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## The Recession's Over, but Not the Layoffs

By [PETER S. GOODMAN](#)

The Great Recession is over — not officially, but by popular acclaim — and in this accepted fact we are invited to take comfort, even as the unemployment rate last week rose into double digits for the first time in a quarter-century.

Experts have long assured us that economic life is governed by the business cycle, a repeating loop of downturn followed by expansion, as reliable as the seasons. In this context, worsening joblessness is like a punishing blizzard in April: Misery notwithstanding, the calendar promises spring.

But just as [climate change](#) has altered how we contemplate the seasons, some economists argue that the business cycle no longer operates as it once did, failing to replenish the jobs it destroys, and leaving our economy vulnerable to a potentially long-term shortage of work.

The tools we use to assess the business cycle date back to the 1920s, when the economy looked much different. Manufacturing jobs have declined sharply as a percentage of overall employment, while services have emerged as the primary economic engine. Automation and globalization have supplied thrifty corporate managers with myriad ways to boost production without hiring.

“It’s a change in the structure of the business cycle,” argues Allen Sinai, chief global economist at the research firm Decision Economics, who has put together a panel to discuss the subject at a January meeting of the American Economic Association in Atlanta. “There appears to be a new tendency to substitute against labor. It’s permanent, as long as there are alternatives like outsourcing and robotics.”

Certainly, those inclined to argue that commercial life has been remade are frequently chastened when — as often happens — the dusty old laws of economics reassert themselves.

During the technology boom of the 1990s, some hailed a New Economy that supposedly liberated us from the tyranny of the business cycle while explaining how companies that never earned a nickel could be worth more than established brands. When arithmetic returned, the New Economy became synonymous with silliness.

This decade, as investors bid housing prices to levels that breached all connection to incomes, some economists argued that the booms and busts of real estate had been rendered inoperative by financial innovation. We know how that turned out.

But the latest reassessment of the business cycle now has a couple of decades of data to consider. After [recession](#) gave way to expansion in March 1991, it took a year before hiring resumed in earnest — a so-called jobless recovery. After the following recession ended in March 2001, two years passed before jobs grew. Many economists assume that the third straight jobless recovery has already begun, as nervous businesses — worried about the lingering bite of the [financial crisis](#) and weak prospects — continue to hold back on hiring.

This is not how things are supposed to go, not according to our traditional view of the business cycle. When the economy is growing, businesses hire aggressively as they increase production and sell more goods. As workers spend their paychecks, they distribute dollars throughout the economy, creating business opportunities that prompt other companies to hire — a virtuous cycle. As growth slows, companies let people go, then hire anew when new opportunities emerge.

Our unemployment insurance system is built for this kind of boom and bust cycle, giving furloughed workers some cash to tide them over until their companies call them back.

But as Mr. Sinai and his colleagues see things, our view of the business cycle is antiquated. They say it fails to account for the critical role of finance and changing appetites for risk that can influence economic growth; that, crucially, it dates to a time when manufacturing employed roughly one-third of the American workforce, well before what we now call the global economy.

In the middle of the last century, a retailer in Chicago who needed goods likely had to place an order with a factory in the Midwest. Today, that retailer could well be part of a conglomerate that taps a global supply chain; it sends its orders to workers in China and elsewhere, or to domestic factories that can increase production

without hiring many more people, either by further automating or by bringing in temporary workers.

Of course, automation can itself create extra factory jobs for American firms that make robotics, and these companies increasingly export their gear to the same factories in China that produce goods now landing on shelves in Chicago. Yet the overall trend appears to make many American companies less inclined to hire, reluctant to take on cost in an increasingly competitive marketplace.

Not everyone buys into this view. Labor-oriented economists like Lawrence Mishel at the [Economic Policy Institute](#) in Washington argue that the business cycle works the same as it always did; the problem is that economic growth has been weak in recent times.

“When growth comes back,” Mr. Mishel said, “so will jobs.”

Others suggest that the business cycle has not changed, but rather that we have developed unrealistic assumptions about the bounty that should accrue in good times. In this view, our expectations have been perverted by an unhealthy reliance on credit in recent years.

Kenneth S. Rogoff, a Harvard economist and co-author of a history of financial crises, “This Time Is Different: Eight Centuries of Financial Folly,” recalls that when he was a graduate student, most economists viewed the normal level of unemployment to be about 7 percent.

But over the last decade, as the Federal Reserve relied upon excessively low interest rates to spur economic activity, the norm slipped steadily lower, with some proclaiming that unemployment had effectively been tamed and could remain permanently in the vicinity of 5 percent.

As Mr. Rogoff portrays it, what may seem like weak hiring in recent times is really just a return to normal. Eventually, after the lingering dysfunction of the financial crisis gives way to a more healthy flow of money, enabling more businesses to borrow and expand, unemployment will settle in to a long-term average of about 6 percent, he says.

In other words, recession still turns to expansion, much as spring follows winter, but the warm months may not be as bountiful as in years past, when easy money fertilized outlandish crop production.

In any event, we'd best get ready for leaner harvests.

*Peter S. Goodman is the author of "Past Due: The End of Easy Money and the Renewal of the American Economy."*

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