

Introduction: The Labor Market in the Aftermath of the Great Recession

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The recession of 2008–9 was the deepest and longest downturn in US economic activity since the Great Depression. Like the historic episode of the 1930s, the Great Recession had a particularly large impact on labor markets. Unemployment peaked at 10% in 2009 and only fell back below 6% in 2014 (fig. 1). The impact on employment rates was even greater: the fraction of the working-age population with a job fell precipitously in 2008 and 2009 (fig. 2) and has as yet only recovered a small fraction of these losses.

Most economists believe that the Great Recession was caused by financial market stresses following the collapse of the housing bubble. Nevertheless, some have argued that labor market factors contributed to the persistence of the recession. Average real wages rose in the early stages of the recession and then remained relatively stable (see fig. 3), suggesting that real-wage rigidities—perhaps reinforced by the availability of extended unemployment insurance benefits—may have been impeding labor market adjustments. The unprecedented rise in long-term unemployment, which by 2011 accounted for nearly one-half of all unemployment spells, has likewise been interpreted by some analysts as evidence that benefit-induced frictions were slowing recovery from the recession.

In 2011, the National Bureau of Economic Research asked the Alfred P. Sloan Foundation to sponsor a series of studies on the labor market impacts of the Great Recession. The papers in this issue, all of which have been through the *Journal of Labor Economics*' usual refereeing process, are the end result of this process. They offer new perspectives on three fun-

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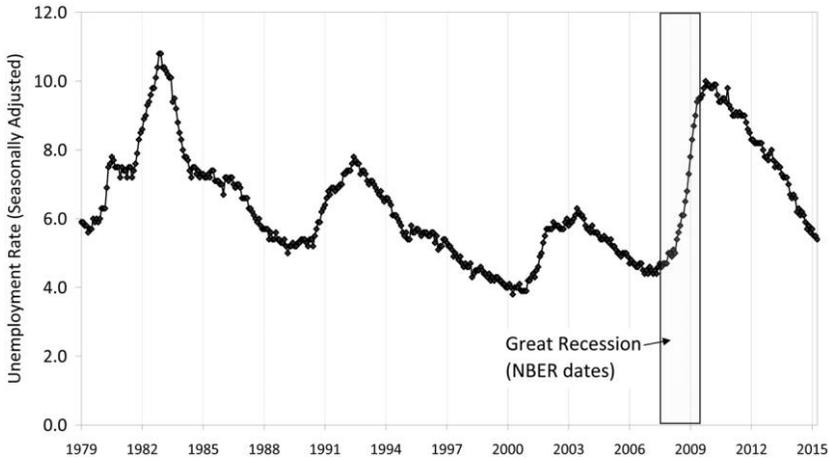


FIG. 1.—National unemployment rate, seasonally adjusted. Source: Bureau of Labor Statistics series LNS 14000000. A color version of this figure is available online.

damental questions: Why did the Great Recession exert such a large effect on employment and unemployment in the United States? Why did employment rebound so slowly and unemployment remain so high in the period since the trough of the recession? What effects did the Great Recession exert on different workers’ well-being, on the future careers of younger workers, and on the firms that remained in business?

Since the mid-1970s, when the profession last undertook a major rethinking of the way that labor markets respond to macro fluctuations,

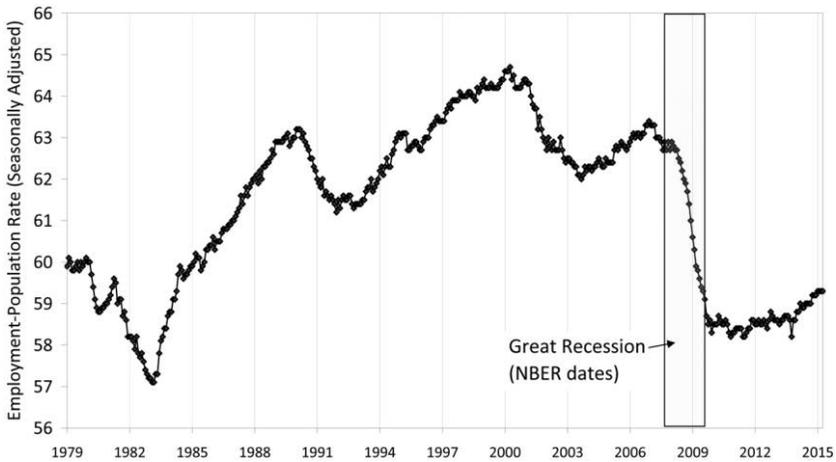


FIG. 2.—National employment-population rate, seasonally adjusted. Source: Bureau of Labor Statistics series LNS 123000000. A color version of this figure is available online.

