The U.S. Labor Market Is Far More Stable Than People Think

BY J. JOHN WU AND ROBERT D. ATKINSON | JUNE 2016

While people feel less secure in their jobs now than in the past, employment data tell a different story. Job security has in fact steadily improved since the 1990s.

A prevailing narrative that serves as a backdrop for the 2016 presidential campaign is that Americans now live in an economy of perpetual job insecurity, in which they are easily and frequently laid off, from both high- and low-level jobs. Indeed, job satisfaction surveys conducted by the Conference Board confirm that this sense of insecurity is increasingly widespread. In 1987, a solid majority of U.S. workers (59 percent) said they felt their jobs were secure; by 2014, less than half felt that way (47 percent).[1] Yet while people feel less secure now than in the past, employment data tell a different story. Job security has in fact steadily increased since the 1990s: The number of jobs lost each year, as a share of all jobs, has gone down. The number of jobs lost to firms downsizing or closing also has dropped. Meanwhile, the number of new job postings, as a share of all jobs in the economy, has surged since the Great Recession. This mismatch between perception and reality is potentially dangerous, because if lack of confidence in the labor market persists, it could trigger a political push for unduly restrictive labor protections or opposition to disruptive technologies, which could backfire by stifling innovation and hampering growth.

This report looks at labor market data from the U.S. Bureau of Labor Statistics (BLS) and finds that job security has risen over the years, and that the general perception of job insecurity is therefore misguided. The more significant problem is two-fold: skills mismatches in which employers are unable to find candidates with the necessary qualifications for the job openings they have and reduced opportunities for new job creation, both of which feed workers' anxieties about their prospects.

THE NARRATIVE OF "THE NEW NORMAL"

A wave of books, news articles, and commentary in recent years has reflected the general public's growing perception that job insecurity is a permanent feature of the modern economy. "Worried about your job? Get used to it," says CNN Money.[2] Echoing that sentiment, University of Virginia professor Allison Pugh argues in *The Tumbleweed Society* that modern workers have resigned themselves to the fact that job insecurity is now an immutable element of the economy, so they have no choice but to drift helplessly from job to job, pushed along by winds they cannot control.[3] And social scientists Simon Winlow and Steve Hal contend in *Rethinking Social Exclusion* that, "insecurity and precariousness in the workplace and the broader society are in fact the 'new normal'."[4] How did this broad narrative of shrinking job security take hold? Some assert that the rise of globalization and the digital economy have reshaped the labor market by introducing massive disruptions, which are displacing huge numbers of workers. Jonas Prising, CEO of ManpowerGroup, describes it this way:

> Changes in the world of work are accelerating at a pace and scale never seen before. A perfect storm of structural and cyclical forces, from shifting demographics and rapid globalization to technological revolution, has created a highly uncertain business environment and knocked labor markets out of sync. From this "new normal" of instability and market disruption, new ways of getting work done are emerging.[5]

Others, such as Klaus Schwab, head of the World Economic Forum, contend that "as entire industries adjust, most occupations are undergoing a fundamental transformation. While some jobs are threatened by redundancy and others grow rapidly, existing jobs are also going through a change in the skill sets required to do them."[6] Sara Horowitz, the founder and executive director of the Freelancers Union, asserts that the rate of technological disruption and transformation is at an all-time high. Horowitz argues that the current level of technological dislocation will completely change how the economy works, much the same as the spread of railroads in the early 19th century and the introduction of mass production in the early 20th century reshaped the U.S. economy.[7] A diverse range of professionals share this perspective. Vivek Wadwa, with the Rock Center for Corporate Governance at Stanford University, writes, "We're entering an era where human beings are becoming dispensable in more parts of the economy and at a faster rate than ever before."[8]

This sense of anxiety is not isolated to the United States, either. For example, feelings of job insecurity are at a 20-year high in the United Kingdom.[9] As such perceptions grow worldwide, it is important to recognize that job insecurity, real or perceived, negatively impacts workers' wellbeing.[10] When workers feel threatened with job insecurity, it affects their mental and physical health. Psychologists find that individuals who feel greater job insecurity tend to have higher levels of emotional exhaustion and will allow work to come into conflict with their personal lives more regularly than individuals who do not.[11]

WHY PERCEPTIONS OF JOB INSECURITY ARE IMPORTANT TO INNOVATION

As this paper will show, claims like those above completely ignore the evidence that the labor market is the most stable it has been in the past 20 years. But if people's perceptions do not match reality, then it is likely there will be knock-on effects that could undermine growth—because pressures for stability will likely lead to opposition to innovation and globalization.

As unease grows, individuals may push lawmakers to enact stronger labor protections. But such laws could act as a drag on productivity if they limit the ability of firms to restructure work, as we see currently in Europe.[12] Even more detrimental to innovation, workers and lawmakers may resist productivity-enhancing disruptions such as new information technologies or labor-saving robotics, even when such disruptions improve the economy.

