussion. But the op ed seems to take it for granted that the future – thanks what used to be called "automation" back in the 1950s – will forever be one of "superfluous" workers.[2] And it uses the phrase "jobless recovery" to describe the current situation.

"…When the jobless recovery ends and the economy is restored to good health, today's surplus will be reduced. New technology and the products and services that accompany it will create new jobs. But unless the economy itself changes, eventually many of these innovations may be turned over to machines or the jobs may be sent to lower-wage economies. In fact, if modern capitalism continues to eliminate as many jobs as it creates — or more jobs than it creates — future recoveries will not only add to the amount of surplus labor but will turn a growing proportion of workers into superfluous ones…"

I see two big problems with both the interpretation and the terminology. The automation scare of the 1950s was followed by an economic boom in the 1960s which brought about low unemployment. The 1960s were followed by stagflation in the 1970s, in which unemployment fluctuated – sometimes high; sometimes low – but with ongoing inflation problems. There was some revival of the automation scare in the 1970s. But in fact folks back then became more concerned about a seeming slowdown in productivity growth – which meant the previous trend toward less and less labor per unit of real GDP was fading away. A national Productivity Commission was even established to determine what to do about lagging productivity growth; the concern was that maybe the U.S. wasn't automating enough – a kind of lack-of-automation scare! Then there was a boom following the double-deep recessions of the 1980s and, as unemployment fell, whatever remained of the automation worry – and the lack-of-automation worry - seemed to vanish.

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[1] Herbert J. Gans, "The Age of the Superfluous Worker," *New York Times*, November 24, 2011. http://www.nytimes.com/2011/11/25/opinion/the-age-of-the-superfluous-worker.html?ref=opinion

[2] News reports and popular culture in the 1950s reflected that concern. For a serious news report from that era, see http://www.youtube.com/watch?v=8odWZgFBqxQ. For popular culture, see http://www.youtube.com/watch?v=gd5CoMeip9o.

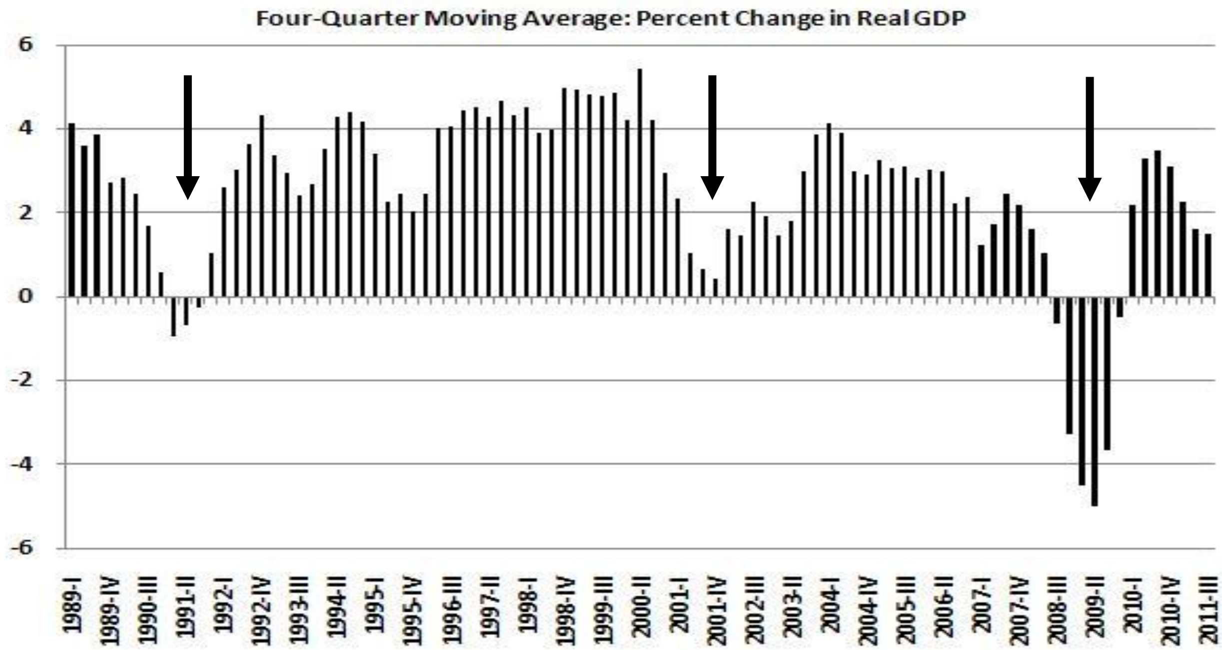
The lessons of history concerning “modern capitalism” and of versions of the automation scare seem to be that such scares come and go with the rate of unemployment and casual perceptions of technology. Of course, history doesn’t determine the future. Maybe - to use the phrase more typically applied to rationalizing bubbles before they burst - “this time it is different.” But I get nervous when history is ignored. And I get particularly nervous when talk of high unemployment and of automation (nowadays dubbed “technology”) become intertwined, since the implication is often taken to be that nothing can be done.

What about terminology? The phrase “jobless recovery” came into vogue in the aftermath of the recession of the early 1990s. Except in my home state of California – which had to deal with the end of the Cold War and the consequent decline in aerospace – that recession was quite mild. But at least in the early stages of recovery, employers seemed reluctant to hire. Of course, by the end of the 1990s, unemployment was quite low and there was plenty of hiring going on. But then there was another mild recession and folks again started talking about a possible jobless recovery.

The key point about the recessions of the early 1990s and early 2000s was that they were *mild* but unemployment went up and took awhile to come down. It may be that employers in those two episodes were especially cautious about making hiring commitments. In the early 1980s, there had been a double-dip recession with the second one being quite severe. So less than a decade later, employers may have decided to wait and see whether another dip was coming after the mild recession of 1991. The recession in the early 2000s was accompanied by unusual events: the dot-com stock bust and then the September 11 terrorist attacks. So, again, employers may have been nervous about what might follow and thus were cautious in hiring.

The chart on the next page shows the annualized quarterly changes in real GDP from 1990 to 2011, smoothed using four-quarter averaging and with three recessions marked with arrow. It is clear from the chart that the aftermath of the Great Recession was unlike that of the mild recession of the early 1990s – when the “jobless recovery” phraseology came along – and unlike that of the mild recession of the early 2000s. The key feature of the Great Recession was that it was anything but mild.

If you have a deep, deep recession, you are going to have substantial unemployment as a result. Nor has the recovery since the latest recession officially ended been particularly robust. Indeed, while real GDP continues to grow, its pace of growth has tapered off.



The recovery after the latest recession can be characterized as jobless – in the sense that unemployment shot up and has remained high. But it has not been a "jobless recovery" in the sense in which that terminology has been previously used. We are not viewing a puzzle in the current period in which employers seem to be overly cautious about hiring despite having experienced only a very mild recession. Employers in recent years have experienced a very deep recession. And they have been beset with fears that there could be yet another downturn stemming from such events as the current euro crisis. So they are reluctant to hire.

There is nothing really surprising going on today that points to some break in trend or some grand structural shift. As Calvin Coolidge (supposedly) said, "When a great many people are unable to find work, unemployment results." In short, there is much joblessness today, but is it really a puzzle why that is so? Let's put off great speculations about possible future trends and focus on the obvious.