

## **Recession of 2009: The Role of Small Business in the Recovery**

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*The current economic downturn has continued to gain momentum and can be expected to reach double digit unemployment before it ends. But the figures reported by the government do not fully represent the unemployment picture, especially when compared to the Great Depression or the Reagan Recession. They do not address the slowness of the jobs recovery and the reasons why jobs will be returning to the economy at historically slow rates. The role that small business plays in the economic recovery will be an important key to the recovery's speed and effectiveness. Those issues are addressed here.*

**Field of Research:** Recession; Unemployment; Small Business

### **1. Introduction**

In August of 2009, the Bureau of Labor Statistics announced that the unemployment rate was 9.4 percent for July, the second highest in over twenty-five years (Employment status of the civilian non-institutional population by sex and age seasonally adjusted, 2009).. Unfortunately, that is not an accurate reflection of what the unemployment rate really is because it does not account for “Persons not in the labor force, but want a job,” or “Discouraged workers”. The actual unemployment rate is higher and will remain high for a longer period of time than was the case in prior recessions.

### **2. Review of the Literature**

#### *2.1 Who Counts as Unemployed?*

More people are unemployed than the ones who are counted by the government. These workers have exhausted their unemployment benefits and have fallen out of the unemployed statistics. They are neither employed, nor unemployed, but are considered to be “Not in the labor force, but persons who want a job” as well as “Discouraged workers.” They are not considered a part of the labor force and are not considered unemployed.

The July, 2009 unemployment report demonstrated the fallacy of the government's report. In June of 2009 there were 154,926,000 people in the labor force. In July of 2009 there were 154,504,000 people in the labor force, a decline of 422,000 people. The number of people not in the labor force increased from 80,729,000 to 81,366,000 or 637,000. A significant number

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of them included the 155,000 shrinkage in the number of people employed in the United States from 140,196,000 to 140,041,000. From May to July the labor force of the United States shrank from 155,081,000 to 154,504,000 or by over .5 million people. These people are no longer counted among the unemployed in the official government statistics.

### *2.2 How Is Unemployment Calculated?*

The absence of “Not in the labor force, but persons who want a job” and “Discouraged workers” in the unemployment calculation makes it difficult to compare the current unemployment rates with that of the 1930’s. In the 1930’s there were no “discouraged workers” in the unemployment statistics. In the 1930’s people were either employed or unemployed. Unemployment statistics were calculated very differently than today. The government relied heavily on a stratified sample of the population to compute the unemployment rate (Maidment, 1983).

In today’s unemployment statistics, the numbers are divided into several categories, the unemployed are those who are currently receiving benefits. Persons “Not in the labor force, but want a job” and “Discouraged workers” are not included.

For example, in the month of July, 2009, the number of officially unemployed decreased by 155,000, a decrease of 0.1 percent in the unemployment rate, while the number of persons “Not in the labor force, but want a job” increased by 106,000 and the number of people in the labor force decreased by 422,000. Conversely, the number of people unemployed in March, 2009, increased by 694,000, an increase of 0.4 percent, moving the unemployment rate up to 8.5 percent, and the number of people in the labor force declined by 339,000. From July, 2008 to July 2009, the total labor force decreased by 2,000 people, from 154,506,000 to 154,504,000, while the percent of the population in the labor force declined by .6 percent. The official unemployment rate increased from 5.6 to 9.4 percent, but did not include the increased numbers of “Discouraged workers,” or the people who are, “Not in the labor force, but want a job” which has increased by almost one million workers. (Employment status of the civilian non-institutional population by sex and age, seasonally adjusted, 2009).

### *2.3 Other Factors in Calculating Unemployment*

There are those who are only working part-time but would like to find full-time work. In March, 2009 these individuals were estimated to be 3.700 million (Holahan, 2009). If these are added to the unemployment statistics, the number for March goes up to 16.861 million, increasing unemployment to 10.9 percent of the labor force from 8.5 percent. Also, there are people who are now out of work who would include small business people who have been forced to close their doors because of the downturn in the economy or the reduced hours that many employees have had to take, or job furloughs employers have required of their employees in an effort to cut costs. These figures are not reflected in the official government statistics. However, there

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are estimates that if these were included, the real unemployment rate would have been 15.6 percent in March of 2009 (Holahan, 2009).

