



Volume 23, Issue 2

CSU Bakersfield

# Kern Economic Journal

Winner of the Award for Merit from California Association  
for Local Economic Development

2021 Second Quarter



## Featured Article:



Rules of Employment  
Arbitration



Job Creation by Small, Medium,  
and Large Firms before and  
during the COVID-19 Pandemic



SCHOOL OF  
BUSINESS AND PUBLIC  
ADMINISTRATION

*We wish to gratefully acknowledge the Journal Sponsors:*



---

*KERN ECONOMIC JOURNAL* is a quarterly publication (February, May, August, November) of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions. Sources of funding for this journal include university contributions and sponsorship and subscription fees.

Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for consideration of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in electronic copy. Individual authors are responsible for the views and research results.

---

**Editorial Board**

*Dr. Nyakundi M. Michieka*, Associate Professor of Economics, CSUB - Publisher and Managing Editor  
*Dr. Richard S. Gearhart*, Associate Professor of Economics, CSUB - Publisher and Managing Editor

**Contact Information**

*Dr. Nyakundi M. Michieka*, nmichieka@csub.edu, 661-654-2465  
*Dr. Richard S. Gearhart*, rgearhart1@csub.edu, 661-654-3962

**To become a sponsor, please contact the Managing Editor for sponsorship form and benefits.**

# Kern Economic Journal



## Inside this Issue:

***Economy at a Glance!*** ..... 4

### ***Tracking Kern's Economy***

*Labor Market*..... 6  
*Housing Market*..... 8  
*Stock Market*..... 10  
*Inflation* ..... 11  
*Commodity Prices* ..... 12

### ***Featured Article***

*Rules of Employment Arbitration*..... 14  
*Job Creation by Small, Medium, and Large Firms before and during the COVID-19 Pandemic*..... 17

# Economy at a Glance!

2021 SECOND QUARTER  
BY DR. NYAKUNDI MICHIEKA  
& DR. RICHARD S. GEARHART III

## *National Economy*<sup>1</sup>

U.S. GDP increased at an annual rate of 6.5 percent in the second quarter of 2021. In the first quarter of 2021, real GDP increased by 6.3 percent. The increase in second quarter GDP reflected the continued economic recovery driven by reopening of businesses and continued government response related to the COVID-19 pandemic. During the second quarter, government assistance to businesses and grants to local governments increased, while social benefits to households declined.

The uptick in the real GDP reflected increases in nonresidential fixed investment, personal consumption expenditures (PCE), exports, and state and local government spending that were partly offset by decreases in private inventory investment, residential fixed investment and federal government spending.

Current-dollar GDP increased by 13 percent, or \$684.4 billion, in the second quarter to a level of \$22.72 trillion. In the first quarter, GDP increased 10.9 percent or \$560.6 billion.

Current-dollar personal income decreased \$1.32 trillion (22 percent) in the second quarter compared to an increase of \$2.33 trillion in the first quarter. The decrease reflected a decrease in government social benefits related to pandemic relief programs.

Real disposable personal income, which is adjusted for inflation and taxes, decreased by 30.6 percent compared to an increase of 57.1 percent.

Personal saving was \$1.97 trillion in the second quarter compared with \$4.07 trillion in the first quarter. The BEA derives the personal saving rate by calculating personal saving as a percentage of disposable personal income. Personal saving rate – personal saving as a percentage of disposable personal income – was 10.9 percent in the second quarter, compared with 20.8 percent in the first quarter.

The Conference Board's Index of Leading Economic Indicators – a measure of future economic activity –

<sup>1</sup> U.S. economic numbers were obtained from the Bureau of Economic Analysis "U.S. Economy at a Glance". This is found at <http://www.bea.gov/newsreleases/glance.htm>. The information for the Index of Leading Economic Indicators is found at <https://conference-board.org/data/bcicountry.cfm?cid=1>. The University of Michigan Consumer Sentiment Index is found at <http://www.sca.isr.umich.edu/tables.html>.

increased by 0.7 percent in June to 115.1 following a 1.2 percent increase in May and a 1.3 percent increase in April.

The University of Michigan's Consumer Sentiment Index increased from 80.2 in the first quarter of 2021 to 85.6 in the second quarter of 2021. The value for the index in the second quarter of 2020 was 74.0 and 98.4 in the second quarter of 2019.

## *State Economy*<sup>2</sup>

In California, the unemployment rate dropped to 7.8 percent in the second quarter of 2021 compared to 8.6 percent in the first quarter of 2021. At the county level, only Alpine (8.6), Colusa (12), Fresno (9.2), Imperial (16.6), Kern (10.5), Kings (9.8), Los Angeles (10.6), Madera (8.9), Merced (10.5), Plumas (8.3), San Joaquin (8.8), Stanislaus (8.5), Tulare (10.7) and Yuba (8.6) had unemployment rates above the state average (of 7.8). The other counties' unemployment rates were below the state average.

Counties with the lowest unemployment rates include Marin (4.5), Placer (5.2), San Francisco (5.3), San Mateo (4.8) and Santa Clara (4.9).

California's labor force increased by 47,633 in the second quarter of 2021 after decreasing by 183,833 in the first to second quarter of 2021. During the same period, civilian employment increased by 191,200 from 17.2 million to 17.4 million. Nonfarming enterprises hired 334,200 more workers while farm employment decreased by 6,167 workers. The mining and logging sector hired 233 less workers while the construction and manufacturing sectors hired 1,133 less, and 10,267 more workers, respectively. Service sector employment increased from 13.9 million to 14.2 million between the first and second quarter of 2021. The state and local government added 2,667 and 4,567 workers, respectively.