Since the United States is not in anywhere near as precarious a position as people seem to think, perpetuating the fallacy that job insecurity is high will only hurt the country's competiveness and ability to innovate.

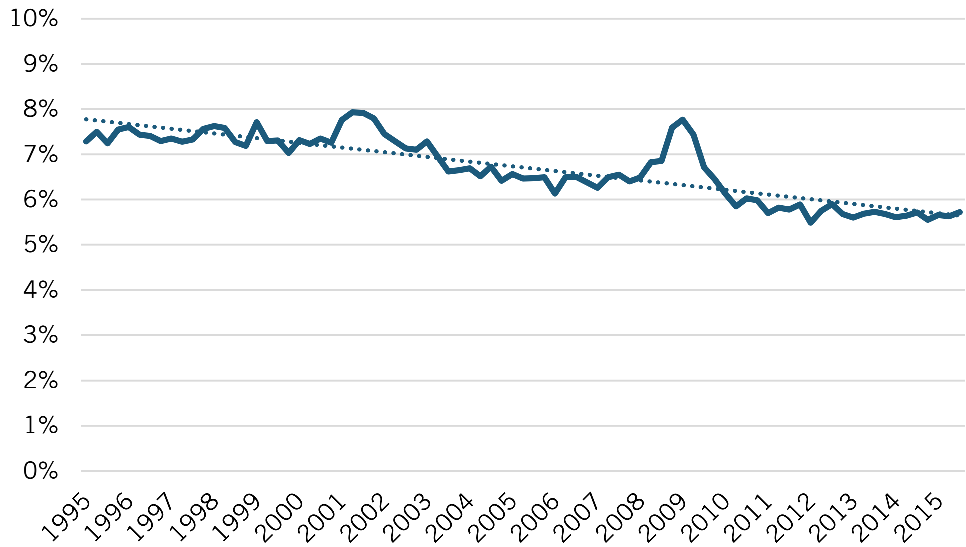
If job insecurity were in fact high, such an outcry would be understandable. However, since the United States is not in anywhere near as precarious a position as people seem to think, continuing to perpetuate the fallacy that job insecurity is high will only hurt the country's competiveness and ability to innovate.

JOBS ARE MORE SECURE NOW THAN THEY HAVE BEEN IN DECADES

BLS data clearly disprove the idea that average American workers are trapped in a perpetual state of job insecurity, regardless of how much they may happen to earn. In fact, Americans today are less likely to lose their jobs than they were in the 1990s. Looking at the broadest measures of total job loss—defined as jobs eliminated when an establishment closes down or downsizes—the U.S. economy has seen fewer jobs lost as a share of total employment, with similar trends at the individual industry level. Because each establishment is a single physical location that either produces goods or provides services, a single business may have one or more establishments. As seen in figure 1, U.S. workers in 1995 had around a 7.3 percent chance that their jobs would be eliminated in any given quarter. Two decades later, that figure was down to 5.7 percent.

Workers' relative job security remained stable from 1995 to 2000, with about 7.5 percent of jobs within the economy being eliminated each quarter either from establishments closing or downsizing. The recession at the start of the 21st century and the Great Recession of 2008 both caused job losses to spike. However, increased job volatility is expected during economic downswings. Since the end of the recession in the early 2000s, job losses have steadily declined as a share of all jobs in the economy. Between 2002 and 2015, job losses decreased by 1.6 percentage points as a share of total employment. These data indicate a more secure labor market overall.

Figure 1: Quarterly Job Losses as a Share of Total Employed[13]



Jobs can be eliminated when establishments close because the company goes out of business, closes a facility, or cuts back on its number of workers.[14] The risk of losing one's job to either closings or contractions has decreased since 1995, as given by figure 2 and figure 3.

Figure 2: Quarterly Job Losses Due to Closings as a Share of Total Employed[15]