### 3. Methodology and Research Design

#### 3.1 Unemployment during the Great Depression

In the 1930's, the unemployment rate reached a high in the mid-twenty percent range in the early part of the decade with the high reaching 12.830 million people in 1933, and averaged 19.1 percent from 1930 to 1935. After 1935, make-work projects of Federal agencies (Works Project Administration [WPA], Public Works Administration [PWA], etc.) became fully operational. From 1936 to 1940, the average unemployment rate declined to 16.4 percent. People involved in the make-work programs were still counted as unemployed. If the people involved in the Federal make-work programs were counted as employed, the unemployment rate would have dropped significantly to around 10 percent from 1936 - 1940.

#### 3.2 The Reagan Recession

In the Reagan Recession, unemployment reached 10.8 percent in December, 1982 with a total of 12.040 million workers unemployed. The Federal Government acknowledge another 1.83 million discouraged workers for a total of 13.89 million in December of 1982. The discouraged worker category raised total unemployment to the heights of the second half of the Great Depression, in terms of the unemployment rate, to 11.8 percent (Maidment, 1983).

#### 3.3 The 2007-2009 Plus Economic Downturn

The current economic downturn has exceeded the total number of unemployed in the two prior major economic downturns with 14.729 million people unemployed in June of 2009, compared to the Reagan era of 12.040 million and the 1933 number of 12.830 million. While these labor forces were much smaller than the current one, it should be noted that in 1933 there were no such categories as "Not in the labor force, but want a job," or "Discourage workers." If in June, 2009, the persons "Not in the labor force, but want a job" of 5.884 million workers and the 793 thousand "Discouraged workers" are added to the labor force of 154.926 million, for a total of 161.603 million people in the labor force resulting in 21.406 million unemployed, then the unemployment rate is 13.24 percent.

#### 3.4 Comparing Unemployment Rates

The unemployment rate for July, 2009 was 9.4 and for June, 9.5 percent. If the "Not in the labor force, but want a job" and "Discouraged workers," are added to the unemployment roles for June of 2009, the rate goes up to 13.24 percent. 13.24 percent is greater than the comparable unemployment rate for the 2001-2003 recession and more than the around 10 percent

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unemployment rate would have been for the second half of the Great Depression if the people in the “make-work projects” had been counted as employed. It approaches the official average unemployment rate of 16.4 percent for the years 1936 to 1940 and it can be expected to continue to climb.

If the workers who participated in the make-work projects of the 1930's are counted as employed, then the unemployment rate for the second half of the Great Depression declines to the 10 percent range. The official peak of the Reagan Recession unemployment rate was 10.8 percent. If the discouraged workers are added to the Reagan figures, the number becomes 11.8 percent

While current unemployment may not be at the percentage level that it was in the darkest days of 1933, it is certainly in the same league as the second half of the 1930's. Official unemployment during the Reagan Recession is still within easy reach of the current downturn in the economy and could easily be expected to meet/exceed the Reagan Recession unemployment by the fall of 2009. Under the best of circumstances, that the current economic downturn hit bottom in March or April of 2009, with the recovery on Wall Street leading the way, the fact that it was five months before unemployment started to increase after the recession began, it will not be until the Fall of 2009 that unemployment will begin to level off. Given these circumstance, an official 10.8 plus percent unemployment rate by the fall of 2009 with an additional fifty-plus percent in the “Not in labor force but want a job” and “Discouraged worker” categories would not be out of the question. This would place the total number of people looking for work in the economy at approximately over sixteen percent of the total actual workforce. This would not include recent graduates as well as some other categories using other than current methodologies. Sixteen-plus percent of the total workforce compares very strongly to the 16.4 percent average unemployment from 1936 to 1940 where the government counted the people in the make-work programs as unemployed.

The only thing that might prevent the official unemployment rate from reaching the ten-plus percent range would be if workers used up their unemployment benefits at a faster rate and fell out of the “unemployed” statistic faster than workers entering into it. These workers would then become part of the “Not in labor force but looking for a job” category and would make the labor force smaller, while at the same time making the number of unemployed smaller. Exactly what happened in July, a month when the labor force expands due to new graduates. Unemployment would appear to be going down while it is really going up.

