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Some Truths About U.S. Job Losses

By Anthony Downs

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Job growth is crucial to real estate markets, but knowing the truth about employment today is difficult because of political exaggeration in the presidential campaign. This column examines some claims being made and provides an objective view of relevant relationships between jobs and real estate.

We often hear President Bush blamed for the loss of 2.5 million jobs since taking office in 2001. Is this true? Bush became president at the end of a general boom that started in February 1992 and peaked in total jobs in March 2001, when 132.7 million people were employed in non-agricultural jobs.

Subsequent job declines were the result of events that occurred long before he arrived in Washington, D.C. One event was the continuation of the stock market crash that began after stocks peaked in early 2000. So, the Internet bubble and the business cycle — not President Bush — are responsible for the recent decline in employment.

A Historical Comparison

How do recent job losses compare with those in the early 1990s? Employment data from the Council of Economic Advisers tells the story. From March 2001 to July 2003 — the low point for jobs in this cycle — total non-agricultural employment fell by 2.8 million jobs. In the previous cycle, the peak-to-trough drop was the same.

Thus, job losses in this recession were the same as in the previous recession, but were a smaller percentage of total jobs. The current decline was 2.12%, whereas the previous decline was 2.48%. The peak-to-trough period this time was 28 months. In the 1990s, it was 20 months.

The current economic recovery is comparatively slow. By January 2004, 34 months had elapsed since employment peaked in March 2001. In the 1990s recession, when 34 months had passed from the preceding peak, jobs had recovered to just 774,000 below the peak. In this cycle, 34 months after the job peak, employment was still 2.5 million below the peak.

Yet almost all federal fiscal and monetary policies have been expansionary. Congress cut taxes and increased federal spending. The Federal Reserve has kept interest rates at record lows and pumped up the money supply. So, government policy cannot be blamed for this slow recovery.

In this cycle, job losses have hit the manufacturing sector particularly hard. In fact, manufacturing employment reached a high of 21.2 million in 1979 and has been gradually declining for most of the past 25 years. Yet because of rising productivity, manufacturing output has not fallen commensurately.

From March 2001 to January 2004, manufacturing jobs shrank by 3.8 million. That loss was 1.3 million more than the drop in total jobs (down 2.5 million). Thus, non-manufacturing jobs have actually increased by 1.3 million (1.1%) since the previous overall job peak in March 2001.

The recent loss in U.S. manufacturing jobs has partly resulted from the 40% increase in the world's total labor supply caused by the modernization of China. That change has driven down wage rates worldwide, and moved many jobs away from the U.S. and elsewhere.

But China's influence has had a positive impact, too. It kept world inflation low, and the Chinese government bought lots of U.S. Treasury bonds, helping to depress interest rates.

Another claim is that the U.S. is losing well-paying service jobs to cheaper overseas workers. Some Democratic candidates argue we should prevent employers from outsourcing any jobs overseas. Yet total service jobs are up 1.3% since March 2001, led by education, health care, financing and real estate (up 8%), and government (up 3.8%). And both corporate profits and consumer purchasing power benefit when firms use cheaper labor overseas.

The Value of an Educated Workforce

True, we need better retraining programs and more economic aid to displaced workers to offset the harmful impact of overseas outsourcing. However, retreating into protectionism by blocking outsourcing would be foolish. The most effective long-term way to sustain U.S. job growth is to improve the education of our own labor force. Then U.S. workers will be able to perform the high-tech jobs created by future innovations.

The weakest part of our educational system is our big-city public schools. In 59 of our largest city public school systems in 2001-2002, 62% of the students were from low-income households and student dropout rates were high. Educational performance in these systems lags far behind that of most suburban systems.

The key to strong U.S. job growth is to reduce the concentration of poor households by creating more affordable housing in the nation's suburbs where most job opportunities will arise. Then, these children can attend better schools and be ready to perform tomorrow's high-tech jobs.

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