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Even After COVID-19, the U.S. Labor Market Remains More Stable Than People Think

ROBERT D. ATKINSON AND LUKE DASCOLI | SEPTEMBER 2021

The prevailing narrative is that Americans work in an economy of growing job insecurity, and that new technologies like artificial intelligence have only made matters worse. In fact, jobs are more secure now than at any time since the mid-1990s.

KEY TAKEAWAYS

- U.S. workers in 1995 had around a 7.3 percent chance of losing their jobs in any given quarter. Twenty-one years later, that figure is down to 5.8 percent.
- The same trend of greater job security holds across the whole economy. ITIF examined 10 major sectors and found that all had lower rates of job losses in Q3 2020 than in 1995.
- The spike in job loss due to the global pandemic has not stopped these long-run trends. Losses in Q2 2020 continued to decline.
- Instead of trying to slow down technological change based on the faulty assumption that it is harming workers, policymakers should try to speed it up, especially by supporting technological innovation.

INTRODUCTION

The prevailing narrative is that Americans now work in an economy of perpetual and growing job insecurity, one in which they frequently lose jobs and where new technologies such as artificial intelligence only make matters worse. On top of that, add in the economic and jobs devastation of COVID-19. If this narrative is true, then the many and sundry proposals to slow down the rate of technological change—to "shape it," as some frame it—now floating about might deserve a more sympathetic hearing.[1]

This prevailing narrative is a myth. Job security actually has improved steadily since the mid-1990s: The number of workers laid off each year as a share of all jobs has decreased. And while employment disruption in the early stages of the COVID-19 pandemic was indeed catastrophic, since then, job-loss rates have returned to the trend line. As such, it's time for the pundits and fearmongers to calm down and end the pessimistic narrative about out-of-control technology threatening jobs.

WHY PERCEPTIONS OF JOB INSECURITY ARE IMPORTANT TO INNOVATION

In recent years, a wave of books, news articles, and commentary has reflected the general public's growing perception that job insecurity is a permanent feature of the modern economy. Vivek Wadwa, with the Rock Center for Corporate Governance at Stanford University, summed up the view, "We're entering an era where human beings are becoming dispensable in more parts of the economy and at a faster rate than ever before."[2]

Claims such as those completely ignore the evidence that the labor market, leaving aside the one-time COVID-19 disruption, is the most stable it has been in the past 20 years. But if popular perception misaligns with economic reality, there will likely be knock-on effects that could undermine growth—since pressures for stability build opposition to innovation and globalization.

As unease grows, individuals may push lawmakers to enact stronger labor protections. But such laws could act as a drag on productivity if they limit the ability of firms to restructure work, as we see currently in Europe.[3] Even more detrimental to innovation, workers and lawmakers may resist productivity-enhancing disruptions such as new information technologies or labor-saving robotics, even when such disruptions improve the economy. And they may pay attention to pundits calling for a tax on automation.[4]

Since the United States is in nowhere near as precarious a position as people seem to think, perpetuating the fallacy that job insecurity is high will only hurt the country's competitiveness and ability to innovate.

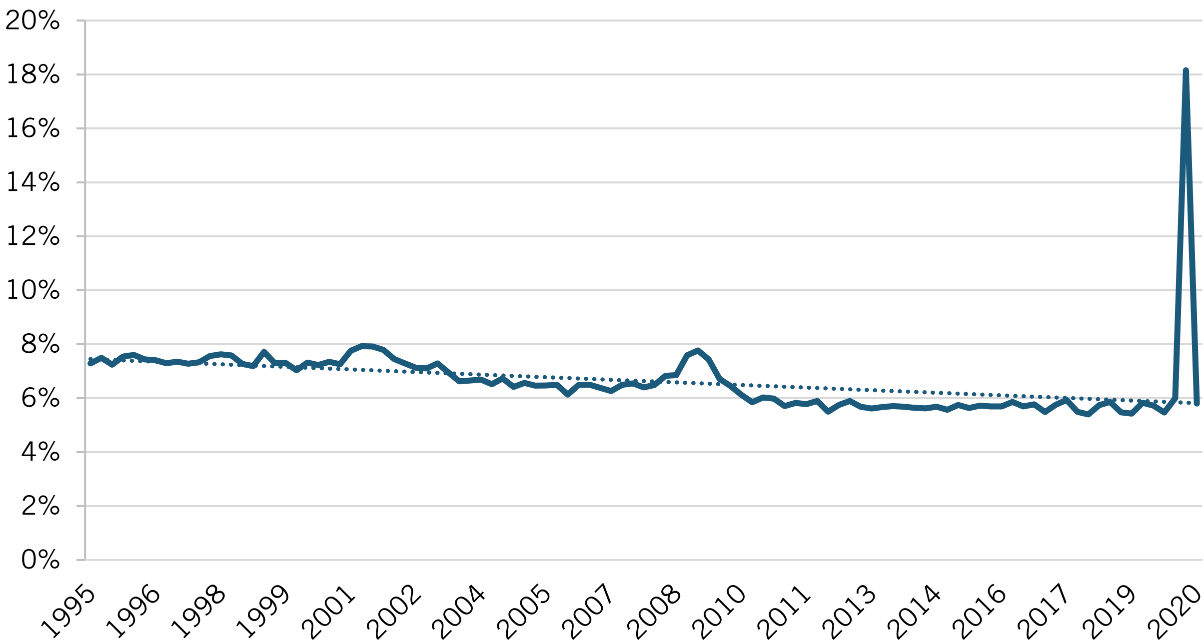
JOBS ARE MORE SECURE NOW THAN THEY HAVE BEEN IN DECADES

