

Jobless Recoveries

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Historically, when an economy emerges from recession, employment grows with, or soon after, the resumption of GDP growth. However, following the two most recent recessions in the United States, employment growth has lagged the recovery in GDP by several quarters, a phenomenon that has been termed the “jobless recovery.”

To many, a jobless recovery defies explanation since it violates both historical patterns and the predictions of traditional macro theory. We show that a recession followed by a jobless recovery is precisely what neoclassical theory predicts when new technology impacts different sectors of the economy unevenly and is slow to diffuse, and sectoral adjustments in the labor market take time to unfold.