

Job Creation and the Recession

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Introduction

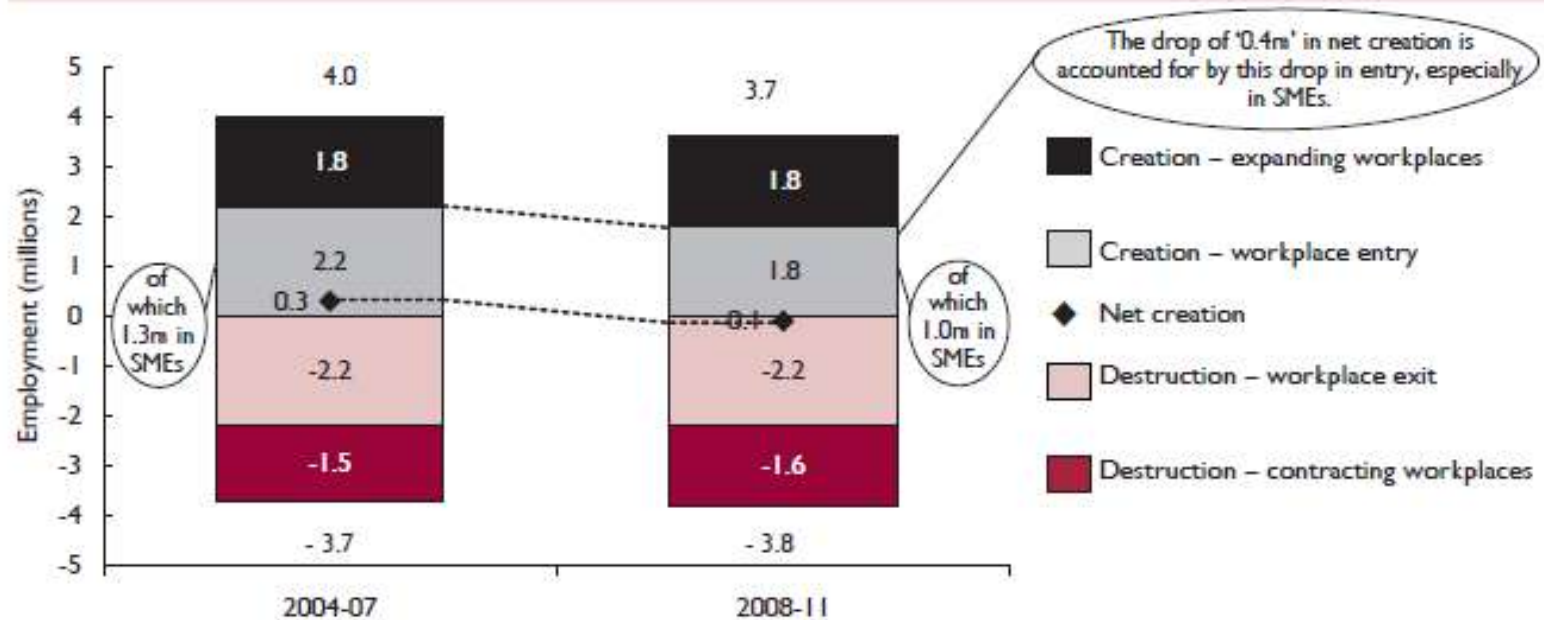
- Private sector employment rose by over a million in the past three years – an average 2% increase per year.
- This is the net result of ongoing gross job creation and destruction by firms. But how large are these gross flows?
- At any one time, 30% of people in a job were recruited within the last year. Gross job creation lies between 2% and 30%.
- Firm level data enable us to get a more precise estimate.
- Job creation can be counted when a workplace is newly established or expands,
- . . . job destruction when one contracts or closes
- Counting jobs in this way 4.0m were created per year before the recession and 3.7m per year were lost or destroyed, 18% and 17% respectively.

The data used and firm structure

- Firm structure:
 - Workplaces are ‘Local Units’, at a single site
 - Firms are ‘Enterprises’ containing one or more workplaces defined as “the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources ”
- Estimates here are derived from workplace level.
- It is possible to use the firm level, but this gives a lower figure of job creation – around 3m rather than 4m per year –jobs can be created in one workplace in a firm but lost in another.
- Workplaces have been reliable statistical entities for 10 years or so, before that they were less robust, being more a means to obtain firm level or local area estimates; the firm or enterprise has a longer history of reliable existence.