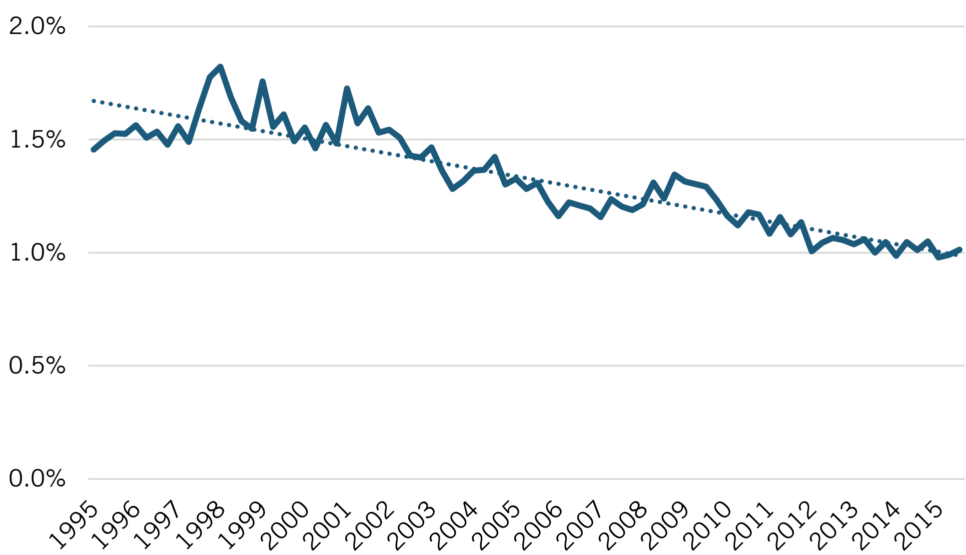
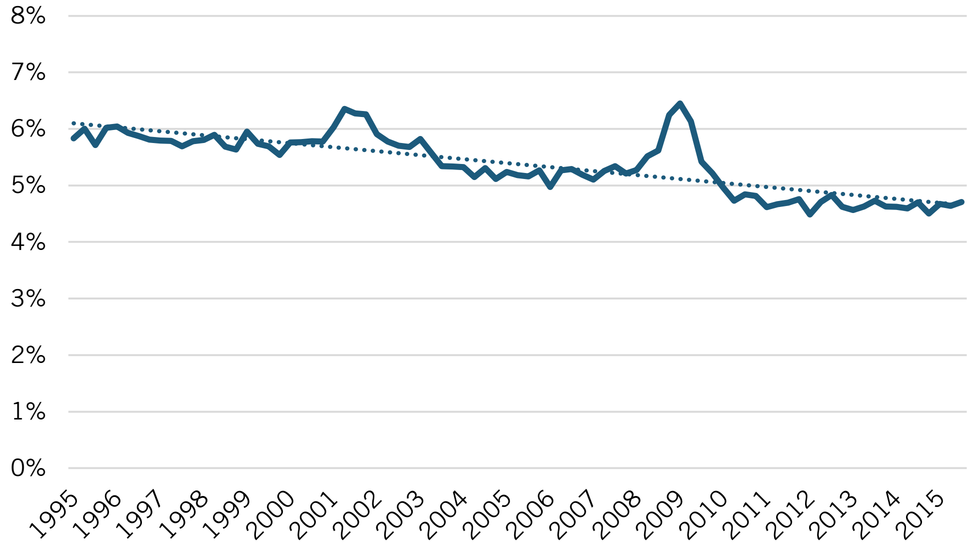
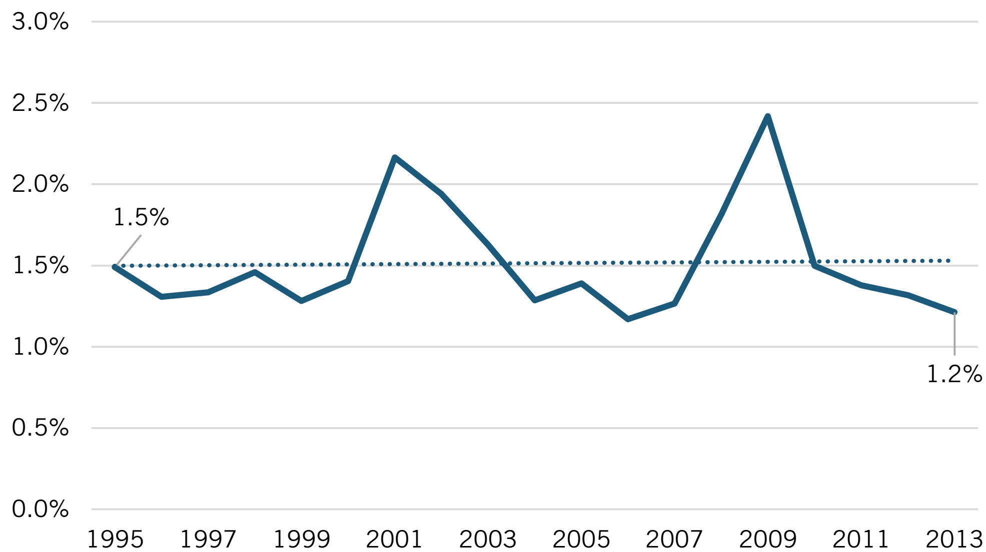


Figure 3: Quarterly Job Losses Due to Contractions as a Share of Total Employed[16]



Job losses through either establishments closing or contracting have gradually decreased since 1995. Comparing both trends from 1995 to 2015, jobs lost from closings fell by 34 percent as a share of total employment while jobs lost due to contractions fell by 21 percent. As a point of difference, post-Great Recession, jobs lost through closings continued to decrease, while jobs lost from downsizing remained mostly stable.

