

## JOB CREATION AND THE RECESSION

### NIESR policy seminar, 11 September 2013

The **purpose** of this seminar was

- to bring academic literature to bear on the policy debate about private sector job creation, and to provide insight into the mechanics and potential drivers of the downturn.
- to consider the impact of firm dynamics more generally
- to inform and influence policy thinking on the economy and on firms.

As well as leading academics and thinktanks in the field, present at the seminar were policy analysts and managers from the relevant bodies, Bank of England (including MPC), Treasury, BIS (productivity lead) and the ESRC.

#### Key points were:

- **Net increase in private sector jobs since 2010.** Official statistics published on the morning of the seminar confirmed that over a million new jobs had been created in the private sector since the coalition took power in 2010 (quoted by the Prime Minister). This is net job creation, and net figures can be difficult to interpret correctly. Just what are the gross changes underlying this?
- **Gross job creation is much bigger.** New research at NIESR presented by Bob Butcher and Matt Bursnall looked at data on firms for 2011, the latest year available, and showed that the increase of 0.6 million jobs in that year was the result of the gross creation of 3.6 million jobs in the private sector and loss of 3.0 million jobs.
- This represents a large degree of churn in the economy. However, it is at a lower level than usual. Before the recession there were 4.0m jobs being created per year and 3.7m lost, as in the charts below.
- **Reduced job creation in the recession.** Downturns can follow from a reduction in demand, for example a bubble bursting or a price spike for a key factor such as energy, which could lead to an *increase* in *job losses* through closures of firms and contractions. However, the initial effect in 2008 was a *reduction* in *job creation* through a reduction in entry of new workplaces, primarily in SMEs (small and medium enterprises). Such a reduction was seen in three out of four of the downturn years, 2008, 2010 and 2011. This reduced level of economic activity is consistent with reduced availability of credit or a lack of business confidence leading to the reduction in investment in new workplaces, and is different from the effect of reduced demand.

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

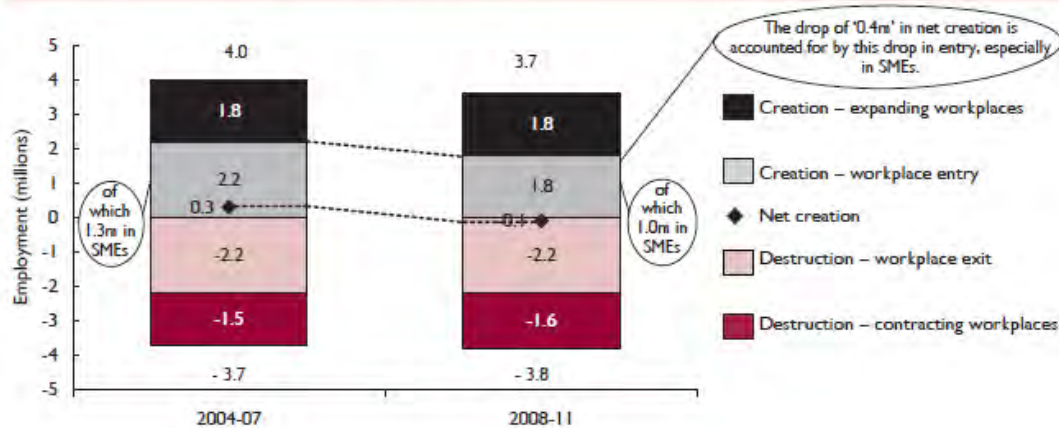
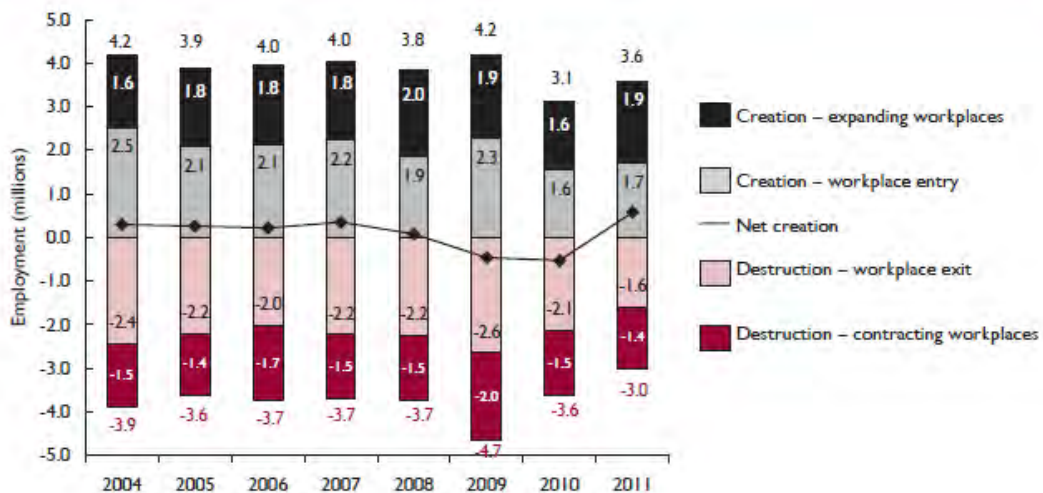


Figure 2. Gross job creation and loss from 2004 to 2011



- **Labour hoarding seems unlikely.** It has been suggested that the relatively low level of unemployment compared to the loss of gdp may be due to labour hoarding, by firms keeping workers in anticipation of future upturn. That would suggest a lower than expected level of job loss through contraction but such job loss is similar to pre-recession levels (though the conclusion is tentative as it is possible that contraction would have been even higher in other circumstances).