## *Local Economy*

The local economy witnessed an increase in the labor force, from 376,100 in the first quarter of 2021 to 377,700 in the second quarter of 2021. Civilian employment increased by 3,167, from 335,000 in the

<sup>2</sup> The California economic numbers were obtained from the Bureau of Labor Statistics "Local Area Unemployment Statistics Map". This is found at <https://data.bls.gov/map/MapToolServlet?survey=la&map=county&seasonal=u>.



first quarter of 2021 to 338,167 in the second quarter of 2021. Nonfarm employment increased by 3,967 while farm employment rose by 9,133.

In Bakersfield, nonfarm employment changed in the following manner: mining and logging lost (67 workers), construction added (267 workers), manufacturing remained unchanged while service added (3,767 workers). Within the service sector, trade, transportation and utilities added (767 workers), financial activities lost (100 workers), professional and business services added (967 workers), education and health services lost (2,100 workers) while leisure and hospitality added (2,767 workers). Within the government, the federal government added (167 workers), state government lost (33 workers) and local government added (867 workers).

Total salaries and wages in Kern County increased from \$306,800 in the first quarter of 2021 to \$319,900 (4.3 percent rise) in the second quarter of 2021. Compared to four quarters ago, salaries were higher by \$34,867 or 12 percent.

The rate of unemployment varied considerably across cities, ranging from 3.83 percent in Ridgecrest to 28.4 percent in Delano. Most cities in Kern County showed a mild decrease in the unemployment rate compared to last quarter. The biggest quarter to quarter drop in the unemployment rate occurred in California City where it dropped from 21.63 percent to 20.13 percent. In Bakersfield, the unemployment rate was 7.83 percent in the second quarter of 2021 compared to 8.43 percent in

the first quarter. In Kern County, unemployment was 10.47 percent in the second quarter of 2021 compared to 10.93 percent in the first.

In the second quarter of 2021, the median home price in Bakersfield was \$313,833 compared to \$294,827 in the second quarter of 2021. Home prices are \$46,833 higher than they were four quarters ago. Within the region, median home prices in Taft were the lowest at \$179,583 compared to \$372,167 in Tehachapi.

The weighted price index for the five publicly traded companies doing business in Kern County (Sierra Bancorp, Tejon Ranch Company, Chevron Corporation U.S., Granite Construction, and Wells Fargo Company) increased by 0.8 percentage points from \$100.1 to \$100.9. The index is 46.9 percentage points higher than what it was four quarters ago. All companies gained/lost as follows: Chevron (decreased 0.05 percent quarter-over-quarter), Tejon Ranch (decreased 9.1 percent quarter-over-quarter), Granite Construction (increased 3.2 percent quarter-over-quarter), Wells Fargo (increased 15.9 percent quarter-over-quarter) and Sierra Bancorp (decreased 5 percent quarter-over-quarter).

The average retail price of gasoline increased by \$0.52 to \$4 a gallon. Gas prices were 47.5 percent higher than they were four quarters ago when they averaged \$2.71 a gallon. The unit price of California's Class III milk was \$17.95 in the second quarter of 2021 compared to \$15.62 in the first quarter of 2021. The Index of Farm Price Parity in the second quarter of 2021 (0.93) was higher than that of the first quarter of 2021 (0.85).



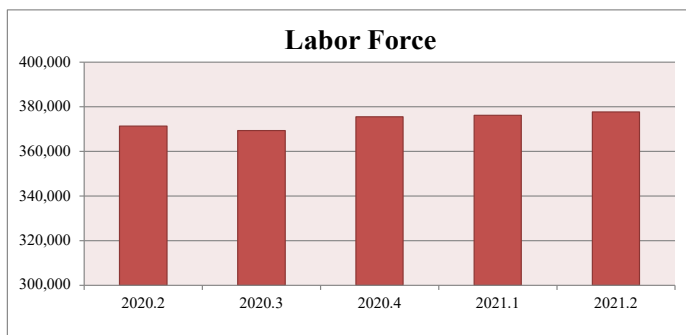
# Tracking Kern's Economy<sup>1</sup>

DR. NYAKUNDI MICHIEKA &  
DR. RICHARD S. GEARHART III

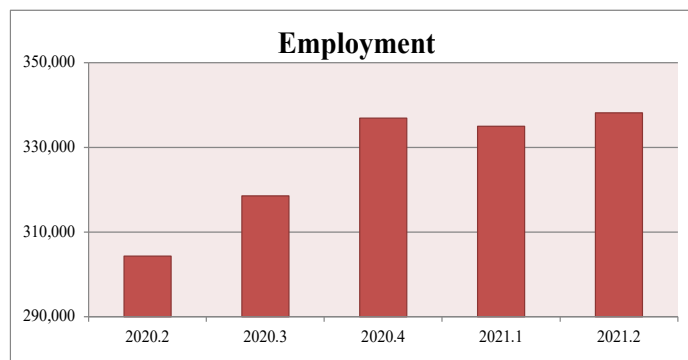
## Labor Market

We adjust published data in three ways. First, we average monthly data to calculate quarterly data. Second, we recalculate quarterly data to take into account workers employed in the “informal” market (i.e., self-employed labor and those who work outside their county of residence). Finally, we adjust quarterly data for the effects of seasonal variations.