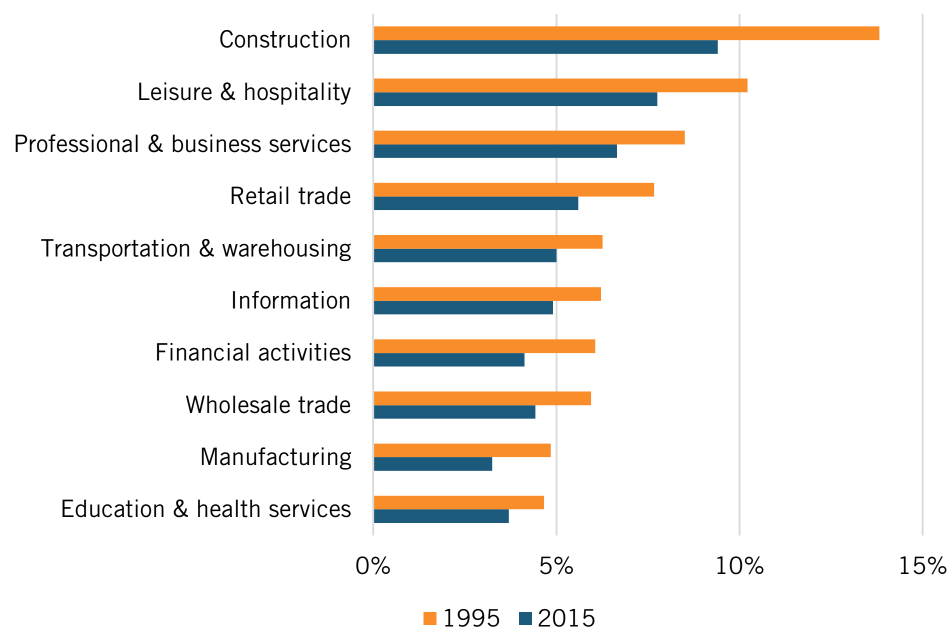
Figure 4: Mass Layoffs as a Share of Total Employed[17]



We see the same trend with data on the proportion of workers affected by mass-layoff events—defined as involving more than 50 people from the same firm in a five-week period, which has approximately flat-lined since 1995 (see figure 4). The recession years of 2001 and 2009 were the only outliers, when more than 2 percent of U.S. workers lost their jobs in a mass layoff. In 2013, 1.2 percent of workers were affected by mass layoffs, a slightly lower percentage than in 1995. If the "new normal" narrative were true, mass-layoff statistics would show an increasing trend, rather than holding steady, if not declining.

The same trend of greater job security holds across industries, as seen in figure 5. Of 10 major sectors, all saw a lower rate of job loss in 2015 than in 1995 defined as the share of jobs lost in that industry through contractions or closings. However, job security differs across industries. For example, in 1995, roughly 15 percent of jobs per quarter were lost in the construction industry, while the education and health services sectors eliminated about 5 percent of jobs. Nonetheless, the general trend is reduced losses. Consider that if the share of job losses remained unchanged from 1995 levels, the manufacturing sector would have incurred about two million additional worker displacements in 2015.[18] In fact, while neither manufacturing output nor employment has yet to recover to 2007 levels, compared with all other economic sectors, the risk of losing one's job is the lowest of all major sectors.[19]

Figure 5: Quarterly Job Losses From Closures and Contractions as a Share of Total Employed[20]



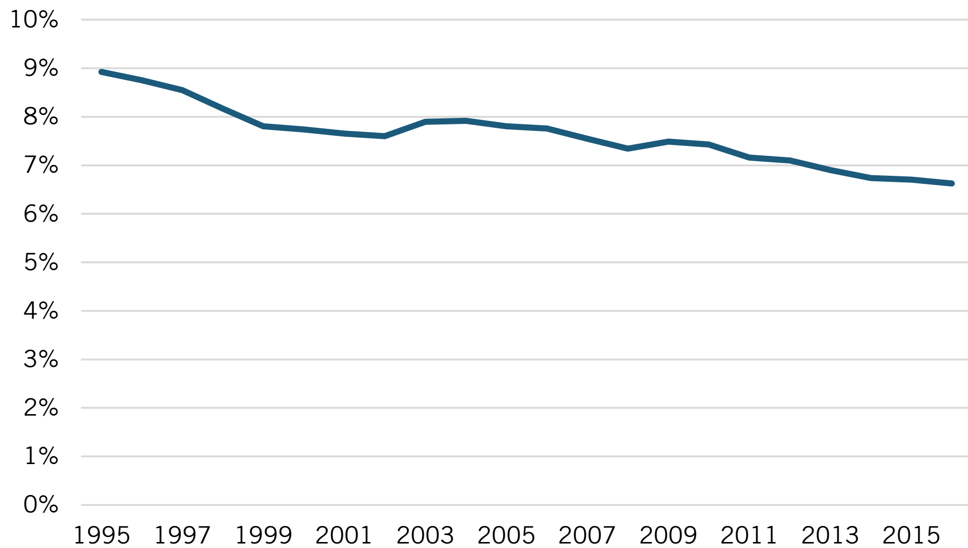
While job security has increased across all sectors, another noteworthy trend has been that the disparities between sectors have evened out. In 1995, jobs losses ranged from 5 percent to 14 percent of the workforce in any given sector. As job security increased, that range narrowed to between 3 and 9 percent in 2015. This means that no sector has become riskier to work in; job security has been more evenly distributed across all.

