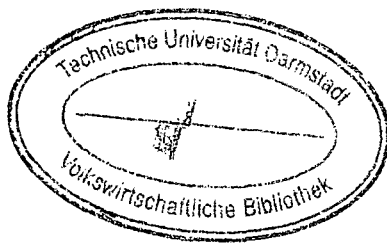


Job Creation and Destruction

Steven J. Davis

John C. Haltiwanger

Scott Schuh



The MIT Press
Cambridge, Massachusetts
London, England

Contents

Tables	xi
Figures	xv
Foreword	xvii
Acknowledgments	xxi
Introduction	1

1 Concepts, Measurement, and Data	9
1.1 Job Creation and Destruction	9
1.2 Job Reallocation and Worker Reallocation	11
1.3 The LRD: Data and Measurement	13
2 Basic Facts about Job Creation and Destruction	17
2.1 Magnitude	18
2.2 Persistence	21
2.3 Concentration	26
2.4 Cyclicity	31
2.5 The Connection between Job Reallocation and Worker Reallocation	34
3 Similarities and Differences by Industry and Other Sectors	37
3.1 Variation across Industries	38
3.1.1 <i>Implications for Worker Flows</i>	38
3.1.2 <i>Excess Job Reallocation and Plant-Level Heterogeneity</i>	38
3.1.3 <i>Which Industries Create the Most Jobs?</i>	40
3.2 Variation across Regions	41
3.3 Variation by Wage Level	43
3.3.1 <i>Wages and Net Job Growth</i>	43
3.3.2 <i>Wages and Gross Job Flows</i>	46
3.4 Variation by Exposure to International Trade	47

3.5	Variation by Productivity Growth, Factor Intensity, and Degree of Specialization	50
3.6	Quantifying the Role of Between-Sector Employment Shifts	52
3.7	Sectoral Variation in the Persistence of Job Creation and Destruction	53
4	Differences by Size and Age of Plants and Firms	57
4.1	Context and Motivation	57
4.2	Measuring Employer Size and Employer Age	58
4.3	Job Creation and Destruction Rates by Employer Size	60
4.4	The Size Distribution Fallacy	62
4.5	Netting Out Reality	64
4.6	The Regression Fallacy	66
4.7	An Unsuitable Database	70
4.8	What Fraction of New Manufacturing Jobs Did Small Employers Create?	72
4.9	Job Creation and Destruction Rates by Plant Age	76
4.10	The Durability of Jobs by Employer Size and Age	78
5	Job Flows and Business Cycles	83
5.1	Context and Motivation	84
5.2	The Prevailing View of Business Cycles	84
5.2.1	<i>The Macroeconomic Framework</i>	84
5.2.2	<i>Some Empirical Underpinnings of the Prevailing View</i>	85
5.2.3	<i>Implications for Layoffs</i>	89
5.2.4	<i>Predictions for Job Creation and Destruction Dynamics</i>	90
5.3	Time-Series Evidence on Creation and Destruction	91
5.3.1	<i>Total Manufacturing</i>	91
5.3.2	<i>Variation among Sectors and Plant Types</i>	94
5.3.3	<i>A Summary of the LRD Evidence</i>	99
5.3.4	<i>Evidence Based on Other Data Sources</i>	99
5.4	Some Theoretical Elements of a Richer View of Recessions	103
5.4.1	<i>The Role of Heterogeneity and Reallocation Frictions</i>	104
5.4.2	<i>Allocative Shocks as Driving Forces behind Aggregate Fluctuations</i>	106
5.4.3	<i>Aggregate Shocks and Reallocation Timing Effects</i>	109
5.4.4	<i>Information Spillovers, Allocative Shocks, and Aggregate Fluctuations</i>	110
5.5	A Case Study: Restructuring in the Steel Industry	112
5.6	Differences among Recessions	118