U.S. Bureau of Labor Statistics (BLS) data clearly disproves the idea that average American workers are trapped in a perpetual state of job insecurity, regardless of how much they may happen to earn. In fact, Americans today are less likely to lose their jobs than they were in the 1990s. Looking at the broadest measures of total job loss—defined as jobs eliminated when an establishment closes down or downsizes—the U.S. economy has seen fewer jobs lost as a share of total employment, with similar trends at the individual industry level. Because each establishment is a single physical location that produces goods or provides services, a single business may have one or more establishments. As seen in figure 1, U.S. workers in 1995 had around a 7.3 percent chance of job loss in any given quarter. Twenty-one years later, that figure was down to 5.8 percent. Even with an unprecedented economic shock inflicted by the COVID-19 pandemic and the record-high rate of job loss in the second quarter of 2020, job loss rates by the third quarter (the latest quarter with available data) were back in line with the overarching trend of decreasing likelihood of job loss at, 5.8 percent again.

Since the United States is in nowhere near as precarious a position as people seem to think, perpetuating the fallacy that job insecurity is high will only hurt the country's competitiveness and ability to innovate.

Workers' relative job security remained stable from 1995 to 2000, with about 7.5 percent of jobs within the economy being eliminated each quarter either from establishments closing or downsizing. The recession at the start of the 21st century and the Great Recession of 2008 both caused job losses to spike. However, job volatility expectedly rises during economic downswings. Since recession's end in the early 2000s, job losses have steadily declined as a share of all jobs in the economy. Between 2002 and Q3 2020, the share of jobs lost out of all employment decreased by 1.5 percentage points. And just as job loss as a share of total employment continued to fall after the Great Recession, a similar trend of recovery in job stability is to be expected post-pandemic, as indicated by the most recent quarterly data.

Figure 1: Quarterly job losses as a share of total employment[5]



Employers may eliminate jobs when establishments close because their company goes out of business, closes a facility, or cuts back on its number of workers.[6] The risk of losing one's job to either closings or contractions has decreased since 1995, as shown in figure 2 and figure 3.

Figure 2: Quarterly job losses due to closings as a share of total employment[7]