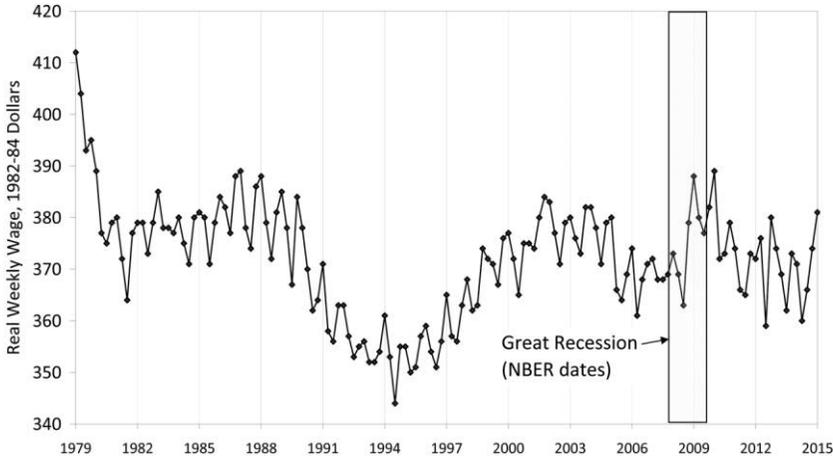


FIG. 3.—Real median weekly wage, full-time male workers. Source: Bureau of Labor Statistics series LEU025881900. A color version of this figure is available online.

there have been enormous gains in the quantity and quality of labor market data available to researchers. Labor economists have used these data, in combination with new theoretical models and econometric methods, to develop a much deeper understanding of the processes that mediate the link between the demand side of the economy and labor market outcomes, including search and matching processes, intertemporal choice, and sectoral mobility. The massive shock of the recession provides a uniquely informative test bed for evaluating our understanding of these processes and for identifying major areas where further theorizing, more refined econometric methods, and/or better data are needed.

I. Employment and Unemployment Dynamics

A first major theme that emerges from these studies is that modern search and matching models provide a very useful framework for understanding the transmission and amplification of the negative demand shocks that precipitated the Great Recession. Kroft et al. show that a simple search-matching model, extended to allow nonparticipation and state dependence in the job finding rates of the unemployed, can go a long way in explaining both the rise in long-term unemployment in the period 2009–10 and the apparent outward shift of the Beveridge curve. The sudden drop in employment demand in 2008 immediately led to a large increase in the pool of the unemployed. But the very slow recovery in vacancies relative to earlier recessions meant that relatively few of these workers were likely to find new jobs, creating a large increase in the numbers of longer-term unemployed, who have much lower job finding rates. Thus, the large size of the

2008 employment collapse, coupled with the slow recovery in demand and strong duration dependence, set up a “vicious circle” that is still working its way through the labor market years after the start of the recession.

Moscarini and Postel-Vinay use a dynamic job ladder model to help understand the slow recovery in hiring after the trough of the Great Recession. Using newly available data from the Job Openings and Labor Turnover Survey, they show that in a “usual” recession, small firms initially lead the recovery in employment. Eventually larger firms begin to expand, typically by poaching workers from lower-paying small firms. Following the peak layoff period of the Great Recession (in late 2008), however, they show that smaller firms were unusually slow in expanding hiring, reflecting a possible combination of lingering credit issues and a response to the collapse in poaching behavior by larger firms.

II. Underlying Secular Factors

A second theme to emerge from these papers is the importance of longer-term labor market trends that were in play in the decade before the Great Recession and that contributed to the severity of the downturn and the slowness of the subsequent recovery. Hoffman and Lemieux show that the boom in the construction sector contributed importantly to the relative buoyancy of the US labor market in the 2000–2007 period, while the subsequent collapse in construction employment was a major contributor to the fall in overall employment. Interestingly, the boom-and-bust cycle in housing also helps explain regional differences in the swings in employment within the United States and also the very different performance of the US labor market compared to the markets in Canada and Germany.

Acemoglu et al. provide a complementary analysis, focusing on the role of import competition from China in explaining the decline in US manufacturing in the post-2000 period. Their results suggest that the steady expansion in trade with China contributed to a loss of about 2% of overall private sector employment in the period from 1999 to 2011—a significant share of the deviation from trend.

A third secular factor is emphasized by Beaudry et al., who argue that in the period after 2000 the growth rate in demand for workers with high cognitive skills has fallen sharply, leading to stagnation in the wages of occupations that require these skills and a process of occupational downgrading in which college-educated workers are increasingly employed in occupations with relatively low cognitive skill requirements.