WHY THE INCREASE IN PERCEPTIONS OF INSECURITY?

Although the data indicate that workers face a lower risk of job loss now than in the early 1990s, the perception is that job insecurity is much higher. There are a number of possible explanations for this phenomenon.

Some attribute the perceived increase in job insecurity to the burgeoning "gig" economy, in which people are earning income through Internet-based work-matching platforms such as Uber and TaskRabbit, among others.[21] These decentralized platforms facilitate peer-to-peer work matching, and some have argued that they are replacing traditional forms of employment.[22] But there is no empirical evidence for this claim.[23] In fact, as figure 6 shows, self-employed workers—a category including independent contractors—are becoming a steadily smaller share of all non-farm workers.

Figure 6: Self-Employed Workers as a Share of Total Non-Farm Employed[24]

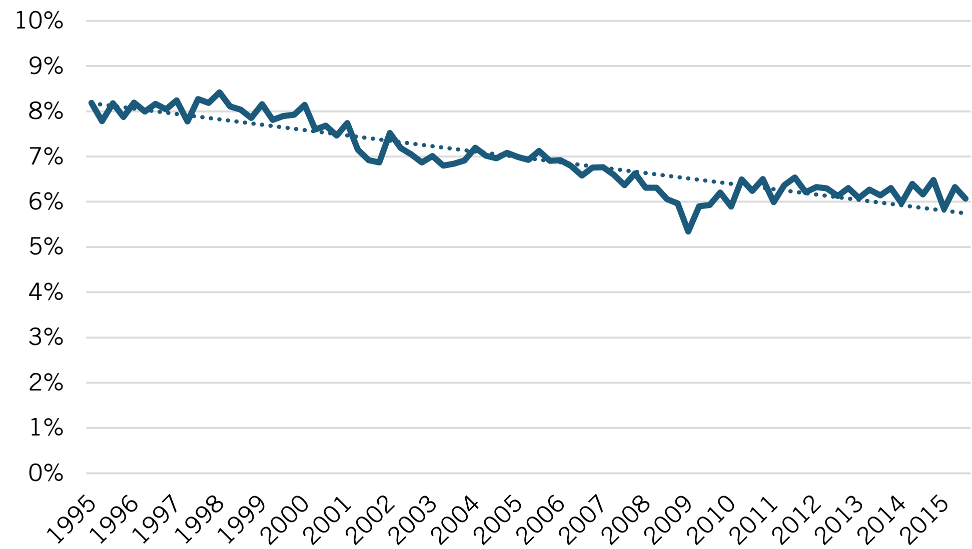


In the 1990s, self-employed workers made up about 9 percent of the overall workforce. By 2015, they had decreased to just under 7 percent. The labor force has always had "gig" employees, and Internet platforms have simply made it easier for these self-employed workers to tap additional opportunities and find clients easier.[25] Recessions seem to cause a minor increase in the share of self-employed individuals, in part as people turn to self-employment after they lose regular jobs. Regardless, nothing in the data supports the theory that self-employed "gig" workers represent any sort of "new normal" in the economy.

Related to this is the perception that technology is disrupting many occupations, from journalists, to travel agents, to legal document specialists. In other words, powerful information technologies are changing industries, particularly information-based ones, leading to new business models and significant job losses. But this idea that job insecurity is rising due to Internet-enabled changes to the economy is a case of selective thinking that ignores centuries of technological disruptions that have altered the nature of work time after time. In fact, productivity growth since the mid-2000s has been lower than in the prior decade, suggesting that such technology disruptions are fewer, not more.[26]