## 4. Discussion and Findings

Economist say that the recession started in December of 2007 ( Holland, D., Barrell, R., Fic, T., Hurst, I., Ciadze, I., Orazgani, A., Pillonca, V., 2009), but unemployment did not start to climb until April of 2008, so unemployment is very likely to continue to climb after the rest of the economy has started to recover (Employment status of the civilian non-institutional population by sex

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and age, seasonally adjusted, 2009). Managers like to be certain that when the economy picks up, it is permanent. When business increases they will increase overtime for their employees rather than hiring new personnel until they are convinced the new business will continue. When convinced, they will hire. Hiring new employees is expensive and so is terminating them as well as unpleasant.

The current economic downturn is already progressing and although there are signs that the economy may have hit bottom with what appears to be a recovery on Wall Street and international agreements that pledge countries to work together to stem the economic downturn, there are no guarantees. The most optimistic assessment for jobs for the American economy as well as other developed economies is not one that will lead to a quick recovery.

The first factor is that jobs are always a lagging indicator in any economic recovery. Jobs were slow to leave the economy and they will be slow to return. Managers will only hire new employees when they are certain that the recovery is real.

The second factor is that the market for labor is now global. During the 1930's and the early 1980's, the economy was far more national than today. Today's economy is far more globally interconnected. There are many factors for this: the internet; supply-chain management; the end of the Cold War are only a few of the reasons. People must now compete for jobs on a level that did not exist before. They must compete with people all across the globe (Friedman, 2006). It means that jobs that were lost in Denver will return to where they will be most cost efficient and effective. It means that the labor force is larger than it was when it was only national with the advent of China, India and the Eastern European countries now participating in the global economy (Jaumotte & Tyrell, 2007), but jobs have not grown to match the growth in the labor force. Job competition is far more intense than it was during prior recoveries. Also, there are those who believe that the very need for labor will be in decline as automation continues to make labor less necessary for production. These authors point to the historic decrease in labor needed to produce food, and manufactured goods during the industrial revolution and the continued increased productivity in these industries as evidence that labor will be less necessary in the future, making jobs more scarce (Rifkin, 1996).

Technology has allowed workers to become more productive, but it has also enabled much of the work to be done outside the developed world in the developing world. Jobs that were once reserved for workers with high levels of training and education in the developed world may now be performed by workers with those same levels of education and training in the developing world. In the service sector/high technology industries, back-office functions are being done by workers in the developing world. This is especially true in information technology, as well as the financial and other service sectors (Flannery, 2004).

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Developing countries have critical masses of highly skilled, well-educated workers who are capable, of performing advanced tasks at very high levels (D'Costa, 2003). Until recently, only workers in advanced societies had these types of skills. Today, that is not the case. To a large degree, this is the result of over sixty years of student exchanges between the developed and the developing world. The US and Europe welcomed the first exchange students to their universities to study at the close of World War II and others followed. A few stayed, however, many of them went back to their homelands where they became the leaders and the teachers of their societies. Now these countries have established universities that produce well trained and educated potential employees, many of whom are the equal to those graduated by institutions in the developed world (Promfret, 2003).

Universities in the developing world have educated a significant number of highly qualified workers, and costs in the developing countries are significantly lower than that of developed countries. Potential employees are paid much less in the developing world. Multinational corporations are knowledgeable about the differences in labor costs and the abilities of their employees. They are employing those abilities on a wide variety of tasks. Smaller organizations may also utilize these workers through the option of "third-party providers". A practice that is especially common in information technology (Sullivan, 2004).

### 5. Conclusion and Limitation

The 2001-2003 recession was the first experience with the new global economy for the workforces of the developed world. In America, jobs returned at a historically slow rate causing many to refer to the recovery as the "jobless recovery" (Cotti & Drewianka, 2007) and was an election issue in 2004 (Lower wages lure American jobs overseas, 2004). This was the first recovery from a recession where the global labor market played a significant role. Many of the jobs that would have returned to the developed world found their way to the developing world. This was particularly true for positions that required a relatively high degree of training and education. Blue collar jobs had been outsourced and off-shored for many years, but in the recovery from the 2001-2003 recession, white collar jobs were now being sent overseas in large numbers. This trend has continued with, for example, IBM now being the largest private sector employer in India. Just a few years ago, IBM only had a few employees in India, now it is estimated that IBM has over 50,000 employees in the country (IBM headcount tops 50,000, 2007) and now has more employees in India than in the United States (The other elephant, 2010).

The economy is now more global than it was at the end of the 2001-2003 recession. The market for labor will be more global than it was in 2003 and the market for jobs will be more competitive. There are several reasons for this. The first is that trade barriers are now, for the most part, lower than they were in 2003 (Garten, 2007). Several trade agreements have gone into affect that will make trade easier between the America and other countries. Goods from outside the country will cost less making the transfer of manufacturing and other facilities to outside the US more attractive.