6 Job Flows, Worker Flows, and Unemployment over the Business Cycle	125
6.1 Context and Motivation	126
6.2 The Relationship between Job Flows and the Unemployment Rate	126
6.3 Gross Worker Flows—Concepts and Magnitudes	128
6.4 The Time-Series Relationship between Worker and Job Flows	134
6.4.1 <i>Total Unemployment Flows</i>	134
6.4.2 <i>Unemployment Flows by Reason</i>	138
6.4.3 <i>Unemployment Flows by Age and Sex</i>	143
6.4.4 <i>Putting the Pieces Together</i>	146
6.4.5 <i>Some Missing Pieces</i>	149
6.5 Appendix: Seasonal Variation in the Flows	150
7 Economic and Policy Implications	153
7.1 The Limitations of Our Statistical Portrait	154
7.2 Heterogeneity in Job Growth Outcomes	157
7.2.1 <i>The Magnitude and Pervasiveness of Job Reallocation</i>	157
7.2.2 <i>Reasons for Heterogeneity</i>	158
7.2.3 <i>Heterogeneity, Ignorance, and Economic Policy</i>	159
7.3 Targeted Industrial and Commercial Policies	161
7.3.1 <i>Arguments for Targeted Policies</i>	161
7.3.2 <i>Heterogeneous Business Performance and the Efficacy of Targeted Policies</i>	165
7.3.3 <i>Should the Government Pursue Targeted Commercial Policies?</i>	168
7.4 Preferential Policy Treatment on the Basis of Employer Size	169
7.5 Laws and Policies Governing Worker and Job Flows	172
7.6 Worker Retraining, Relocation, and Job-Finding Programs	173
7.7 International Trade, Job Security, and Specific Human Capital Investment	174
7.8 Aggregate Stabilization Policies	176
8 A Postscript on Prospects for Data Development	181
8.1 The Standard Statistical Establishment List	182
8.2 The Bureau of Labor Statistics 202 Dataset	183
8.3 A National Wage Records Database	185
8.4 Possibilities and Practicalities	186

Technical Appendix	187
A.1 Theoretical Concepts	188
A.1.1 <i>Gross Job Creation, Destruction, and Reallocation</i>	189
A.1.2 <i>Net Job Creation</i>	190
A.1.3 <i>Persistence of Job Creation and Destruction</i>	191
A.2 The Longitudinal Research Database (LRD)	192
A.2.1 <i>Longitudinality</i>	192
A.2.2 <i>ASM Sampling and Panels</i>	194
A.2.3 <i>Sample Frame Maintenance</i>	196
A.3 Adjusting the Raw Data	197
A.3.1 <i>Annual Employment Data</i>	197
A.3.2 <i>Quarterly Employment Data</i>	198
A.3.3 <i>Missing Values and Processing Errors</i>	199
A.4 Measurement Methodology	200
A.4.1 <i>Measurement Mechanics</i>	200
A.4.2 <i>Imputation in the First Periods of ASM Panels</i>	204
A.4.3 <i>Retiming Quarterly Births and Shutdowns</i>	205
A.5 Statistical Precision	208
A.6 Published versus Sample Data	211
A.6.1 <i>Published Data</i>	212
A.6.2 <i>Comparisons of Levels and Growth Rates</i>	214
A.6.3 <i>Decomposition of Published Data</i>	216
A.6.4 <i>A Hypothetical Panel</i>	218
A.6.5 <i>Adjustments to Job Flows Data</i>	219
A.7 Sector Definitions	220
A.7.1 <i>Industry</i>	220
A.7.2 <i>Geography</i>	222
A.7.3 <i>Plant Characteristics</i>	223
A.7.4 <i>Two-Dimensional Sectoral Classifications</i>	230
A.8 Using the Data	230
A.8.1 <i>The Data Diskette</i>	230
A.8.2 <i>Levels of Gross Job Creation and Destruction</i>	231
A.8.3 <i>Alternative Aggregate Data Classifications</i>	233
A.8.4 <i>Quarter Definitions and Seasonality</i>	234
A.8.5 <i>Change in the SIC Industry Definition</i>	236
A.8.6 <i>Analysis of Startups and Shutdowns</i>	236
A.9 How to Obtain the Data	236
References	239
Index	255