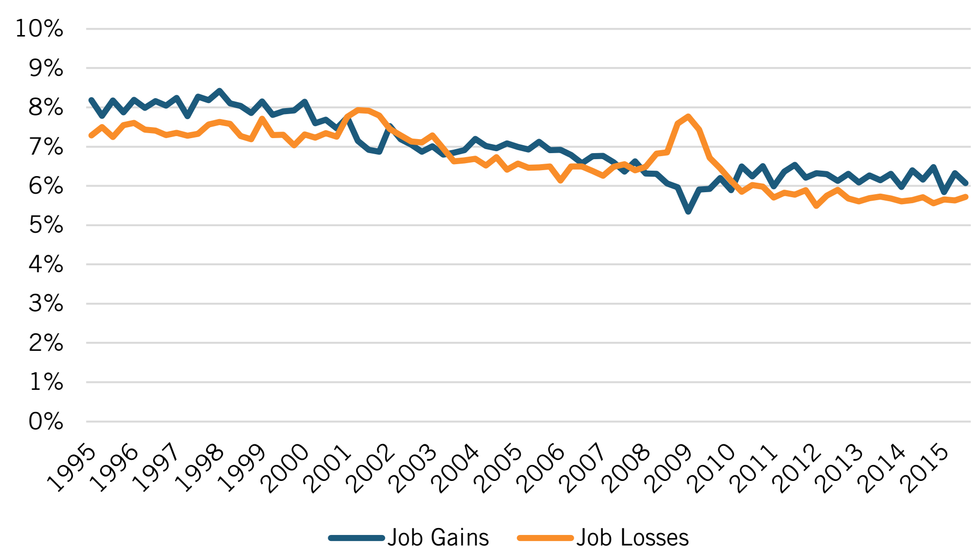
A more plausible explanation for people's feelings of insecurity is that there has not been enough job creation in the economy. Indeed, job creation—defined as new jobs from either new establishments or establishments expanding operations—has declined precipitously over the past two decades, as seen in figure 7. When job creation falls, the potential cost of losing one's job is higher, as it can take workers longer to find reemployment. Thus, even if people do not actually lose their jobs, they may feel that, if they did, their chances of easily getting a new job are fewer.

Figure 7: Quarterly Job Gains From Expansions and Creations as a Share of Total Employed[27]



In the mid-1990s, job creation remained stable, with new jobs contributing 8 percent of total employment in the economy on a quarterly basis. However, since the recession at the turn of the century, job creation rates have fallen steadily. The U.S. economy hit a low in job creation during the Great Recession, with new jobs factoring in at 5.3 percent of total employment on a quarterly basis. Though job creation has bounced back since then, it still remains weak, with job gains accounting for just 6.1 percent of total employment.

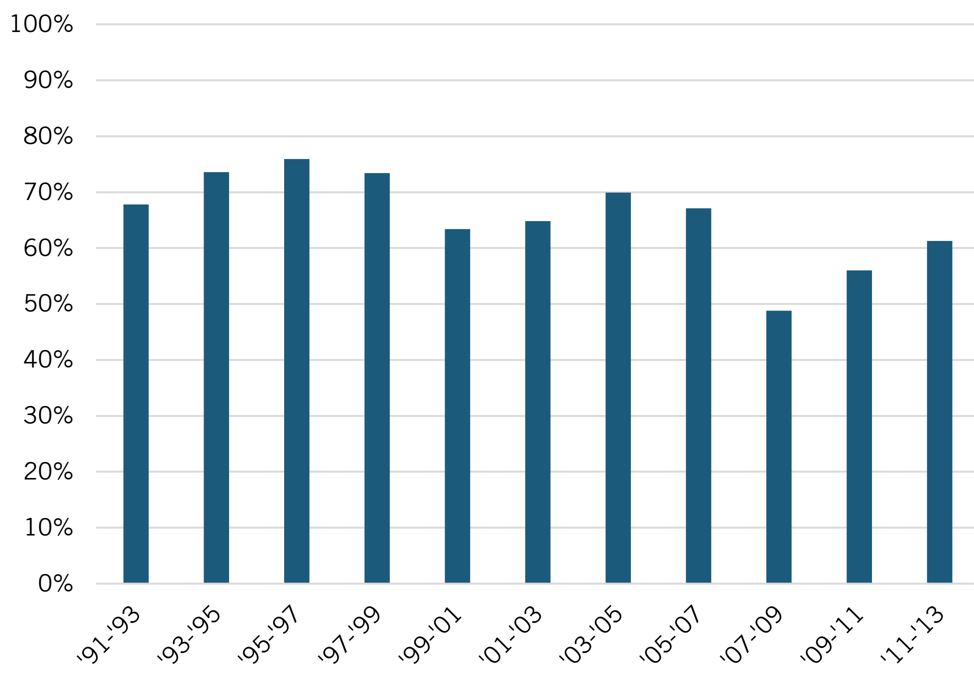
Figure 8: Quarterly Job Gains and Losses as a Share of Total Employed[28]



Over the past two decades, the trend of jobs gained through new establishments and expanding establishments has mirrored the trend of jobs lost through establishments closing or downsizing. Although from figure 8, it may seem as though the tradeoff for increased job security is decreased job creation, such is not the case. Periods of high job creation simply mean that workers may voluntarily leave their jobs for positions that better fit their skills. Post-Great Recession, sluggish job creation has muddled a picture otherwise marked by the most secure job market in the past 20 years.