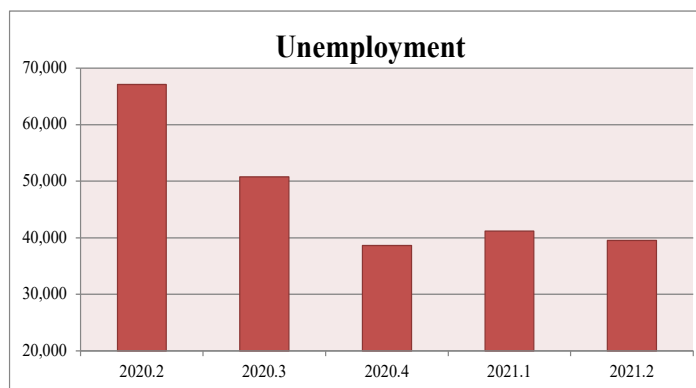
**Labor Force** - The civilian labor force increased by 1,533 members, from 376,167 in the first quarter of 2021 to 377,700 in the second quarter of 2021. The labor force estimates are similar to those recorded in 2013 where they averaged 375,000. The labor force numbers have been steadily increasing over the last three quarters. The Bureau of Labor Statistics defines the labor force participation rate as the proportion of the working-age population that is either working or actively looking for work. Recessions tend to push labor force participation down.



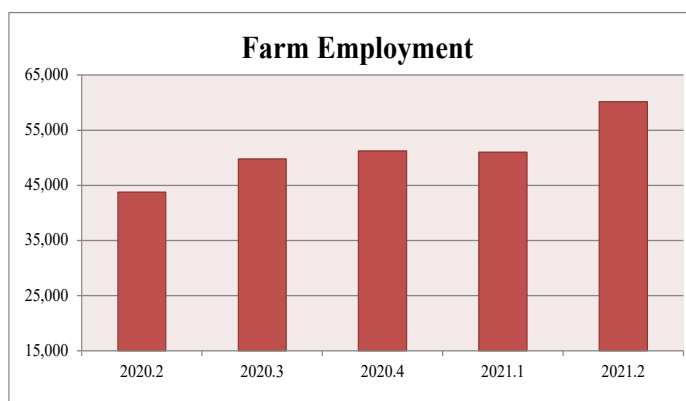
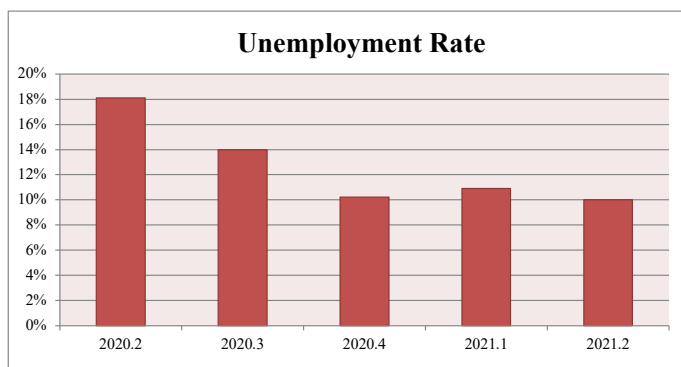
**Employment** – In the second quarter of 2021, Kern County hired 3,167 more workers as total employment increased from 335,000 to 338,167. This is an 11 percent increase in employment compared to the second quarter of 2020, when 304,300 persons were employed. Last year (or during the 2020 pandemic), first to second quarter employment dropped by 51,133.



**Unemployment** – In the meantime, quarter to quarter unemployment decreased by 1,633 as the number of jobless workers dropped from 41,167 to 39,533. The number of unemployed workers is 41 percent lower than it were four quarters ago. In the second quarter of last year (2020), there were 67,100 unemployed workers compared to 39,533 this quarter.

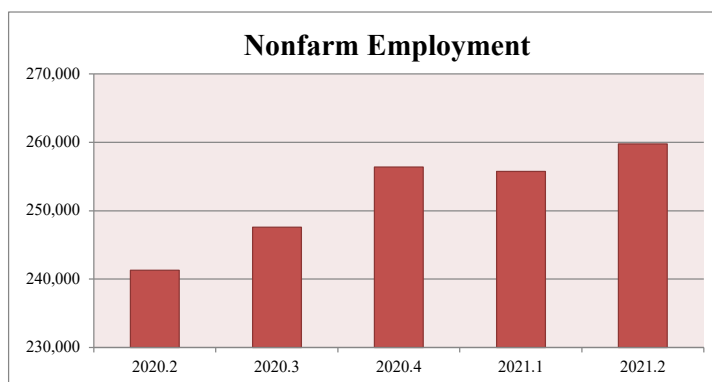


**Unemployment Rate** – Kern County's year-to-year unemployment rate dropped by 8.1 percentage points from 18.1 percent in the second quarter of 2020 to 10 percent in the second quarter of 2021. The unemployment rate in the second quarter of 2021 was 1 percent lower than that of the first quarter of 2021. Kern County's unemployment rate was 10.9 percent in the first quarter of 2021 and 10 percent in the second quarter of 2021. Kern's unemployment rate is higher than that of California which is 7.7 percent.



The unemployment rate varied considerably across cities, ranging from 3.83 percent in Ridgecrest to 28.4 percent in Delano. Most cities in Kern County showed a mild decrease in the unemployment rate compared to last quarter. The biggest quarter to quarter drop in the unemployment rate occurred in California City, where it dropped from 21.63 percent to 20.63 percent. In Bakersfield, the unemployment rate is 7.83 percent (second quarter of 2021) compared to 8.43 percent in the first quarter.

**Nonfarm Employment** – Local nonfarm industries employed 3,967 more workers in the second quarter of 2021 as the number increased from 255,767 to 259,733. The industries hired 18,433 more workers compared to four quarters ago (7.6 percent more). The second quarter estimates of the number of nonfarm workers are similar to the 2017 second quarter numbers.



Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
<b>KERN COUNTY</b>	10.47%	McFarland	14.17%
Arvin	10.17%	Mojave	19.37%
Bakersfield	7.83%	Oildale	15.87%
California City	20.13%	Ridgecrest	3.83%
Delano	28.40%	Rosamond	11.00%
Edwards	9.30%	Shafter	9.73%
Frazier Park	12.90%	Taft	5.30%
Lake Isabella	17.23%	Tehachapi	7.87%
Lamont	9.53%	Wasco	14.70%

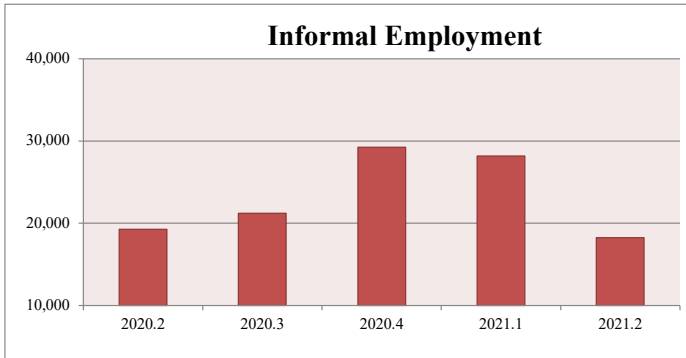
Note: City-level data are not adjusted for seasonality and “informal” market workers.

**Farm Employment** – In the second quarter of 2021, Kern County hired 9,133 more farm workers. As a result, farm employment increased from 51,033 in the first quarter of 2021 to 60,167 in the second quarter of 2021. The year-over-year number of farm workers increased by 16,433 to 60,167 (compared to 43,733 last year).

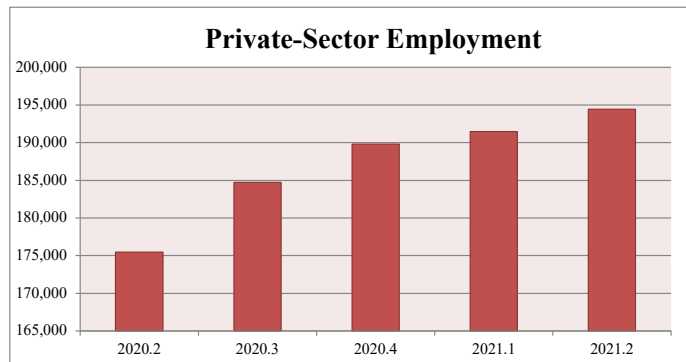
In Bakersfield, nonfarm employment changed in the following manner: mining and logging lost 67 workers; construction added 267 workers; manufacturing employment remained the same while the service sector added 3,767 workers. Within the service sector, trade, transportation and utilities added 767 workers; financial activities lost 100 workers; professional and business services added 967 workers; education and health services lost 2,100 workers while leisure and hospitality added 2,767 workers. The federal government added 167 workers while the state government lost 33 workers, as local government added 867 workers.

**Informal Employment** - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and persons employed outside their county of residence. In

the second quarter of 2021, the number of informal workers decreased by 9,933 workers compared to the first quarter of 2021. There were also 1,000 less informal workers in the second quarter of 2021 compared to the second quarter of 2020. The number of residents who have sought to create their own jobs has dropped, and there are currently 18,267 informal workers in Kern County.

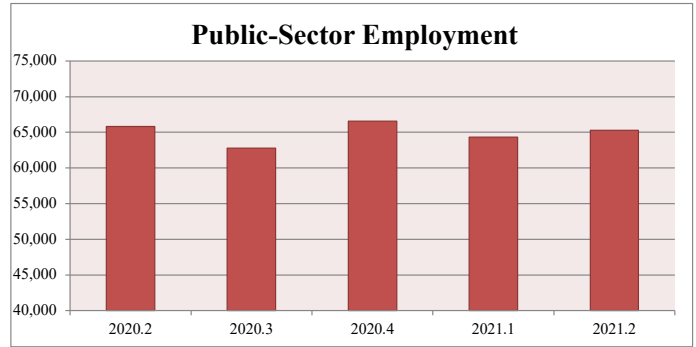


**Private-Sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the second quarter of 2021, government agencies hired 1,000 more workers as employment increased from 64,300 to 65,300 – a 1.6 percent increase. Compared to last year, 0.8 percent less workers were hired in the public sector.

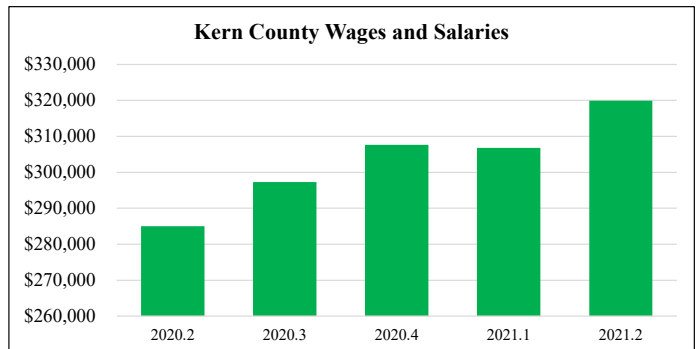


**Public-Sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the second quarter of 2021, government agencies hired 1,000 more workers as employment increased from 64,300 to 65,300 – a 1.6 percent increase. Compared to last year, 0.8 percent

less workers were hired in the public sector.

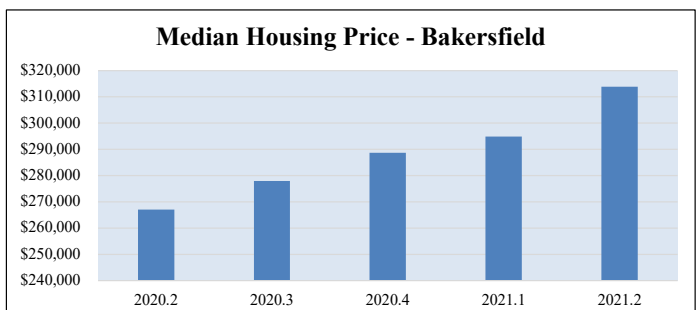


**Salaries and Wages** - Total salaries and wages in Kern County increased from \$306,800 in the first quarter of 2021 to \$319,900 in the second quarter – a 4.3 percent increase. Compared to four quarters ago, salaries were \$34,867 (or 12 percent) higher.