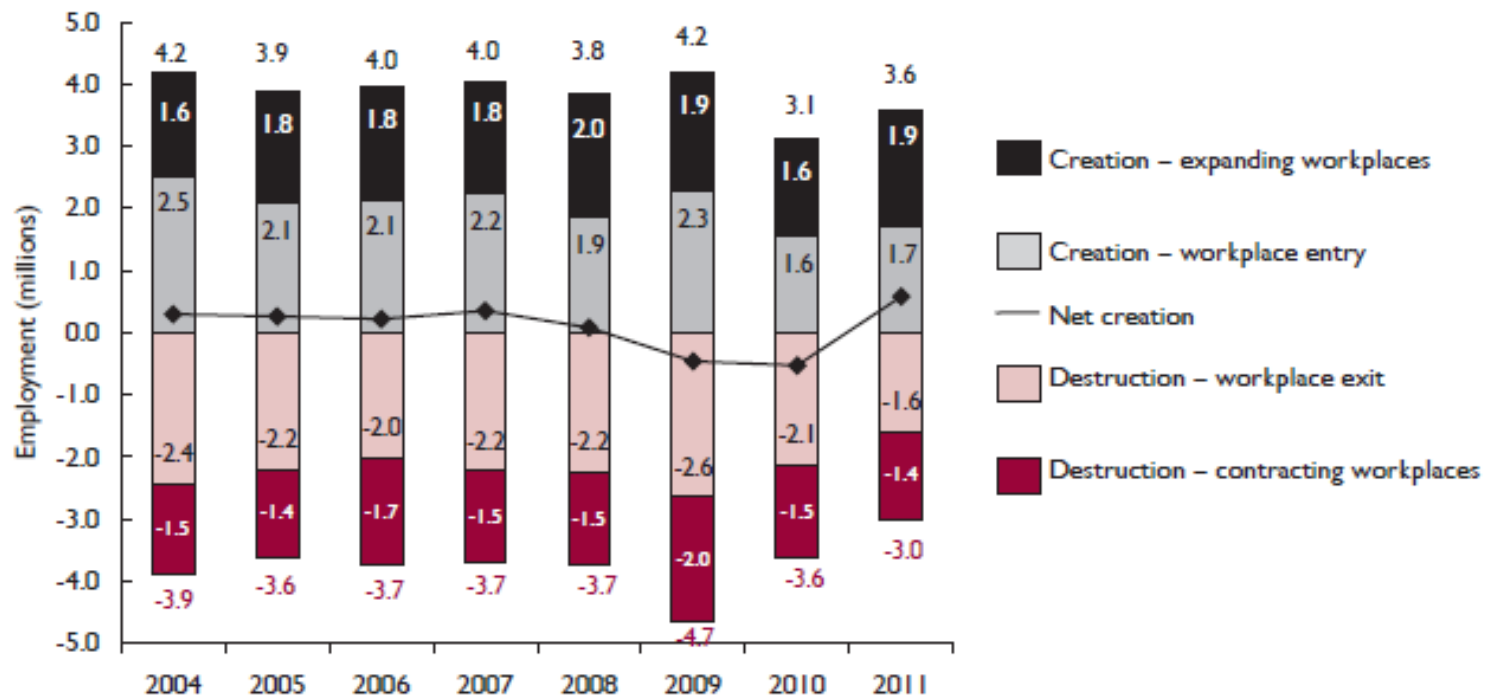
Net job creation drops from 0.3m to -0.1m per year, primarily due to reduction in entry of workplaces, mostly SMEs

Figure 1. Components of job creation and destruction, 2004-11



There is a drop in entry in 2008, a peak of destruction in 2009, and then continued lower levels of entry