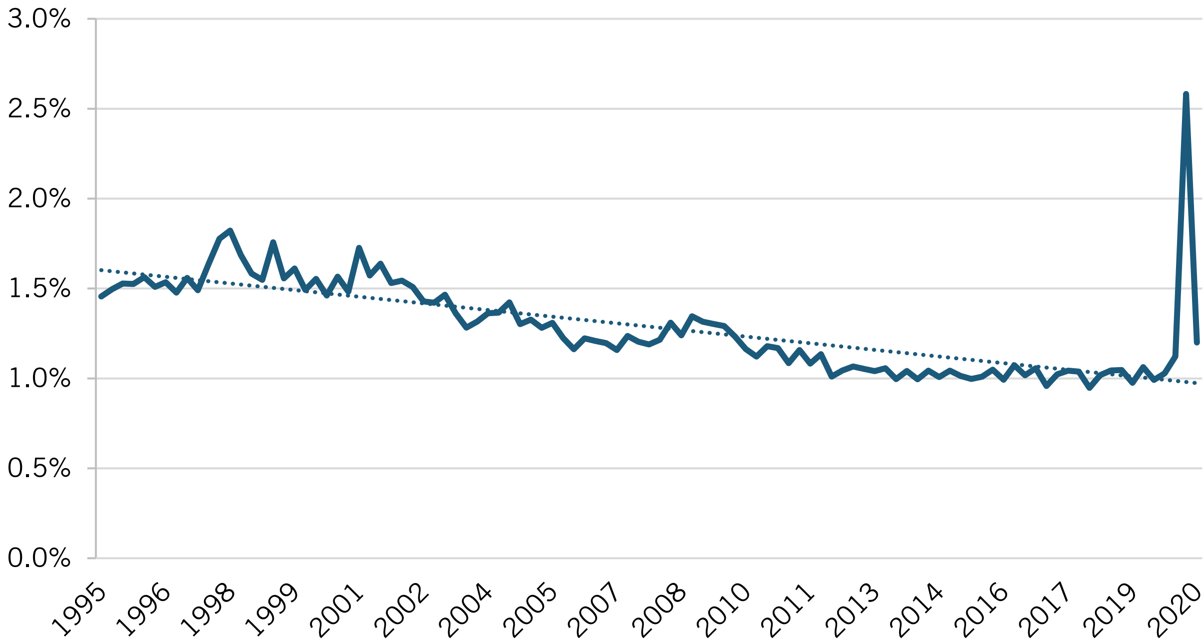
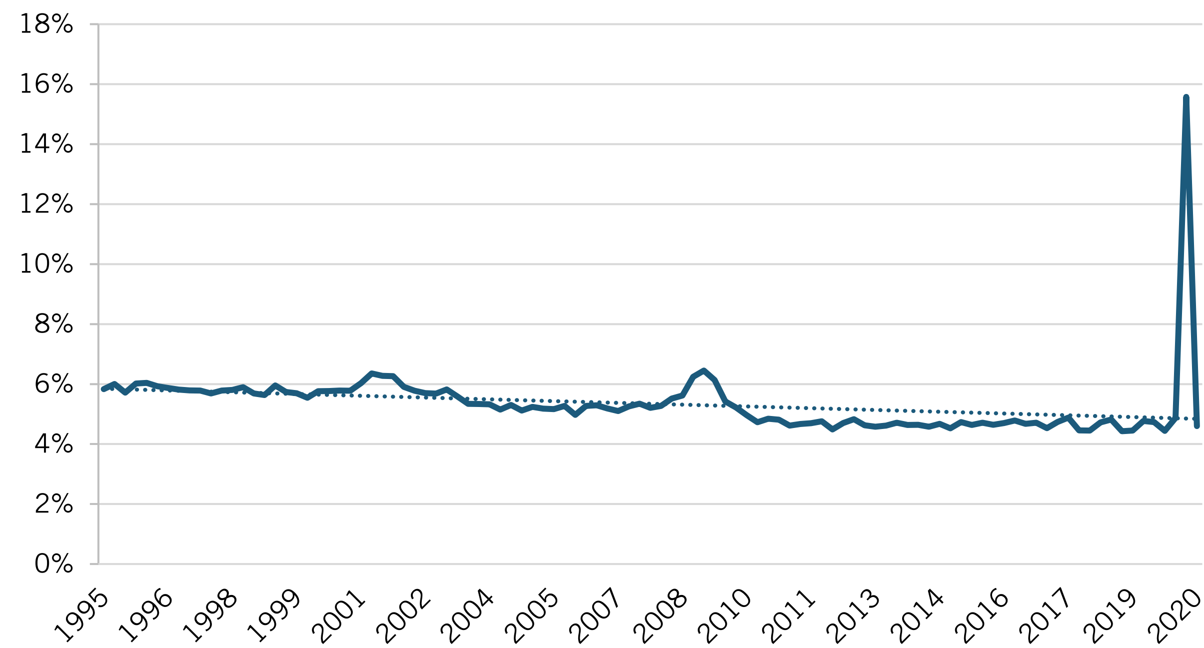