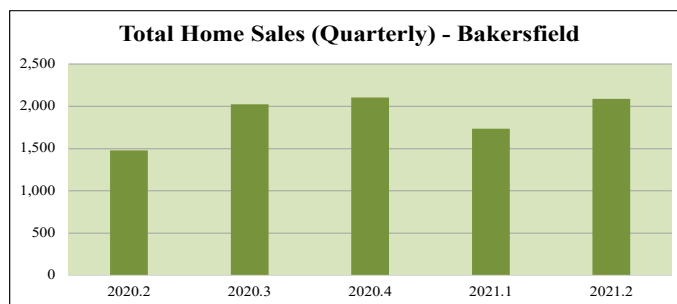
## Housing Market

**Housing Price** - In the second quarter of 2021, Bakersfield’s housing prices were up by \$19,007 (6.45 percent) compared to the first quarter of 2021. The median home price averaged \$313,833 in the second quarter compared to \$294,827 in the first quarter of 2021. Prices are also \$46,833 higher than they were four quarters ago in 2020. This rise in home prices has been fueled by record low interest rates, increased demand and low supply of homes.

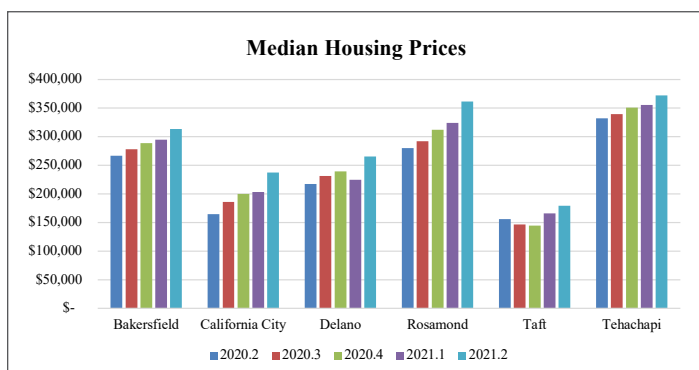




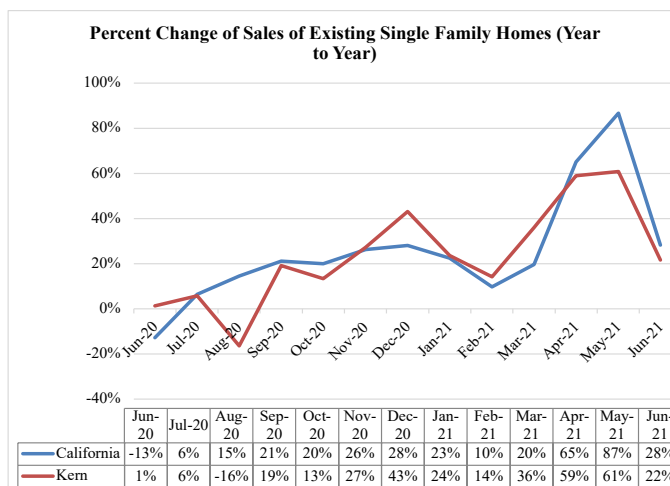
**Regional Housing Prices** – Changes in housing demand felt in Bakersfield are likely to spillover to surrounding cities as individuals who are on the margin of buying or selling are likely not located in the Bakersfield MSA directly. An assessment of first to second quarter (2021) changes in median sales price indicates that home prices surged in all cities in Kern County. Delano recorded the highest uptick in prices (18.3 percent) while Tehachapi recorded the lowest rise in prices (4.6 percent). The average price increase was 11 percent across all regions in the county. The median home price averaged \$288,333 in the second quarter of 2021 compared to \$236,292 in the first quarter at the county level.



**Growth in Housing Sales** – We compare growth in sales of existing single-family homes in Kern County with growth in sales in California. Positive values indicate that more homes were purchased this year compared to last year. In June 2021, 22 more homes were sold in Kern County compared to June 2020. In California, sales were 28 percent higher. The average growth in home sales in California between June 2020 and June 2021 were 26 percent while the number was 23.8 percent in Kern County.



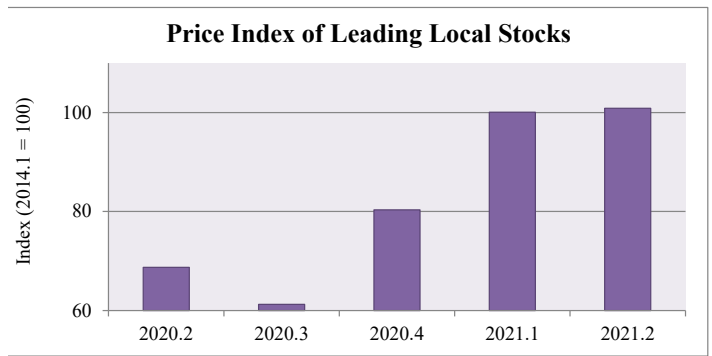
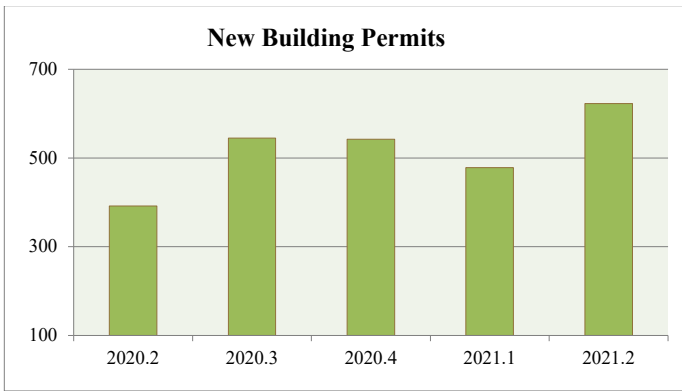
The year-to-year home prices increased in all cities in Kern County as follows: Bakersfield (17.54 percent), California City (44.41 percent), Delano (22.16 percent), Rosamond (28.86 percent), Taft (15.12 percent) and Tehachapi (11.93 percent).



