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Economic 'recovery' leaves jobs behind

Labor-saving technology, competition from skilled foreign workers and a debt hangover make it tough for the U.S. economy to create jobs.

By Don Lee, Los Angeles Times

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Reporting from Washington

Still limping two years after officially emerging from the recession and buffeted by a new wave of bad news, the U.S. economy is struggling with problems that run far deeper than higher oil prices, the European debt crisis or auto industry slowdown stemming from the Japanese earthquake and tsunami.

Serious as those problems are, what's crippling the job market and chilling recovery on almost every front is a confluence of factors that economists and business leaders say are fundamentally reshaping the economic landscape in which Americans live and work.

Taken together, these factors have created a vicious circle: Incomes of average families are barely growing, even as many struggle with heavy debts left over from the boom times. That in turn has curbed consumer spending power. And businesses, seeing little chance for a surge in sales, have had little reason to expand — neither hiring more workers nor paying their existing workers more.

"One argument is that this phenomenon [of poor job growth] is cyclical: We had the mother of all recessions after a near-death experience, and what we're seeing is just that when you get hit that hard, it takes longer to recover, but that there's nothing abnormal," said Michael Spence, a Nobel economics laureate who teaches at New York University's Stern School of Business.

"I don't believe that's right," he said. "The employment problem is new. I think everybody has to admit that. However we did it [in the past], we didn't really have a major employment problem until now."

And without more jobs and greater consumer spending power, it's hard to see how the U.S. economy can regain its old vigor.

The first big change behind this economically crippling cycle is advances in technology — especially computers and other information technology. Companies are increasingly able to maintain or even expand production without adding workers. That's one reason the country is going through a "jobless recovery."

The process has been underway for decades, but it appears to have accelerated. In the last two years, U.S. companies have spent billions of dollars on new equipment, but unemployment has remained near 10% and the economy has replaced only 1.8 million of the 8.7 million jobs lost between 2007 and 2009, when the recession technically ended.

The second factor that spells deep-rooted trouble for the U.S. economy is a dramatic change in the nature of foreign competition.

In the past, emerging nations such as India, China and South Korea once lured U.S. jobs offshore primarily because their workers — while relatively unskilled — were paid only a fraction of what American workers got.

Today, those countries are producing millions of well-educated workers, not just engineers and computer scientists, but medical researchers, financial experts and even lawyers who compete with U.S. workers who previously seemed immune to offshore competition.

And their expanding markets have attracted one American company after another. From 1999 through 2009, U.S. multinational firms added 2.4 million employees overseas while cutting their domestic staffing by 2.9 million, according to the Commerce Department. And these figures don't include outsourcing of jobs to non-U.S. companies abroad.

At technology service providers such as Computer Sciences Corp., plans to shift operations to India and other lower-cost centers are part of the boilerplate language in their annual reports. The company's revenue held steady last year, but it still managed to trim 3,000 workers from its global payroll of 94,000 in the 12 months ended in March — with some of the layoffs coming at various U.S. locations.

Advancing technology also has diminished the need for many kinds of skilled workers, especially in the middle levels where a majority of workers is found.

A year ago, Frank Goodnight, 63, dug deep into his pockets and bought a digital press for his 37-year-old printing company in Salisbury, N.C. Normally, he said, presses require two people to operate.

"This new one — half a person," he said. "The press operator now wears dress clothes to work every day."

A broad measure of productivity meant to capture the effects of technology change and labor at service and manufacturing firms showed that it rose 3.2% last year — the highest since the index was designed in 1987. That's faster than the economic output last year, meaning businesses didn't need to add much staff to meet increased orders.

The final major factor in the new economic landscape is the huge debt burden left over from the recession — in housing, consumer credit and government spending — that acts as a massive drag on the economy. Worry about the deficit also is preventing the federal government from continuing the kinds of stimulus programs put in place right after the recession began.

While politicians are locked in partisan gamesmanship and analysts keep score on next year's potential candidates, many Americans are increasingly weary, frustrated and scared about their jobs and financial future.

"The policy wonks and politicos may worry about [who's up or down in Washington], but the poor state of the economy is the most salient issue for most people," said Daniel J.B. Mitchell, professor emeritus of management and public policy at UCLA. "Right now, there just seems to be a paralysis in Washington about doing much of anything."

That leaves many economists hoping the latest signs of a faltering economy, most evident in last month's paltry job growth and rising unemployment, are a blip caused by temporary shocks such as higher energy prices and the effects of Japan's earthquake and tsunami.

But a growing body of evidence suggests that simply curing consumers' debt hangover and increasing their saving while reducing spending won't be enough, at least not when it comes to jobs.

The emerging giants of today's economy, Amazon, Google and Facebook, are surging with customers and revenue but doing so without the kinds of booming employment growth that accompanied the rise of corporations such as General Motors and Procter & Gamble.

"Technology allows you to build large, global, scalable companies with a fraction of the people that 20th century companies had," said Michael Schrage, a research fellow at the MIT Sloan School's Center for Digital Business. "That's a real issue for the future composition of employment."

The unemployment rate, 9.1% in May, has been at or above 8.5% for 27 months — longer than at any other time since the Great Depression.

Paul Perez, 28, who lives at his parents' home in Whittier, was unemployed for nearly a year before he landed a part-time job in April. He now unloads trucks and shelves goods at a home improvement store for $10.25 an hour.

He said he's happy to be working, but with a master's degree in religious studies from Cal State Long Beach, Perez aspires to earn more so he can get his own place and begin an independent life.

He can't put his finger exactly on why he has had such difficulty in the job market, but he suspects globalization. "I do think it's partially to blame," he said.

After analyzing nearly two decades of data through 2008, NYU's Spence and colleague Sandile Hlatshwayo found that nearly all of the job growth in the U.S. came in sectors that can't be easily shifted offshore or outsourced abroad, such as healthcare and restaurants.

But their pay has generally lagged behind other fields that are subject to foreign competition — and their prospects look far less promising given the budget crunch facing governments and many consumers.

What that means, Spence said, is that job growth also will lag unless America's competitive-sector jobs flourish.

"So when you add that all up, we've got a problem," he said. "We probably ought to tackle it as a long-term issue of getting our investment levels backing people, infrastructure and technology, and trying to fix the tax system. And we won't get the results like next year."

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