How U.S. Employment Is Changing

Stephen P. A. Brown and Jinju Lee

During the most recent recession, U.S. employment fell by 7,478 million jobs (5.4 percent). During the first 8 months of the recovery, U.S. employment fell another 1,258 million jobs, which reduced employment to 6.3 percent below the prerecession peak. Since hitting bottom in February 2010, U.S. employment has risen by 6,813 million jobs. As of August 2013, U.S. employment stood 1.4 percent below its prerecession peak. If we peek under the hood and look at job destruction and creation and firm size, we see a substantial change in the conduct of U.S. business.

As shown in Figure 1, the decline in U.S. employment during the most recent recession was much greater than the average for the previous ten post-World War II recessions, and the recovery has been much slower. At 50 months since the trough, employment remains 1.4 percent below the prerecession peak of 2007 in December 2007. At 50 months after the trough, the average recovery from previous post-WWII recessions saw employment 7.4 percent above the prerecession peak.

Figure 1. Employment Over the Business Cycle

In fact, the current recovery started from a deeper job loss than occurred in the 2001 recession, and the current recovery is a little faster than the recovery from the 2001 recession. At 50 months since
the most recent trough, employment is 4.9 percent above its low value. During the recovery from the 2001 recession, employment was only 3.9 percent above its low value at 50 months.

**Job Destruction and Creation**

In a dynamic economy, the overall change in employment is the result of job creation and job destruction. As shown in Figure 2, gross job gains in U.S. businesses generally exceed gross job losses when the economy is expanding. During the 2001 and 2007-09 recessions, the United States saw net job losses, with increases in gross job losses and decreases in gross job gains.

![Figure 2. Job Gains and Losses](image)

**Sources:** Bureau of Labor Statistics; CBER

In the run-up to the 2001 recession, the economy saw a high level of job churn as both gross job gains and gross job losses increased. After the 2001 recession, both gross job gains and gross job losses stabilized at lower rates than were seen before the recession. Prior to the 2007-09 recession, gross job losses began rising, and gross job gains began falling. During the recession (December 2007 to June 2009), the private sector lost a total of 7.8 million jobs. During the next eight months, the private sector lost another 0.9 million jobs.

From early 2009 through the end of 2010, gross job losses declined sharply, and gross job gains rose slowly. These dynamics suggest a weak but improving labor market in which people were holding on to their jobs, companies were holding onto their people, and hiring was proceeding at a cautious pace. Since March 2010, gross job gains have exceeded gross job losses, and private-sector employment has increased by a total of 7.2 million jobs, for an average of 167,000 jobs per month. (Data for gross job gains and gross job losses are only available through fourth quarter 2012.)
Job Destruction and Creation at Small-, Medium-, and Large-Sized Firms

The dynamics of the U.S. labor market also changed in other ways during the 2007-09 recession and subsequent recovery. In a departure from the recent past, small businesses contributed much less to the loss in private-sector employment during the recession and much more to the gain during the recovery (Figure 3). As of May 2013, employment in small businesses completely recovered to its prerecession peak and is now in an expansionary period. In contrast, employment in medium and large businesses has yet to reach their prerecession peaks.

![Figure 3. Private Payroll Employment](image)

Sources: Bureau of Labor Statistics; CBER

Historically, small businesses (firms with less than 50 employees) have been one of the more dynamic elements of the economy. Accounting for 28.1 percent of U.S. private-sector employment, small businesses accounted for 43.7 percent of the gross job gains and 44.1 percent of the gross job losses, but only 31.8 percent of the net job gains. In the process, small businesses created an average of 84,000 more jobs per quarter than they lost. (Over the same period, all businesses created an average of 266,000 more jobs per quarter than they lost.)

Medium businesses (firms with 50 to 499 employees) account for 21.0 percent of U.S. private-sector employment, and historically they have been a relatively stable factor in the U.S. job market. From 1992 through 2012, medium businesses accounted for 20.2 percent of the gross job gains and 19.8 percent of the gross job losses, and 32.3 percent of the net job gains. In the process, medium businesses created an average of 86,000 more jobs per quarter than they lost.

Large businesses (firms with more than 499 employees) account for 50.9 percent of U.S. private-sector employment, and historically they have been a relatively stable factor in the U.S. job market.
From 1992 through 2012, large businesses accounted for 18.7 percent of the gross job gains, 18.1 percent of the gross job losses, and 35.6 percent of the net job gains. In the process, large businesses created an average of 94,000 more jobs per quarter than they lost.

**The Changing Role of U.S. Businesses**

The changes in the labor market during the 2007-09 recession and subsequent recovery portend a changing of the guard in U.S. businesses. Historically, small businesses are one of the more dynamic elements of the U.S. job market—accounting for much of the churn in employment but less of the net job gain. In contrast, medium and large businesses are relatively stable, with less job churn and more of the net job gain.

During the 2007-09 recession and subsequent recovery, these historical observations have not held. Small businesses accounted for a smaller percentage of the net job losses and a greater percentage of the net job gains in private-sector employment. Medium and large businesses accounted for a smaller percentage of the net job gains.

These changes from previous historical patterns suggest that medium and large businesses, which are sitting on sizable profits and cash reserves, are not reinvesting in the U.S. economy and employment. Rather than seeing the effects of a lack of confidence that is percolating up from the bottom of the economy to the top, we are seeing the effects of a lack of confidence that is percolating down from the top of the economy to the bottom. We may also be witnessing the creation of the future, as employment shifts from old, large businesses in established industries to new, small businesses in emerging industries.

The shift in employment from large and medium businesses to small businesses also may have implications for health insurance coverage and other benefits. Smaller firms typically offer fewer employee benefits than larger firms.

**Stephen P. A. Brown, Ph.D.**
Director, Center for Business and Economic Research
University of Nevada, Las Vegas

**Jinju Lee**
Graduate Assistant, Center for Business and Economic Research
University of Nevada, Las Vegas