Location	Median Price	Median Price	Price Change (\$)	% Price Change
	2020.2	2021.2	2021.1 to 2021.2	2020.2 to 2021.2
Bakersfield	267,000	313,833	46,833	17.54%
California City	164,583	237,667	73,083	44.41%
Delano	217,333	265,500	48,167	22.16%
Rosamond	280,333	361,250	80,917	28.86%
Taft	156,000	179,583	23,583	15.12%
Tehachapi	332,500	372,167	39,667	11.93%
Averages	236,292	288,333	52,042	23.34%

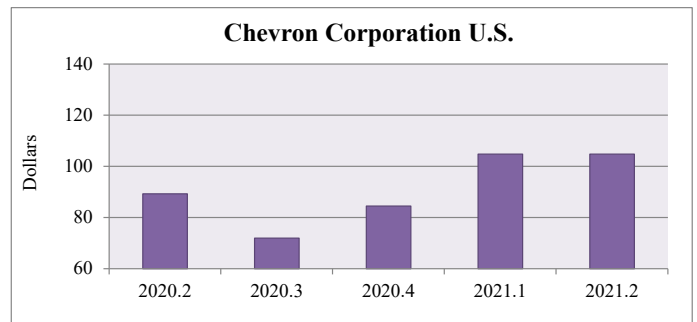
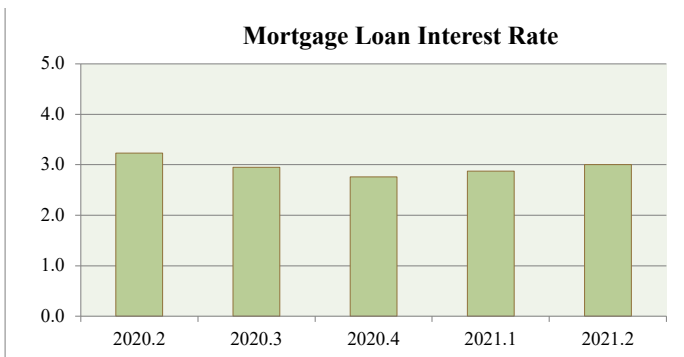
**Housing Sales** – In Bakersfield, quarter to quarter sales of residential units increased by 356 units, from 1,733 in the first quarter of 2021 to 2,089 in the second quarter of 2021. An average of 609 more homes were sold in the second quarter (of 2021) compared to the second quarter last year (2020).

**New Building Permits** – In the second quarter of 2021, Kern County issued 145 more permits for construction of new privately-owned dwelling units compared to the first quarter of 2021. A total of 623 permits were issued this quarter compared to 392 in the second quarter last year (2020). This increase indicates a rise in construction plans in Kern County. Over the last five years, and average number of permits issued in the second quarter of every year is 541.



**Mortgage Interest Rate** – In the second quarter of 2021, the interest rate on thirty-year conventional mortgage loans increased to 3 percent from 2.88 percent in the first quarter of 2021. The current thirty-year mortgage interest rates are the lowest in modern history. The interest rate in the second quarter of 2020 was 3.23 percent.

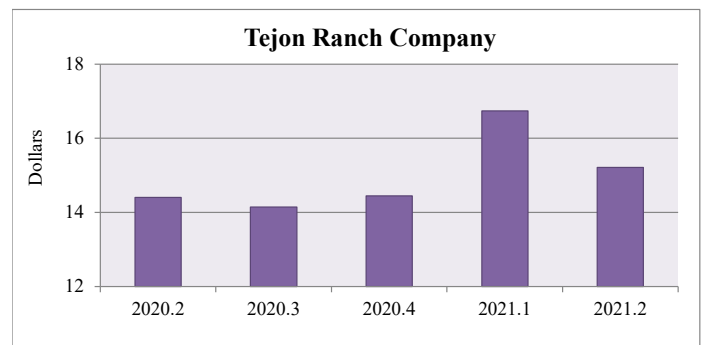
**Chevron Corporation U.S.:** Compared to last quarter, CVX lost \$0.05 (or 0.05 percent) per share as its price decreased from \$104.79 to \$104.74. Relative to the second quarter of 2020, CVX was up \$15.51 (or 17.4 percent).



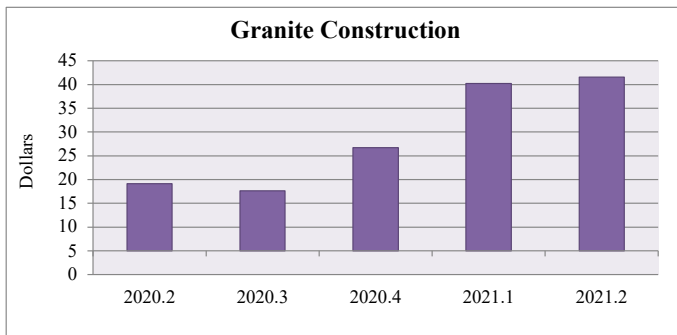
## Stock Market

In the second quarter of 2021, the composite price index (2014.1=100) of the five publicly traded companies doing business in Kern County increased by \$32.21 from \$68.7 to \$100.9 (quarter to quarter change). The index is 46.9 percentage points higher than it was four quarters ago. Average “close” prices were measured for five local market-movers: Chevron Corporation U.S., Tejon Ranch Company, Granite Construction, Wells Fargo Company, and Sierra Bancorp.

