

Slow employment recoveries

The last two business cycles were characterized by an unusual pattern: employment recovered more slowly following the 1990–91 and 2001 recessions than after the other recessions of the post-World War II era. Paul Gomme, an economic advisor at the Federal Reserve Bank of Cleveland, tries to understand why in a new study published in the bank's newsletter, *Economic Commentary*. Gomme calculates "job-finding" and "job-separation" probabilities for each of the business cycles that occurred during the period; he then tests the hypothesis that the probabilities of the two most recent cycles differed from those of the earlier ones. He finds that both measures behaved differently during the recent cycles. But the *job-finding* probabilities remained low long after the two recoveries had begun and thus were the primary factors driving the slow employment growth in both cases.

Economists call flows into employment *job finding*, and they call flows out of employment *job separations*. Gomme defines his job-finding probability as the number of job finders in a given month divided by the number of unemployed persons. Similarly, he computes the job-separation probability as the aggregate number of separations divided by the total number of persons employed. Using unemployment data from the Bureau of Labor Statistics, Gomme infers the number of "job finders" by calculating the change in the number of unemployed persons from one month to the next and subtracting the "newly unemployed"—those who have been unemployed for 1 month or less. Ignoring flows into and out of the labor force, Gomme reasons that the resulting figure roughly approximates the number of people who found jobs in a given month. Gomme infers the total

number of job separations by examining changes in BLS employment data over time.

Over the course of the typical postwar business cycle, the job-finding probability begins to fall several months prior to the business cycle peak and continues falling for about a year afterward; the job-separation probability begins to rise shortly after the peak and continues rising for up to a year. After about 12 months, the job-finding probability starts to increase and the job-separation probability starts to decline, which leads to increased employment. The two most recent recessions, however, exhibited a different pattern. Gomme writes, "During the 1990–91 recession, both probabilities followed the typical experience, except that the job-finding probability remained low for at least 36 months after the business cycle peak." The job-finding probability behaved similarly during the 2001 recession. Thus, Gomme concludes, the relatively low job-finding probabilities were the driving forces behind the so-called jobless recoveries following the two most recent recessions.

Bargaining and the Fed

The Federal Reserve System, from chairman to chimney sweep, has a well-earned reputation as a glutton for information. In particular, the Federal Open Market Committee comprising the Board of Governors, the President of the Federal Reserve Bank of New York, and a rotating panel of presidents of other Federal Reserve Banks, devours reams of data—statistical, financial, domestic, foreign, survey, anecdotal—as part of its deliberations on the direction of monetary policy. In a forthcoming article in *Industrial Relations*, Daniel J. B. Mitchell and Christopher L. Erickson examine the ways in which the Committee used data to understand and

characterize the labor markets.

For the long period from the end of World War II to the 1980s, according to Mitchell and Erickson, both academic economists and policymakers were generally concerned with the possibility of "wage-push" inflation or "wage-price spirals" in prices. In these discussions, analysts concentrated on the data on wage bargains in union contracts as the "active agent in wage determination." Led by this background, Mitchell and Erickson "investigate how the Federal Reserve's discussions of union bargaining activity—and the notion of worker bargaining power more generally—evolved over the Reagan, Bush (Sr.), and Clinton presidential administrations."

Over that time span, union membership data show that the U.S. economy was becoming less and less unionized. Mitchell and Erickson state that "the private unionization rate dropped from roughly one-fifth to about one-tenth of wage earners." [Ed. note: In 2004, about 8 percent of private wage and salary workers were members of unions.] Although the amount of discussion of union wage settlements also declined somewhat, Mitchell and Erickson were surprised at how persistent the wage-price-spiral story was as "policymakers continued to see union wage setting as important in the old wage-push sense."

In their concluding paragraphs, Mitchell and Erickson wonder "whether the Fed's discussion of labor markets remained rooted in the concept of workers exercising bargaining power, which is most likely when unions are strong." The persistence of bargaining power in the rhetoric of economic discourse at the highest level led Mitchell and Erickson to suggest reconsidering the way economists think about unions as an economic institution—or at least to be careful about the language we use to talk about unions, workers, bargaining, and the macroeconomy. □