

Why GDP Growth Isn't Providing Many Jobs

By Brian Hamilton, December 21, 2011

Why aren't businesses hiring?

To get a better understanding, it may help to look at the past, figure out the relative strength or weakness of conditions today, and then examine which policies, if any, might work.

The chart provides some perspective on recent recessions. For each recession, it shows how far real GDP fell, the relative increase to unemployment, and how long it took for unemployment to peak and to recover. For the sake of this analysis, let's accept the rough, traditional definition of a recession as when real, inflation-adjusted GDP falls for two consecutive quarters. And I am considering "recovered" to be within 125 percent of the unemployment level before the recession took hold.

In the most recent recession before the 2007 downturn, real GDP fell by 1.4 percent between July 1990 and March 1991[1]. And even though the economy began expanding again in March 1991, unemployment peaked in June 1992, and employment didn't really recover until August 1993[2], when it dropped to within 125 percent of the July 1990 level. The recessionary cycle lasted only eight months, but its effect on unemployment lingered. The lag between GDP growth and healthy employment was about two years - a long time, especially for those without jobs.

Similarly, in recessions prior to 1990, we saw lags between resumed GDP growth and a recovery in unemployment.

In this latest recession, the economy began contracting during December 2007, and real GDP dropped cumulatively by 4.1 percent before reaching its trough in June 2009. GDP began growing again that month, but unemployment did not reach its height until October, four months later. At its peak, the unemployment rate had more than doubled to 10.1 percent. Nearly 30 months later, unemployment has very slightly decreased but is still around 9 percent-way too high.

Over the past 40 years, the average time between growth of GDP after a recession and a recovery in employment is approximately 19 months. This means that we are doing worse than average, which at least gives some better perspective, if not comfort. Since this recession caused the biggest shock to employment levels, it makes sense for recovery to take time.

But again, why aren't many business owners hiring people and why, as happened following the 1973-75 and 1990-91 recessions, is there such a lag with job growth?

Interest rates are low. Inflation has largely been under control since the late 1970s. And GDP - probably the most important barometer - is growing. I think businesses have uncertainty around oil prices, as they did in other recessions. But the real cause is their uncertainty about conditions and interferences with their operating environment. If not this, what else?

There will always be cycles in the economy for which no one can be blamed, though you almost never hear this from the media. Beyond that, you have to look at our friends in Washington. They have been so indecisive on the correct things (the national deficit) and so decisive on the wrong things (such as national health care, possible tax increases) that they are introducing fear and uncertainty into the market.

If you ran a business today, would you really increase your risks by hiring people? It is not a question of whether national health care is a legitimate issue; it is legitimate. It is about the timing and method with which the issue was addressed. And health care is just one issue.

Look at the national debt: both parties clearly own this issue, as the national debt has grown over decades under both parties. There is very little research on the possible effects of the deficit on hiring. But it is common sense that operating within a country that has become almost a debtor nation cannot make you feel great about hiring people and taking risks.

Finally, there is an almost universal misunderstanding of the 27 million businesses that create the up to 80% of new jobs in this country. Only about 5,000 businesses in the country are "public" companies; the rest are privately held, run by people, who like the rest of us, worry about paying their bills, sending their kids to college, and/or saving for retirement.

Let's examine what the government has done for these employers who account for approximately 70 percent of GDP: threatened to increase their taxes; introduced more uncertainty, cost, and administration to a large part of their income statements (namely health care), and continued to spend more money than ever, increasing the national debt and creating uncertainty around future interest rates.

Most people I know who run businesses are not conservative or liberal; they are practical and need to be. Even without government interference, people who run businesses operate within extremely risky operating conditions, conditions that most of us would not tolerate. The average net profit margin for these companies is approximately 3.5 percent. (So, out of every sales dollar, these people are only making about four cents). Do the math on average sales for these companies and you quickly realize that these people are not rolling cigars in \$20 bills as some members of the political establishment imply.

If you do anything to increase the operating risk of these companies or to increase their operating costs, it is logical that these companies and people would try to control their biggest operating cost-people. If someone told you that you might lose your job next month, would you start spending more money?

It is imperative that we do everything we can at a government level to add stability for these businesses and allow them to plan. If there was ever a time, now is the time for the government to step back and let free market economics work the way it has for over 200 years in America.

Businesses that survived the 2007-09 recession know how the market works or should work if uninterrupted-they would not have survived the recession if they didn't. Let them take the reins, so they can feel more confident in the market and start hiring, which history shows us they will do. The government needs to understand that only the people who run privately held businesses can create long-run employment in the United States. Everything else is a temporary fix. Over 200 years ago, some Americans coined the phrase, "Don't tread on me." Today, the new mantra might be "Leave us alone."

[1] All GDP data used herein comes from the real GDP calculations provided by the Bureau of Economic Analysis and uses chained 2005 dollars, seasonally adjusted at annual rates. The recession durations and

unemployment figures use monthly figures, but the corresponding quarterly data was used for GDP, measuring peak to trough. For more information on their data, visit www.bea.gov.

[2] Unemployment data was mined from the Bureau of Labor Statistics and is seasonally adjusted. To access this data visit www.bls.gov.

Time	Recession Duration (months)	Decline in Real GDP	Increase to Unemployment	Months Until Unemployment Peaked ^a	Months Until Unemployment Recovered ^b
Dec 2007- June 2009	18	-4.1%	5.4%	4	29+
Jul 1990- Mar 1991	8	-1.4%	2.6%	15	29
Jul 1981- Nov 1982	16	-2.6%	3.3%	0	11
Jan 1980- Jul 1980	6	-2.3%	1.8%	0	0
Nov 1973- Mar 1975	16	-3.2%	4.4%	2	33

^a These figures include months—since the formal end of the recession—that passed before the unemployment rate reached its highest point.

^b I am considering “recovered” to be at or below 125% of its pre-recession level. Again these figures include months after the formal recession ended. From the last recession, employment hasn’t yet “recovered.”

For the full story by Sageworks’ CEO, Brian Hamilton, please visit [Yahoo! – Why GDP Growth Isn't Providing Many Jobs.](#)