**Tejon Ranch Company:** TRC lost \$1.53 (or 9.1 percent) per share as its stock price decreased from \$16.74 to \$15.21 between the first quarter and second quarter of 2021. Compared to last year, the TRC stock price was up \$0.81 (or 5.6 percent).

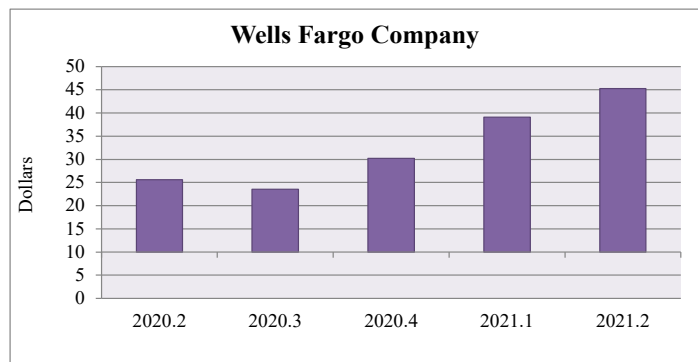


**Granite Construction:** GVA gained \$1.28 (or 3.2 percent) per share as its stock price increased from \$40.25 to \$41.53 between the first and second quarter of 2021. GVA gained \$22.39 (or 117 percent) over the last four quarters.

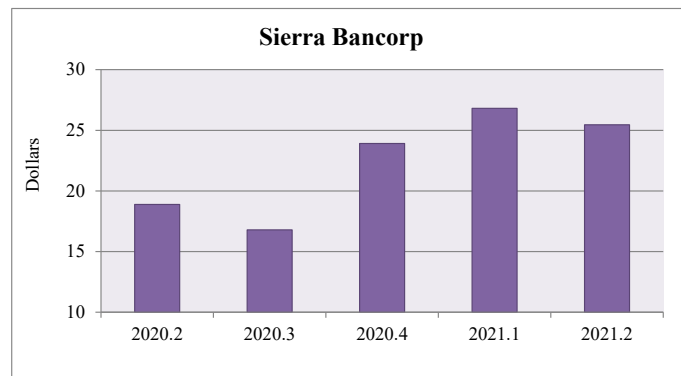


**Wells Fargo Company:**

WFC gained \$6.22 (or 15.9 percent) per share as its stock price increased from \$39.07 to \$45.29 between the first and second quarter of 2021. Relative to one year ago, WFC was up \$19.69 (or 76.9 percent).

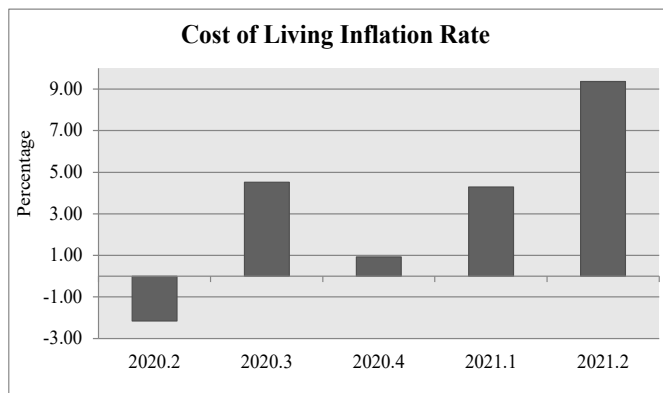


**Sierra Bancorp:** BSRR gained \$2.88 (or 12 percent) per share as its price increased from \$23.92 to \$26.80. Similar to the other companies, BSRR gained \$9.22 (or 52.4 percent) this quarter compared to the first quarter of 2020.

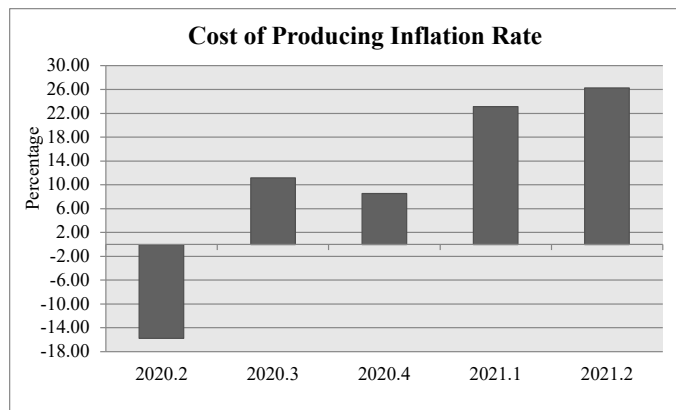


## Inflation

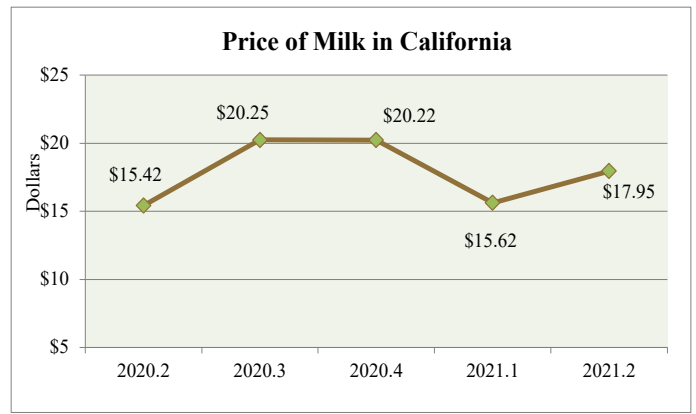
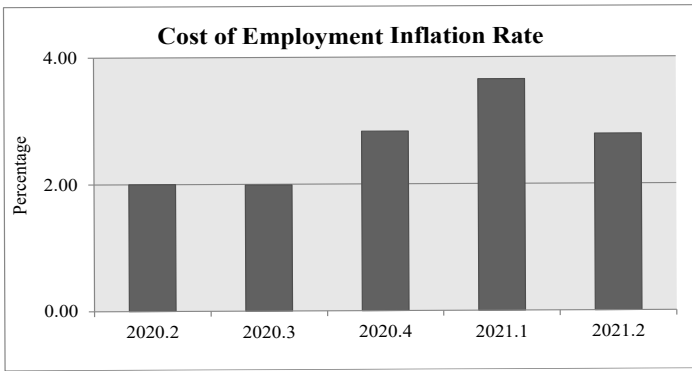
**Cost of Living** – In the second quarter of 2021, the Consumer Price Index for all urban areas (1982-84 = 100) increased from 4.29 to 9.36. The index was -2.16 in the second quarter of 2020.