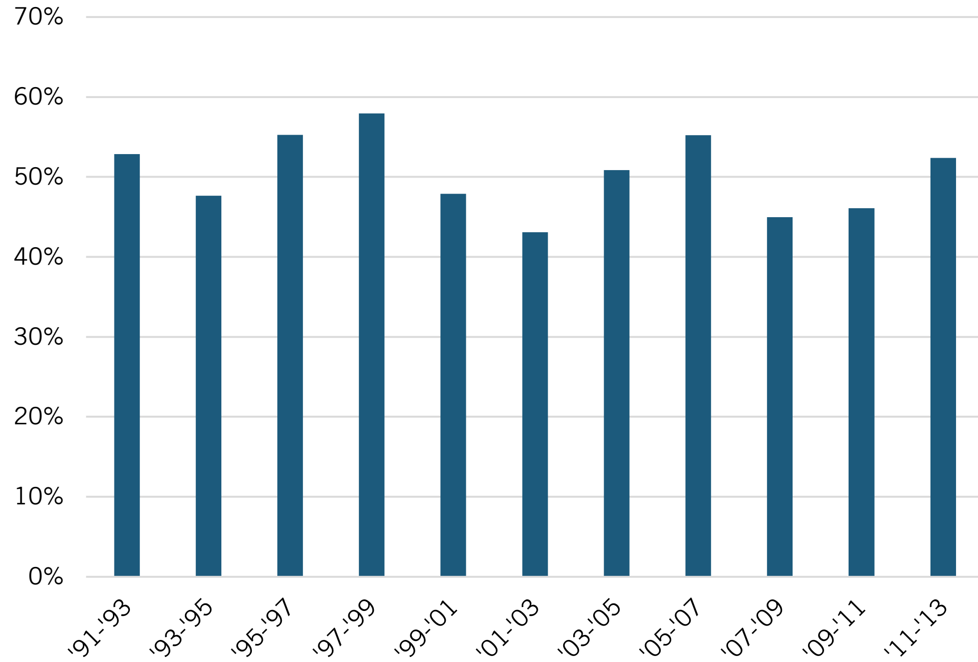
Data on displaced workers' reemployment rates underscores the lack of job creation in the economy. Figure 9 draws from BLS's Current Population Survey on displaced workers (defined as people older than 20 years of age who lost their jobs due to their place of employment closing or contracting, insufficient work, or their position being abolished), which includes the number of displaced workers over the preceding three-year period and their rate of reemployment. The rate peaked in the 1995 to 1997 period, and has fallen since. From 2007 to 2013, displaced workers gradually experienced an easier time finding new employment. But they still have a more difficult time than prior to the Great Recession. The 2007-to-2009 bar picks up the bulk of workers displaced over the Great Recession, and it shows the only period where reemployment rates dropped below 50 percent. The labor market improved in the following years, and from 2011 to 2013, approximately 61 percent of displaced workers found new employment. Though this is a marked improvement from the Great Recession, it still represents a historic low when compared with reemployment rates from 1989 to 2007.

Figure 9: Share of Displaced Workers Finding New Employment Within Three Years[29]



When workers looking for reemployment cannot find work that pays as well as their previous jobs, that only increases their belief that the labor market is highly risky. Figure 10 shows the share of displaced workers who go on to find new employment that pays as well or better than their previous jobs. In the post-Great Recession period, compared with the 1990s and 2000s, workers face a tougher time finding employment that pays as well or higher than their previous position.

Figure 10: Share of Displaced Workers with New Employment Earning the Same or Greater Than Their Previous Wage[30]

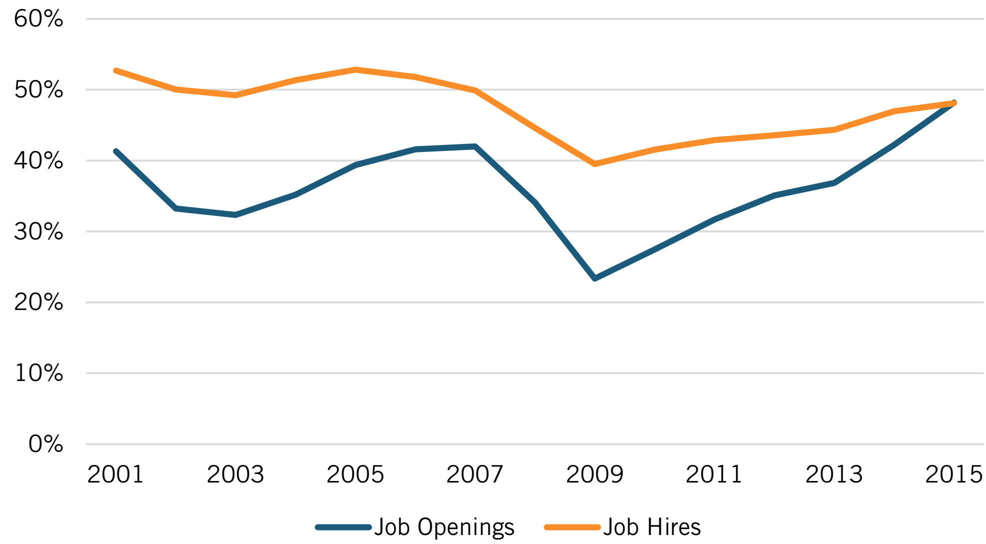


Between 1991 and 1999, slightly over half of displaced workers went on to find equal wages or higher paying work. Over the next nine years, a 4 percentage point decrease meant that fewer displaced workers went on to find equal or better employment. Since the Great Recession, this proportion decreased by a further one and a half percentage point. This modest decrease in displaced workers regaining decent employment only adds to the anxieties workers feel over the labor market. Putting figure 9 and figure 10 together, workers today, compared with workers 20 years ago, have a lower chance of finding reemployment, and if reemployed, are less likely to earn wages equal to or higher than their previous jobs. Because of these two factors, workers face a much higher economic cost if they lose their jobs in the current labor market, increasing their concerns of job security.

