Past clues to the present jobless recovery

By James A. Cooke

Why is this nation headed towards a jobless recovery? Simple. It's because our economy is undergoing a structural change that will make it more difficult for unemployed Americans to find work.

This is not the first time in our history an economic transformation has impacted the way Americans earn their livelihood. Our current economic downturn resembles the Long Depression of the 1880s, when the U.S. economy switched from farming to a manufacturing.

Although the start dates for downturns are marked by the bursting of an inflated asset bubble, other factors come together to drag down the economy. Our current economic affliction started last October, when an inflated real estate market collapsed, triggering a crash on Wall Street. Likewise, the 1873 recession started with the downfall of financier Jay Cooke, who had overinvested in railroads. The downturn that began in October 1873 lasted until March 1879, making it the longest economic contraction in our nation's history. Economist Stanley Lebergott in his book "Manpower in Economic Growth" estimates that unemployment ranged between 12-14 percent in 1876, at the nadir of that downturn.

Although a Wall Street meltdown signaled the start of the economic disruption of 1880s, there were underlying causes at work before Cooke's firm went bankrupt. The second industrial revolution was gaining momentum in the United States. As industry put technology into factories, it boosted industrial output dramatically. Take iron as an example. According to the book, Age of Empire: 1875-1914 by historian Eric Hobsbawm, between 1870 and 1890 iron output in the five main producing countries more than doubled from 11 to 23 million tons.

The application of mechanization to farming also boosted crop production and as a result agricultural prices plummeted throughout the later half of the 19th century. Historian Hobsbawm notes that in 1894 the "price of wheat was only a little more than a third of what it had been in 1867 -- a bonus for shoppers but a disaster for farmers and farm workers."

When the Panic of 1873 got underway, the majority of American workers earned their living as farmers. By the end of the 19th century, the percentage of Americans employed in agriculture had dropped. U.S. Census Bureau occupation records show that jobs in agriculture went from 47 percent of the overall total workforce in 1870 census to 35 percent by 1900.

An examination of U.S. Census data from 1870 to 1900 shows how difficult it was for out-of-work farmers to change jobs. Employment of manufacturing held steady as percentage of overall occupations during that period; manufacturing accounted for about 22 percent of worker occupations in 1870 and 24 percent in 1900. As factory owners invested more into technology, plant output increased, thereby producing more materials and goods without the need for additional labor.

The same thing is happening today; except this time American is turning away from manufacturing just as a century ago the country moved away from farming. A review of data from the U.S. Bureau of Labor Statistics shows American manufacturing has been declining since World War II. In January 1950, manufacturing accounted for 30 percent of the nation's jobs. That percentage fell to 21 percent by January 1980 and 13 percent by January 2000. On January 2009, it was below ten percent.
Those jobs are likely never to return in a global economy. American companies going overseas in search of low labor costs have driven the deindustrialization of America over the past decade. The makers of branded products have spun supply chains around the globe, manufacturing parts and products in foreign lands and bringing them back here for consumption. According to World Investment Report of 2008, between 1995 and 2007, the number of transnational companies more than doubled, from 38,000 to 79,000, and foreign subsidiaries nearly tripled, from 265,000 to 790,000.

A year ago, rising oil prices prompted many companies to re-examine the tradeoff between manufacturing and transportation costs, and to consider shortening their supply chains. Even when today's low oil prices start climbing again, multinational companies will likely embrace a regional supply chain strategy, making products in Eastern Europe for the European market and in South and Central America for the U.S. market.

With jobs in manufacturing dwindling as a source of employment, Americans will have to turn to the service sector or self-employment for work. Although census data for the decades after World War II showed a rise in managerial occupations, the days of the "organization man" (or woman) are numbered as U.S. companies shed employees and transform themselves into lean enterprises to compete in the global economy.

It's not just manufacturing that's shifting overseas; it's also any service job that can be performed more cheaply overseas. Princeton University economist Alan Blinder forecasts that offshoring may cost the U.S. economy somewhere between 30 and 40 million jobs over the next two decades.

Given the fundamental shift in the economy, Americans will be forced to find new types of services that other Americans will be willing to pay for - and that can't be done by someone in India. The problem is that it will take some time for Americans to invent or innovate new services from which they can derive a living. It should be noted that in the 1800s many Americans turned to providing a range of personal services to get by.

If the parallels with the Long Depression are correct, then the ranks of jobseekers will remain stubbornly high for several years during this period of adjustment. The challenge for federal and state governments will be spurring the creation of decent-paying jobs, which are as of yet unspecified. It should be noted that the federal government didn't solve the economic crisis of the late 1800s and despite its best efforts the government may not be capable of a solution nowadays. What's required here are innovation and Yankee ingenuity, and the ability for individuals to see new market demands for products and services.

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End Notes:

Hobsbawm, Eric. The Age of Empire 1875-1914; Pantheon Books, New York


is jobless recovery. A jobless recovery occurs when gross domestic product recovers from a recession without creating jobs. What occurs in jobless recovery is that the GDP returns to a normal state, but it does so without creating new jobs or restoring people who have lost jobs to work. In other words, the recovery generally occurs because businesses and the government may spend and invest more money, while individuals, especially those who are jobless, don’t. jobless recoveries. Translated from English into Russian by. Popular English Verbs. Your comment with the translation and all parameters will be delivered to the developers. Your E-mail: Name: Message text: Add to Favorites. You must be logged in to add to Favorites. Log In or Register.