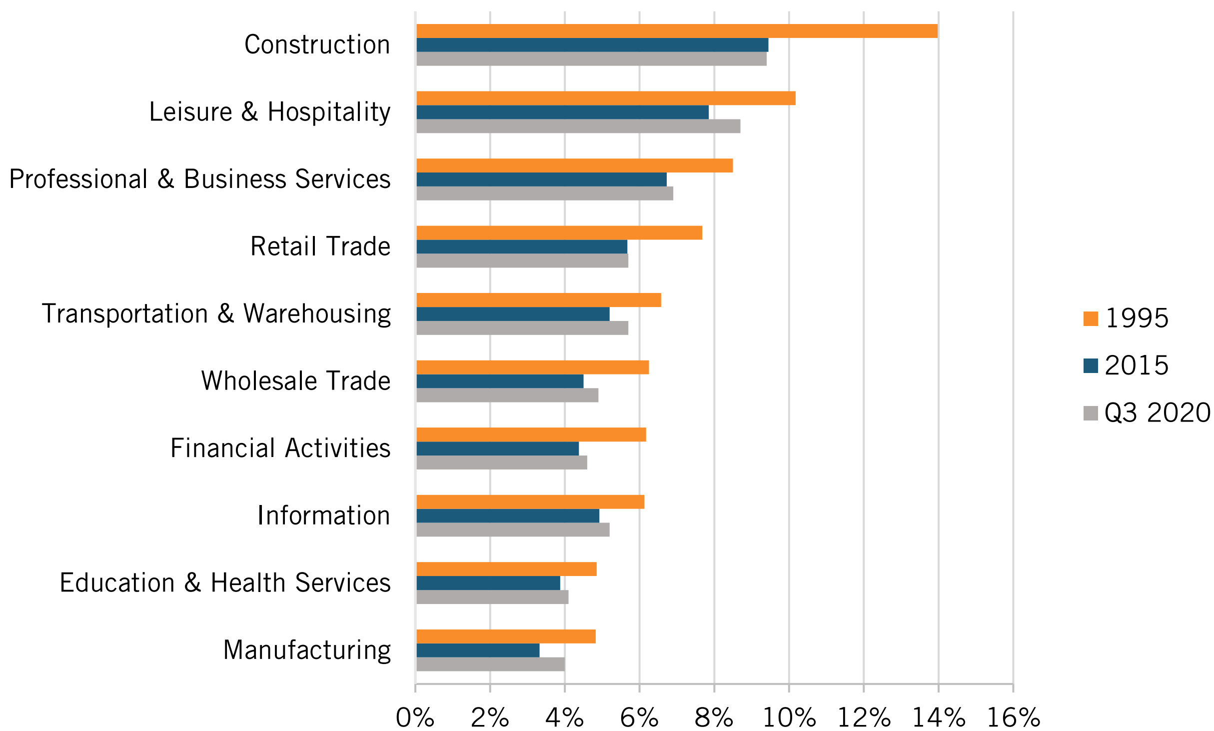
Figure 3: Quarterly job losses due to contractions as a share of total employment[8]



Comparing both trends from 1995 with Q3 2020, jobs lost from closings per quarter fell by 0.3 percent as a share of total employment, while jobs lost quarterly due to contractions fell by 1.2 percent. Job losses from closings were slightly higher in Q3 2020 than the trend line would have predicted. But job losses from contractions were marginally lower than the trend line would have expected. This trend mimics labor-market recovery post-Great Recession, where jobs lost through closings continued to decrease, while jobs lost from downsizing mainly remained stable.

The same trend of greater job security holds across all industries, as seen in figure 4. Among 10 major sectors, all saw a lower rate of job loss in Q3 2020 than in 1995, defined as the share of jobs lost in that industry through contractions or closings. However, job security differs across sectors. For example, in 1995, 14 percent of employment per quarter was lost in the construction industry, while the education and health services sectors eliminated about 5 percent of jobs. Nonetheless, all major industries saw lower rates of job dislocation in Q3 2020 than in 1995. When compared with 2015, most sectors saw slightly higher rates of job dislocation in Q3 2020.

