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Why didn't employment increase at the same rate as GDP?

Update on the State of the Economy

Fadhel Kaboub Nov . 17 . 2003

Economic news released in the last couple of weeks by the Bureau of Labor Statistics (BLS), and the Bureau of Economic Analysis showed a slight improvement in economic conditions.

The good news was, however, somewhat asymmetrical. Unemployment deceased only by 0.1% in October, whereas the gross domestic product (GDP) increased by 7.2% and productivity grew by 8.1% in the 3rd quarter of 2003.

Stephanie Bell, UMKC Economics Professor, remained skeptical about the robustness of this apparent recovery in the U.S. economy.

"If this were interpreted as evidence that the U.S. economy has finally rebounded, one might have expected the Fed to begin tightening its monetary policy by raising interest rates," said Dr. Bell.

"But the Fed may actually have recognized that the U.S. continues to struggle on the employment front."

Indeed, the Fed kept its target interest rate at the historically very low level of 1%. Many economists believe that the Fed's reaction is a very prudent one giving the slow pace of economic recovery.

According to the recent BLS data, despite the overall increase in employment, manufacturing employment decreased by 24,000 in October

"Factory job losses in September and October averaged 26,000, well below the 53,000 average for the prior 12 months," the BLS said.

The fact that real GDP and productivity both grew at a measured rate of about seven per cent each in the third quarter "means that the increase in output (GDP) was accomplished with no additional labor input," said James Webb, Visiting Economics Professor at UMKC.

There were 125,000 net new jobs added in October, "still less than the 150,000 new jobs needed to merely absorb new entrants in the labor force from population growth," explained Dr. Webb.

"Most of the current recovery has been accompanied by continued job losses," said James Webb.

The continued loss of manufacturing jobs raises serious concerns because these are the jobs that have historically provided high wages, good benefits and long-term job security.

Dr. Webb is very concerned by the ongoing trend of insecure, low-wage, no-benefits jobs replacing lost manufacturing jobs.

In the past, manufacturing jobs were eliminated during the recession and then recreated during the recovery. In today's global economy, things have changed. Manufacturing jobs have consistently been shipped abroad in the downsizing trend of the last two decades.

Professor Webb told the Kansas City Aurora that the official employment data is misleading because it does not accurately account for people who work for pay part-time or without pay in a family business. Those people are officially counted as employed even though many of them would work for pay full-time if they had the opportunity.

"Many of the two million persons in U.S. prisons would add to unemployment statistics if they were not incarcerated," said Dr. Webb.

"There are fundamental problems obscured by official aggregate statistics and these are not even acknowledged, much less addressed, by public policy."

Behind the good economic news are many hidden facts that explain why the recovery has not been very encouraging in terms of decrease in the unemployment rate. Growth in production and productivity simply meant that there was no need for new job creation.

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