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The second reason is there are now more people in the developing world with the appropriate educations necessary for the jobs required by industry. China and India are producing engineering and science graduates faster than the United States (Washwa, Gereffi, Rissing & Ong, 2007; Group sounds alarm for science, 2007). They work for less money and there are more of them. While companies in the United States cut back on research and development at home (Who's next? Layoffs in the pharma industry, 2009) companies like IBM increase their efforts abroad.

The third reason is that companies are now better at utilizing the global labor force than they were ten years ago. Corporations are more familiar with the global labor market and how to best utilize that market. Over the past ten years they have learned a great deal (Baldas, 2006).

The fourth and perhaps the most important reason is the role of small business in the U. S. economy. Recent government actions are likely to make the recovery from this recession more difficult in terms of jobs than prior recoveries because of the impact that the policies the government has proposed and implemented at all levels affecting small businesses. Small businesses are the job creation engine of the American economy with about 70 percent of all new jobs being created by small business (Hatten, 2009). Yet, many new government regulations have made it difficult for small businesses to expand and hire new employees during the past several years than during past recoveries. Increases in the minimum wage have made it more expensive to hire entry level employees for many small businesses (Gaski, 2004). This is likely to mean that young people, will find it more difficult to find work. Health insurance is very expensive for small businesses, especially entrepreneurs and the self-employed (Tozzi, 2009) The US Government and Massachusetts has made health insurance mandatory (Bending the cost curve in Massachusetts, 2008). This has added to the expense of start-up entrepreneurial companies that are attempting to enter the economy. Additional rules and regulations have made doing business in a number of states more difficult than it was a few years ago. As governments on all levels have needed additional revenue to help deal with the recession, they have increased taxes on business. Sometimes these increases have been significant and there is only so much money that these small businesses have, especially when the economy is sluggish. It is going to be difficult for small business to lead the way out of the recession when it is being burdened with high taxes and expensive government mandates that were not part of the equation before the recession.

If the government and the society want small business to fulfill its traditional role as the generator of jobs in the society, then it is going to have to allow it to do so by removing the burdens placed upon it and allow it to keep the resources small businesspeople will need to do the job. That includes not increasing the taxes on the money small businesses make. The proposed \$250,000 may sound like a lot of money, but it is not for a small businessperson, trying to expand the business and attempting to hire more people. It also means removing regulations that burden small businesses. Let the entrepreneurs run the businesses and not spend their time completing

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government forms and fulfilling government regulations (Three experts answer questions on income taxes, depreciation, deductions, labor policy, unions, medical leaves and health-care reform, 2008).

Jobs will return to the American economy at a slower rate than they did after the 2001-2003 “Jobless Recovery” recession. In addition to jobs returning to the American economy at a historically slower rate, they will be returning from a much deeper economic downturn than was the case in 2003. This economic downturn is likely to be the worst since the 1930’s and the effects are likely to last for several years past most other downturns. Actual unemployment will be far deeper than reported because of the way that it is reported by dividing the unemployed into several separate categories: “Unemployed,” “Discouraged workers,” and “Not in labor force but want a job.”

The recovery will be further slowed by the availability of the global labor market that will offer highly competitive alternatives to workers from developed countries. The advances in technology that have made American workers more productive have also made them more vulnerable to labor from the developing parts of the world and the ease of access that corporations have to this labor will only increase in the future.

All this will only lead to a slow and painful recovery from the deep recession of 2009 plus. There may be many definitions of what a recession may be, but one of the signs of a depression is how many people are out of work. There are now more Americans “Unemployed” than at any time in the nation’s history.

Small businesses have always led out of the jobs portion of any recession, but small businesses are facing daunting challenges. Increased taxes on small business will make it more difficult because the resources that they will need are being taxed away at all levels of government to pay for government programs. Without the money to finance expansion, small businesses will not be able to hire additional workers

It is going to be a long road to recovery during the next several years for job creation. People called the last recession a “Jobless recovery”. This recession promises to be even more difficult when it comes to creating new jobs. Between the new technologies; the global economy; the readily available global workforce, willing to work for a fraction of what American workers need to survive; and the restrictions and new taxes that the governmental sector is placing on private industry and especially small business, it is going to be a long hard recovery from the recession of 2009 to ?.

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