Relative Job Stability Complicated by Skills Mismatch

A second reason why so many people say they feel insecure may be because laid-off workers may not be fully qualified to fill the new jobs being created. In the wake of the Great Recession, a creeping trend has emerged in the job-opening data: Companies are listing job openings faster than they are hiring people to fill them. In fact, job openings are the highest they have been since 2001. As figure 11 shows, job-opening rates and job-hire rates, followed similar trends until the Great Recession. But from 2009 to 2015, job openings grew much faster than job hires.

Figure 11: Annual Job Openings and Hires as a Share of Total Employed[31]



It may seem counterintuitive that job hires have tended to outnumber job openings. But a significant percentage of companies' hires are not for publically advertised positions; they come instead through personal networks, word-of-mouth, and recommendations.[32] So it is possible that companies are advertising jobs more than in the past, given the ease with which such postings can be made on the Internet. But another explanation is that an increased skills mismatch in certain industries since the Great Recession has led to fewer hires.

There are a number of possible factors driving the skills-mismatch trend. For example, Matthew Rutledge of the Center for Retirement Research at Boston College has found that many people who were close to retirement age when they were laid off during the recession have chosen not to find new jobs since the economy picked back up.[33] By leaving the labor force, these early retirees took with them skills they had acquired over many years—skills that people still in the labor force, and people entering for the first time, lack. Even more concerning is the prospect of an increased skills mismatch when the baby-boomer generation eventually retires for good. Research by labor economists Davud Neumark, Hans Johnson, and Marisol Cuellar Mejia suggests that this baby-boomer gap is just the beginning of a phenomenon that will continue to be more pronounced in the years ahead. They argue, "the impending retirement of the baby boom cohort represents the first time in the history of the United States that such a large and well-educated group of workers will exit the labor force."[34] They find that skills shortages will likely be geographically distributed, with some states facing an undersupply of certain skills, while other states will face an oversupply. They conclude that a nationwide skills shortage would be unlikely by 2020, but their analysis may underestimate the scope of the problem, because they use educational attainment as a proxy for skills. This means they do not capture people's technical and soft skills, gained through years of experience, which companies will need to find a way to replace.

Although recent economic research attempts to map the evolving skill needs of various industries by occupation, further research is required to pinpoint the nature of the skills mismatch suggested by BLS data.[35] Breaking down figure 11's data by industry, the trend of convergence does not affect all economic sectors, but only industries such as manufacturing, professional and business services, and educational and health services. This suggests that a skills mismatch may be present only in certain sectors. A recent empirical analysis of job opening data post-recession confirms this occurrence in the manufacturing sector, estimating that the skills gap in the manufacturing sector ranges from 16 to 25 percent—in other words, manufacturing firms are unable to find individuals with the requisite skills for up to a quarter of their job postings.[36]

The challenge for the economy is not too much destruction; it's too little creative destruction. We need more disruption coupled with even more creation, especially the creation of good jobs that individuals equipped with the skills they need can easily acquire.

CONCLUSION

Despite the hype that globalization and rapid technological innovations are displacing jobs and making the labor marker more insecure, the U.S. labor market is in fact more secure now than in the recent two decades. But security does not translate into prosperity. Rather, it appears that what economies need to thrive is an environment of Schumpeterian "creative destruction" in which industries dynamically innovate and reinvent themselves to remain competitive. The challenge for the United States economy now is too little creative destruction. We need more disruption coupled with even more creation—especially creation of good jobs for skilled workers. This means that policymakers should not try to slow down labor disruption; if anything, they should try to speed it up, especially by supporting technological innovation. At the same time, the United States needs stronger policies to better enable job adjustment and reduce skill mismatches. As the Information Technology and Innovation Foundation (ITIF) has argued previously, Congress can start by expanding the Trade Adjustment Assistance program, which currently provides training and job-search assistance to workers who have been displaced by global trade. This program can be expanded to cover workers displaced by technological advances, too.[37] Congress should also expand the R&D credit into a knowledge credit by allowing qualified expenditures on both R&D and workforce training to be taken as a credit. Doing so will incentivize businesses to undertake more skills training for their workforce, thereby improving worker productivity and the quality of the U.S. workforce. An innovative economy requires dynamic technological change, but it also requires a workforce capable of evolving alongside the requirements that technological change brings.

ENDNOTES

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