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OP-ED CONTRIBUTOR

More Jobs, Worse Work

By Stephen S. Roach

The state of the American labor market remains the defining issue of the current economic debate. Through February, the United States was mired in the depths of the worst jobless recovery of the post-World War II era. Now, there are signs the magic may be back. More than a million jobs have been added to total nonfarm payrolls over the past four months, the sharpest increase since early 2000.

These gains certainly compare favorably with the net loss of 594,000 jobs in the first 27 months of this recovery. But there's little cause for celebration: the increases barely make a dent in the weakest hiring cycle in modern history. From the trough of the last recession in November 2001 through last month, private sector payrolls have risen a paltry 0.2 percent. This stands in contrast to the nearly 7.5 percent increase recorded, on average, over the comparable 31-month interval of the six preceding recoveries.

Nor is there much reason to celebrate the type of jobs that have been created over the past four months. In general, they have been at the lower end of the economic spectrum.

By industry, the leading sources of hiring turn out to be restaurants, temporary hiring agencies and building services. These three categories, which make up only 9.7 percent of total nonfarm payrolls, accounted for 25 percent of the cumulative growth in overall hiring from March to June. Hiring has also accelerated at clothing stores, courier services, hotels, grocery stores, trucking businesses, hospitals, social work agencies, business support companies and providers of personal and laundry services. This group, which makes up 12 percent of the nonfarm work force, accounted for 19 percent of the total growth in business payrolls over the past four months.

That's not to say there hasn't been any improvement at the upper end of the labor market, with the construction industry leading the way. At the same time, there has been increased hiring in several of the higher-end professions: there is more demand for lawyers, architects, engineers, computer scientists and bankers. Manufacturing, however, has continued to lag.

Putting these pieces together, there can be no mistaking the unusual bifurcation of the recent improvement in the American labor market. Lower-end industries, which employ 22 percent of the work force, accounted for 44 percent of new hiring from March to June. Higher-end industries, which make up 24 percent of overall employment, accounted for 29 percent of total job growth over the past four months.

In short, jobs are growing at both ends of the spectrum, but the low-paying jobs are growing much more quickly. The contribution of low-end industries to the recent pick-up in hiring has been almost double the share attributable to high-end industries.

An equally dramatic picture emerges from the survey of American households. According to the Bureau of Labor Statistics, the total count of persons at work part time - both for economic and non-economic reasons - increased by 495,000 from March to June. That amounts to an astonishing 97 percent of the cumulative increase of the total growth in employment measured by the household survey over this period. By this measure, as the hiring dynamic has shifted gears in recent months, the bulk of the benefits have all but escaped America's full-time work force.

Finally, the occupational breakdown of the American labor market, as also sampled by the survey of households, provides yet another facet of the character of the recent hiring upturn. It turns out that fully 81 percent of total job growth over the past year was concentrated in low-end occupations in transportation and material moving, sales and repair and maintenance services. At the upper end of the occupational hierarchy, increases in construction and professional jobs were partly offset by sharp declines in the numbers of production workers, who mainly toil in manufacturing plants.

Consequently, from three different vantage points - employment breakdowns by industry, by occupation and by degree of attachment - the same basic picture emerges: While there has been an increase in job creation over the past four months - an unusually belated and anemic spurt by historical standards - the bulk of the activity has been at the low end of the quality spectrum. The Great American Job Machine is not even close to generating the surge of the high-powered jobs that is typically the driving force behind greater incomes and consumer demand.

This puts households under enormous pressure. Desperate to maintain lifestyles, they have turned to far riskier sources of support. Reliance on tax cuts has led to record budget deficits, and borrowing against homes has led to record household debt. These trends are dangerous and unsustainable, and they pose a serious risk to economic recovery.

We hear repeatedly that the employment disconnect is all about productivity - that America needs to hire fewer workers because the ones already working are more efficient. This may well be true, but there is a more compelling explanation: global labor arbitrage. Under unrelenting pressure to cut costs, American companies are now replacing high-wage workers here with like-quality, low-wage workers abroad. With new information technologies allowing products and now knowledge-based services to flow more easily across borders, global labor arbitrage is likely to be an enduring feature of the economy.

Hiring always moves up and down. But it is evident from the experiences of Europe and Japan that new structural forces can come into play that have a lasting impact on job creation. Such is now the case in America.

It was only a matter of time before the globalization of work affected the United States labor market. The character and quality of American job creation is changing before our very eyes. Which poses the most important question of all: what are we going to do about it?

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