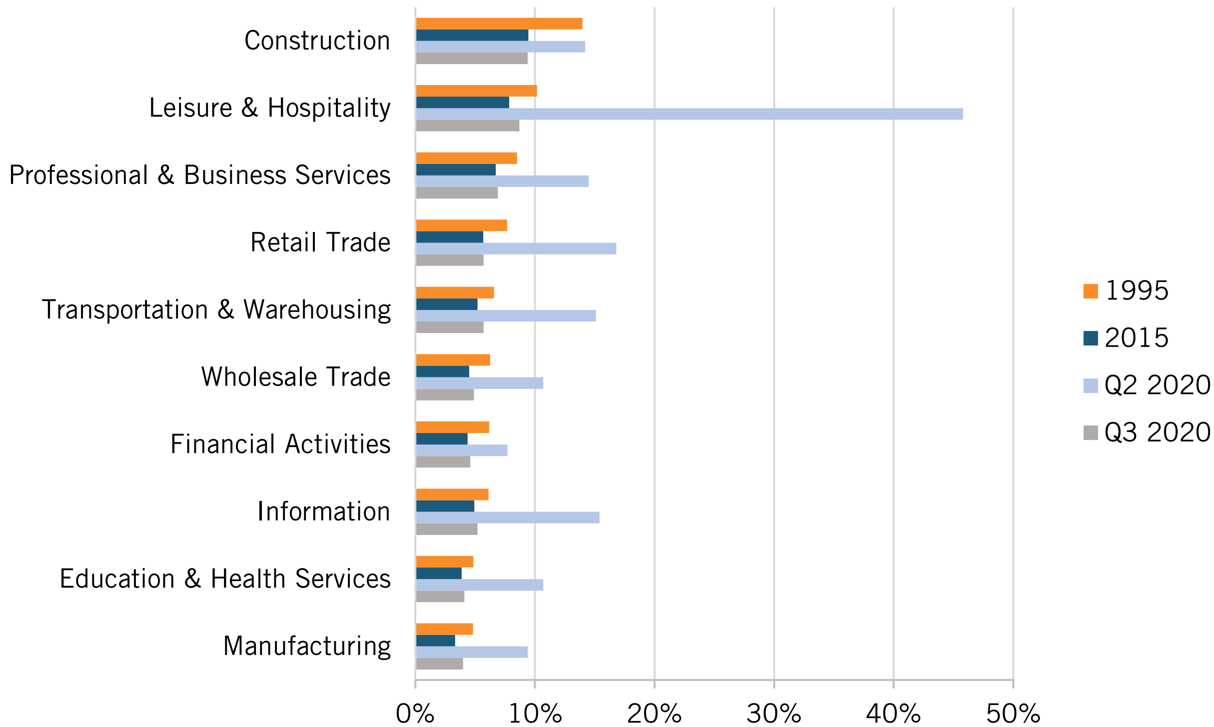
Figure 4: Quarterly job losses from closures and contractions as a share of total employment[9]



While job security has increased across all sectors, another noteworthy trend has been the disparities between sectors evening out. In 1995, jobs losses ranged from 5 percent to 14 percent of the workforce in any given sector. As job security increased, that range narrowed to between 4 and 9.5 percent in Q3 2020. This finding reaffirms that no industry has become riskier to work in; job security extends more evenly across the entire workforce.

Finally, the spike in job loss due to the global pandemic has not stopped these long-run trends. Even the leisure and hospitality sector—the field hit hardest by COVID-19—fell from its spike-level of 45 percent of all its jobs displaced in Q2 2020 back down to nearly 9 percent in the next quarter (see figure 5). Labor markets are also proving more resilient from momentary shocks as job security improves over time.

Figure 5: Quarterly job losses from closures and contractions as a share of total employed (including initial COVID-19 shock in Q2 2020)[10]



CONCLUSION

Despite the alarmism surrounding new technologies and the claim that they have made work more precarious and the labor market more insecure, the U.S. labor market is empirically more secure now than it was in the last two decades.

But security does not necessarily translate into prosperity. Disruption is often a driver of growth, as companies adopting more-efficient technologies and new business models gain market share.

Therefore, policymakers should not try to slow down labor disruption; if anything, they should try to speed it up, especially by supporting technological innovation. At the same time, the United States needs more robust policies to improve job-transition assistance and reduce skill mismatches. As the Information Technology and Innovation Foundation (ITIF) has laid out, several changes in policies and programs can help laid-off workers.[11] An innovative economy requires dynamic technological change, but it also requires a workforce capable of evolving alongside the requirements of technological change.

About the Authors

Robert D. Atkinson (@RobAtkinsonITIF) is the founder and president of ITIF. Atkinson's books include *Big Is Beautiful: Debunking the Myth of Small Business* (MIT, 2018), *Innovation Economics: The Race for Global Advantage* (Yale, 2012), *Supply-Side Follies: Why Conservative Economics Fails, Liberal Economics Falters, and Innovation Economics Is the Answer* (Rowman Littlefield, 2007), and *The Past and Future of America's Economy: Long Waves of Innovation That Power Cycles of Growth* (Edward Elgar, 2005). Atkinson holds a Ph.D. in city and regional planning from the University of North Carolina, Chapel Hill.

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About ITIF

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ENDNOTES

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