

The outlook for jobs in America

Help not wanted

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How quickly will firms start hiring again as the economy recovers?



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A rare sight

THERE have been times when a sharp rise in the productivity of American business would have been greeted as unambiguously good news—a miracle, even. But the announcement on August 11th that productivity had jumped by 6.4% in the second quarter, and had increased by 1.8% compared with a year earlier, caused as much consternation as celebration.

In past downturns productivity has tended to fall, because firms have been slow to make cuts to their workforce. This time, the worry is that rising productivity indicates they have cut too aggressively, shedding muscle as well as fat. But that thought, in turn, is giving rise to some optimism that employment will rise faster than usual once the economy starts to recover, as firms rush to repair the damage done by their overzealous axe-wielding.

Alas, for America's unemployed masses, now 9.4% of the workforce, this is probably wishful thinking. A few firms have shed too many jobs, but most have not, says Grant Freeland of the Boston Consulting Group. Chrysler, for example, is one firm that has overdone it (as have many of the rising number of firms filing for bankruptcy). The carmaker will need "new talent if it is to survive", he thinks, but most firms have just "taken fat off the top". Late last year they resorted to modest cuts combined with trimmed bonuses, offers of shorter working hours or unpaid holidays and so forth. In the first half of this year, they started making bigger cuts.

Firms have historically been reluctant to shed managers, partly because they do not want to lose anyone talented enough to have been promoted to a senior job, and partly because the people making the cuts often know their victims. "There have been more job cuts at higher levels in the past four months," says Jeff Joerres, the boss of Manpower, an employment-services firm that includes the world's largest outplacement business, advising firms on how to handle job cuts. He believes companies are becoming more thoughtful about job-cutting, actively restructuring instead of just slashing the workforce across the board. In the long run this may prove a boon for American firms, which have far more freedom to choose which workers to dismiss than their European counterparts.

Firms now have a much better understanding of their employment needs than in the past, says Mr Joerres, who attributes this in part to vastly improved computer systems. These help firms keep much closer track of orders, inventories and the like, and so help them to determine faster and more accurately when extra staff are needed. That might fundamentally alter how they think about recruitment as the economy recovers.

In the past, once economists had declared a downturn over, firms would typically start hiring in the

expectation that demand was about to surge. These days, however, says Mr Joerres, "firms will no longer hire in anticipation; they will wait to respond to actual changes in demand." Ominously, he says that many of Manpower's American clients have been delaying another round of lay-offs in the hope of an increase in demand after the summer holidays. If that demand does not materialise, the next lot of cutting could be the most painful yet.

If big firms are unlikely to start hiring again briskly whenever the economy revives, what about smaller ones, which have, after all, long been a far greater source of new jobs? Certainly, the downturn has led to a sharp increase in the number of people starting new businesses. However, most of these start-ups will struggle to obtain the loans they need to grow, thanks to the shortage of credit amid the detox of the financial system. The latest Small Business Economic Trends Survey, published by the National Federation of Independent Business on August 11th, found that small-business owners became even gloomier in July. The margin of those planning to cut jobs over those planning to add them grew. For the time being, sadly, rising productivity in America looks a far safer bet than rising employment.

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