Figure 2. Gross job creation and loss from 2004 to 2011

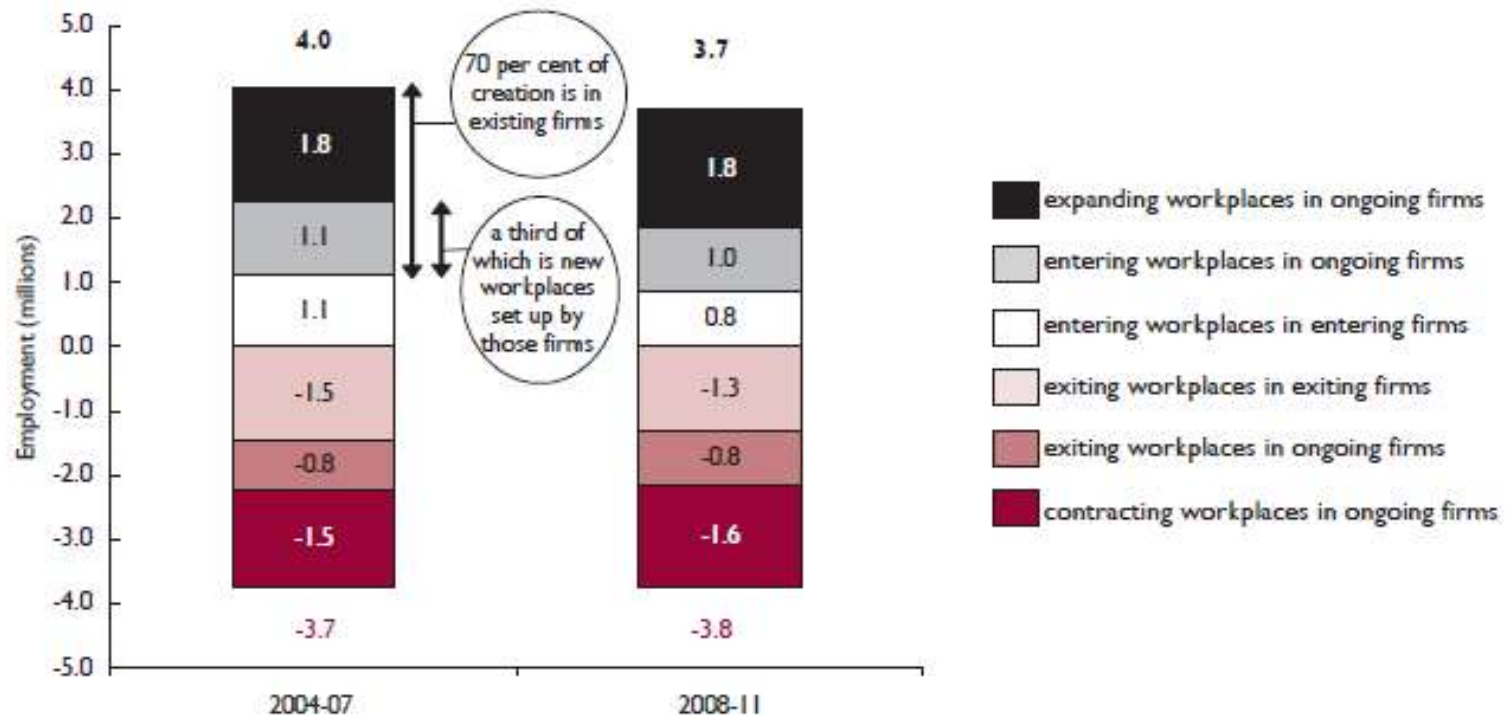


International comparison, employment reallocation, firm size and age

- Annual job creation of 4.0m represents 18% of existing jobs. This is a considerable degree of churn, at the upper end of countries for which estimates are available.
- Estimates for manufacturing are more widely available. In the UK job creation has been 10% per year since 2004, very similar to historical figures for other developed countries (US 9%, Canada 10%, Australia 16%, Norway 7%).
- Job creation for the wider private sector (18%) is about half the rate for recruitment (30%).
- Size. These data show that small firms (< 20 employees) have a higher net job creation than larger firms.
- Age. Young firms have higher rates of job loss (34% jobs lost per year for firms in their first two years)

Over 70% of job creation is in existing firms, even though new workplaces account for more than half of new jobs

Figure 3. Job creation by new workplaces in ongoing firms



Implications

- Large degree of churn means change can happen quickly even if individual workplaces do not change quickly, eg de-unionisation
- Response to the recession has seen a net loss of jobs through reduced entry of new workplaces especially in SMEs. Consistent with credit constraints or reduced business confidence.
- 30% of job creation is through establishment of new firms – although lower than other estimates, this does show importance of entrepreneurial activity in support economic activity.