III. Wages and Productivity

The cyclical behavior of wages and productivity has long posed a challenge to economic models of labor market equilibrium. A third theme that emerges from the studies in this symposium is that the challenge continues.

Elsby et al. focus on the behavior of wages during the Great Recession, contrasting the cyclical changes with those observed during the 1980–83 recession and also comparing patterns between the United States and the United Kingdom. They find that real wages of male workers in the United States appear to have fallen less during the Great Recession than during the (less severe) contraction of the early 1980s. However, real wages of female workers in the United States became more cyclically responsive, as did real wages of both gender groups in the United Kingdom.

Foster et al. study the dynamic process of re-allocation of labor between plants. Historically, recessions have been associated with a rise in the pace of re-allocation from less productive to more productive establishments, a process of cleansing (or liquidation) emphasized by Schumpeter and others. Using rich plant-level data, they find that the Great Recession was different from earlier recessions in two key dimensions. First, the sharp rise in job destruction in the 2008–9 period was paralleled by an unusually large drop in the job creation rate, greatly limiting the scope for re-allocation and pushing a larger than average fraction of job losers into unemployment. Second, the relative pace of productivity-enhancing re-allocation during the Great Recession was slower than in earlier recessions, reflecting a relatively high death rate among younger and more productive plants.

A feature of modern recessions that has attracted a lot of attention is the shift from pro-cyclical to counter-cyclical productivity. One explanation for this phenomenon is that firms adjust in the effort margin, requiring workers to produce more than in better times. This hypothesis has been difficult to test due to data constraints. Lazear et al. make progress on this question via a novel data set of individual productivity at a large firm that operates in many states. They show that worker productivity increases with the state unemployment rate and that this relationship is virtually unchanged when controlling for worker fixed effects. This finding suggests that in this firm the productivity adjustment occurred at the effort margin and that changes in the composition of workers—another leading candidate for the increase in productivity—did not play a major role.

IV. Lasting Effects of Recessional Conditions

Economic research has found that recessions and job loss can have long-term consequences. One of the motivating questions in this volume is whether the Great Recession differed in this respect. The papers in this volume suggest that it did. As we have already discussed, Kroft et al. show that the massive job loss coupled with subsequent demand conditions led to persistent long-run unemployment, something that will be a feature of the US economy for many years. Haltiwanger et al. provide evidence that firm destruction was less tilted toward more productive firms than in past recessions.

Kahn et al. study the long-lasting effects of recessions on careers, using the most comprehensive data assembled to study this question in the United States to date. They show that in past recessions recent graduates have experienced significant earnings impacts, primarily through lower wages and fewer hours, persisting for at least 10 years. They find little evidence that graduating in a recession leads to future mismatch between majors and occupation. While it is still too early to assess the longer-run effects of the Great Recession, this downturn was different in at least two respects. First, the impact of the unemployment rate on recent graduates was two to three times larger than in past recessions. Second, high-skill majors were much less of a buffer against these shocks than in past recessions.

V. The Role of Social Programs

The last major theme from the project is on the role of social programs, how they buffered households against income shocks relative to previous recessions and how programs interacted. Bitler and Hoyes examine how government transfer and social insurance programs responded in the Great Recession relative to earlier recessionary episodes and the role they played in moderating poverty. They find that program expenditures have largely tracked what one would predict based on the severity of the downturn, suggesting that the rapid increase in expenditures in programs such as the Supplemental Nutrition Assistance Program (SNAP) largely reflect the state of the economy rather than changes in policy. The exception is Aid to Families with Dependent Children/Temporary Assistance for Needy Families (AFDC/TANF), which no longer appears to have a cyclical component. Using an alternative poverty measure that includes cash transfers and the value of noncash transfers, they find that the poverty rate is roughly as cyclical as it was in the 1980s recession. However, extreme poverty (50% of the poverty rate) was more cyclical, possibly reflecting the diminished role of AFDC/TANF. Their analysis suggests that SNAP, the Earned Income Tax Credit (EITC), Unemployment Insurance (UI), and AFDC/TANF were important buffers against the shocks.

An important policy question, given the high levels of long-term unemployment, is whether UI recipients who exhausted benefits transitioned into Social Security Disability Insurance (SSDI). On the surface this is a plausible pathway into SSDI, since in the aggregate, SSDI applications were at elevated levels after 2009, coinciding with spikes in UI exhaustion. Mueller et al. study this question by using variation in the timing of extended UI benefits between states and disaggregated data on SSDI applications. They find little evidence of a direct link between these two programs in that SSDI applications do not tend to significantly decrease when there are UI extensions. They show that this is likely due to a limited overlap in the population of recipients served by these programs.