MARTIN Prosperity *Insights*

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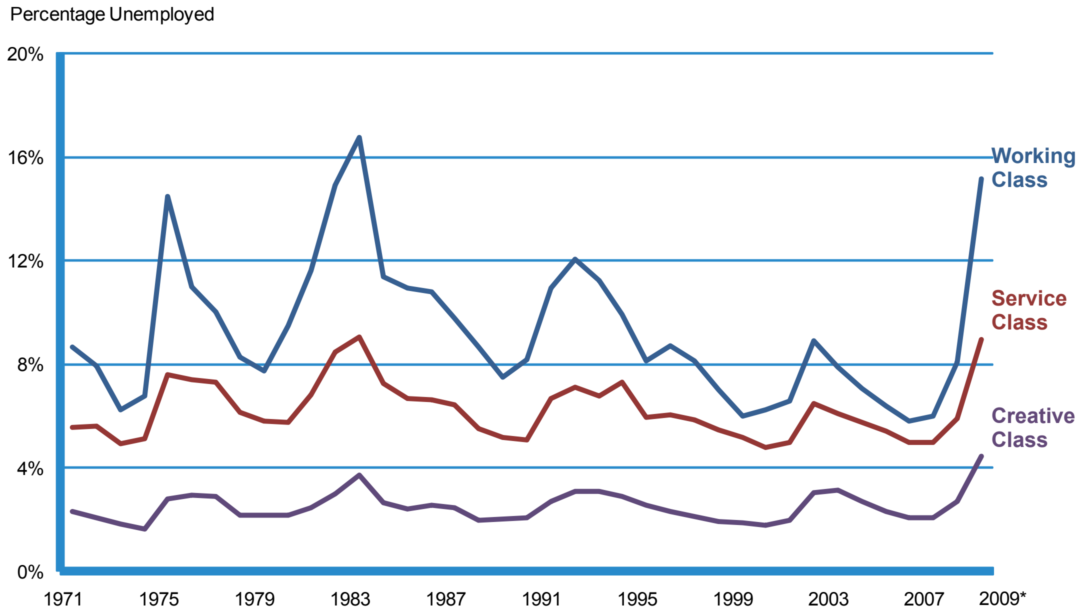
Unemployment on the rise: Who's hit most by the recession?

Since the start of the recession in December 2007, the U.S. economy has shed 7.2 million jobs according to the U.S. Bureau of Labor Statistics (BLS). The U.S. unemployment rate has more than doubled since June 2007, from 4.6 to 9.5 percent. But what's also clear is that the economic pain from the downturn is spread unequally. Unemployment among blue-collar manufacturing workers has risen from 6.0 to 15.2 percent, while the rate for professional, technical and creative workers is less then 5 percent.

The graph below tracks the unemployment rate for three broad groups or classes of employment – the working class, the service class, and the creative class from 1971 to May 2009. We define these classes as follows:

> *Working class.* Occupations that depend highly on physical skills and repetitive tasks. (e.g., construction trades, mechanics, crane operators, assembly line workers).
>
> *Service class.* Low autonomy occupations in the service sector (e.g., food service workers, janitors, grounds keepers, secretaries, clerks)
>
> *Creative class.* High autonomy occupations where workers are paid to think (e.g., artists, doctors, nurses, senior managers, architects).

United States, unemployment rate, 1971-2009



* January-June 2009 seasonally adjusted. (Otherwise annual average used.)
Source: Martin Prosperity Institute analysis based on data from the U.S. Bureau of Labor Statistics and the CPS Annual Demographic Survey

Defining our economy by the work people do is different than the conventional way of defining it by industries. Somebody may be working in the automotive industry but is not necessarily working on the assembly line in a working-class occupation. In both Canada and the United States, the share of employees in the working class peaked in the early 1950s and has fallen to about 25 per cent.

As the graph shows, these three classes face entirely different labour market outcomes - in good as well as bad times.

Unemployment for all three groups has spiked since the onset of the recession. But the downturn has hit hardest on working class members, who currently experience an unemployment rate of 15.2 percent. Next hardest hit are service class workers with unemployment currently at 9.0 percent. Unemployment among creative class workers is at 4.4 percent.

The working class has been hard hit by every downturn since 1971. Working class unemployment spiked from 6.2 percent in 1973 to 14.5 percent in the 1975 downturn. It spiked again from 7.7 percent in 1979 to 16.8 percent in 1983. It reached 12.0 percent in 1992.

In contrast, the unemployment rate for the creative class has hardly ever reached the 4% mark. Unemployment rates among the working and service class are typically about 3-4 and 2-3 times respectively the rate of those in the creative class.

A closer look at monthly data (available starting in 2000) reveals that unemployment rates among the working and service classes typically move together while creative class unemployment lags the other two by several months. (We'll discuss this finding in an upcoming MPI Insight).

No doubt, with unemployment rates for all three classes at or near four-decade highs, this is a severe recession. Our analysis shows that like other downturns, recessions fall heaviest on the working class – and to a lesser extent, the service class. But during an economic downturn, the creative class experiences a much more modest increase in unemployment.