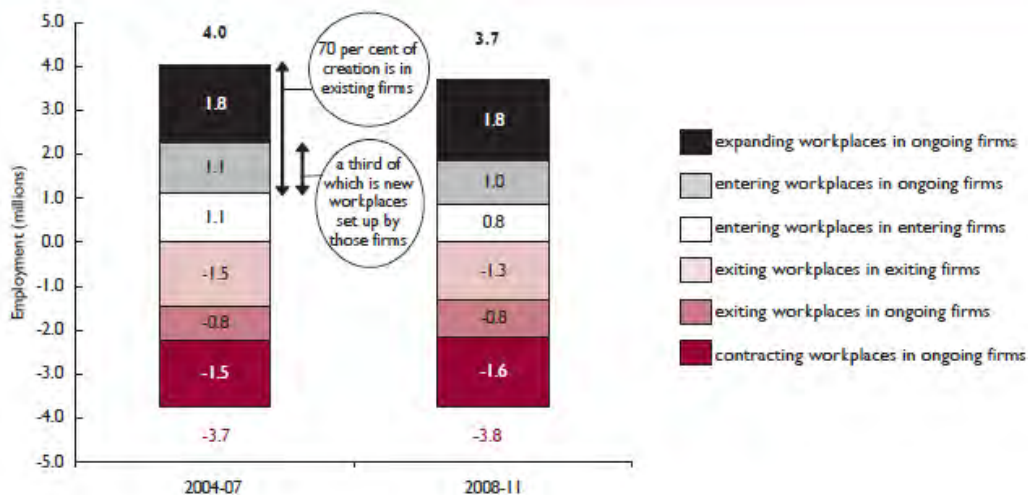
Other important findings included

- **Churn enables change.** The large amount of churn among firms at any one time means that change can happen quickly in an economy even when individual firms or workplaces do not or cannot change quickly.
- For example de-unionisation occurred relatively quickly across industry in the UK in the 1990s, though it was unusual for an individual workplace to de-unionise. The reason was that new workplaces were

much less likely to be unionised than existing ones and those that closed were more likely to be unionised. Another example is the response to fuel price increase. Most energy intensive firms tend to rely on a single fuel type, which makes it hard to respond quickly if one fuel such as oil sees a substantial change in price. Nevertheless *sectors* can and do respond quickly, through the affected firms contracting or closing as a result of higher costs, while firms using other fuels expand or are newly established as they have become more competitive (described in references 2 and 3 below).

- **Three quarters of job creation occurs in existing firms.** A large proportion of newly established workplaces are within existing firms. Just under half of gross job creation is through expansion of existing workplaces, a quarter through new workplaces established in existing firms and a quarter through new workplaces as part of new firms.

Figure 3. Job creation by new workplaces in ongoing firms



Further points made during discussion included:

- The changes in *employment numbers* (an increase in redundancies rather than a reduction in recruitment) seems to tell a different story from the *job numbers*. Bob Butcher said this could be due to the increase in proportions of sole traders and self-employed people, but initial analysis suggests it might be more due to the reduction in volume of people holding second jobs - for example some could lose their primary occupation but remain in employment through their second job.
- It was mentioned that most investment by firms comes from retained profits rather than equity or credit, and the bulk of bank loans are for real estate, which can provide surety for the loan, so possibly too much weight is being put on credit constraint as a driver of reduced economic activity and productivity gain.
- Comparisons with the United States were interesting. They have seen a similar reduction in job creation through entry and a similar banking crisis, but their recession does not seem to have been as deep. It was

mentioned that the pre-crisis trend in the US was different so comparisons with them may be less meaningful than with Europe.

Bob Butcher  
NIESR  
23 September 2013

## References

1. Butcher, Bob and Bursnall, Matt (2013), *How dynamic is the private sector? Job creation and insights from workplace-level data*. National Institute Economic Review No. 225 August 2013.
2. Millward, N, Bryson, A, and Forth, J (2000), *All change at work?*. Routledge
3. Doms, Mark (1993), *Inter-fuel substitution and energy technology heterogeneity in US manufacturing*. US Bureau of the Census

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## Attendance

NIESR / BIS	Bob Butcher
NIESR	Rebecca Riley
Bank of England / NIESR	Martin Weale
BIS	Matt Bursnall
BIS	Dan Mawson
BIS	Gareth Griffiths
BIS	Paul Crawford
BIS	Siobhan Carey
HMT	Andrew Ward
HMT	Helen Slater
HMT	Neal Kilbane
Bank of England	Nicholas Fawcett
Bank of England	Srdjan Tatomir
NIESR	Alex Bryson
NIESR	Anna Rosso
NIESR	Chiara Rosazza-Bondibene
NIESR	Cinzia Rienzo
NIESR	Jonathan Portes
NIESR	Simon Kirby
NIESR	Iana Liadze
CLG	Angus Hawkins
NAO	Diana Tlupova
ONS	Frederick Perry
Observer	Heather Stewart
Resolution Foundation	James Plunkett
Morgan Stanley	Jonathan Ashworth
Swansea University	Kate Robinson
Aston University	Michael Anyadike-Danes
REC	Amanda Ciske

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## Programme for the seminar

11.00 - 12.30 Seminar and discussion

Chair: Martin Weale, Bank of England and NIESR

1. Bob Butcher, NIESR, on secondment from BIS  
**Job creation and the recession**
  2. Rebecca Riley, NIESR  
**Components of productivity change in the recession  
- early findings**
  3. Discussion
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