**Cost of Production** – The Producer Price Index for all commodities (1982 = 100) increased between the first and second quarter of 2021 from 23.14 to 26.26 percent. The cost of production inflation rate was -15.74 percent four quarters ago.

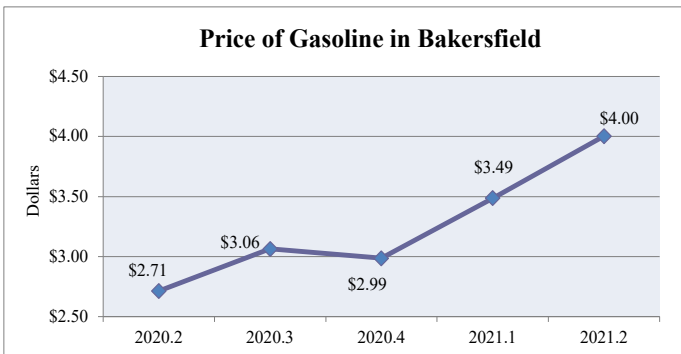


**Cost of Employment** - The Employment Cost Index (December 2005 = 100) for all civilian workers decreased from 143.4 in the first quarter of 2021 to 144.7 in the second.



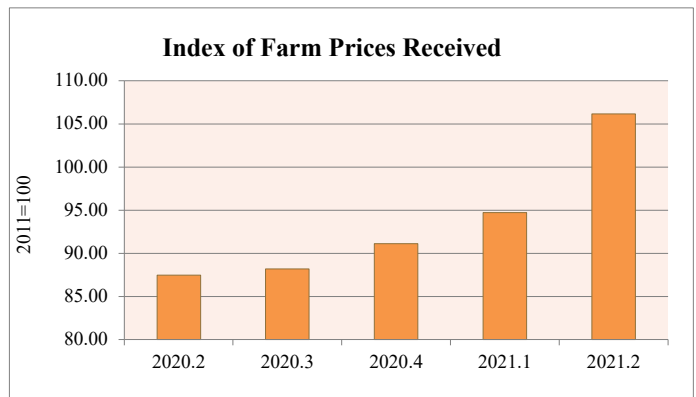
## Commodity Prices

**Price of Gasoline** – In the Bakersfield Metropolitan Statistical Area, the average retail price of gasoline increased by \$0.52 to \$4 from \$3.49 between the first and second quarter of 2021. Average prices are 47.5 percent higher than they were a year ago.

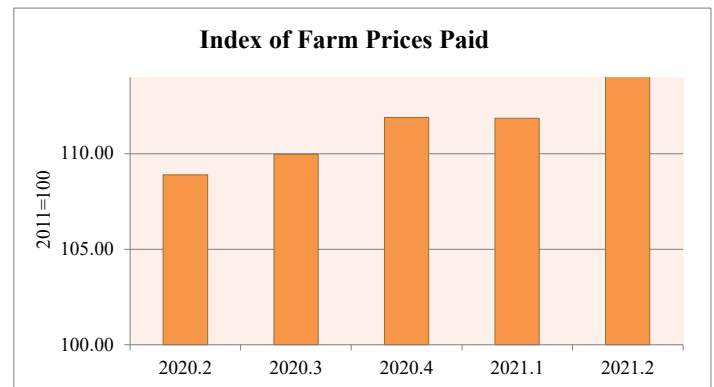


**Price of Milk** – The unit price of California’s Class III milk increased in the second quarter of 2021 by \$2.33 to \$17.95 from \$15.62. Noticeably, milk prices are on the uptick after dropping from \$20 price mark recorded in the third and fourth quarter of 2020. Prices are 16.4 percent or \$2.53 lower than they were four quarters ago when they were \$15.42.

**Farm Prices** – In the second quarter of 2021, the National Index of Prices Received by Farmers for all farm products (2011 = 100) increased by 11.47 points to 106.2 compared to the 94.7 in the first quarter of 2021. This is an 18.7 point increase from the 87.47 points recorded in the second quarter of 2020.



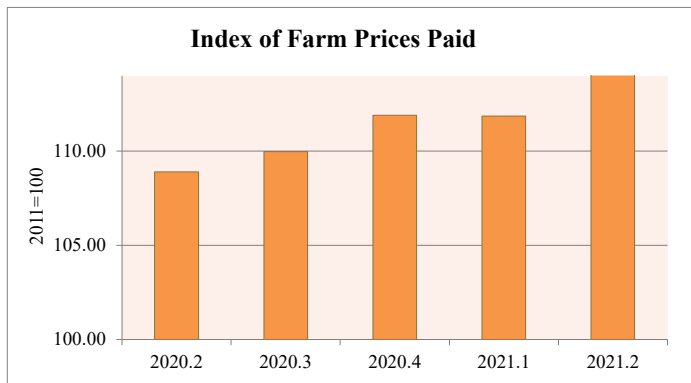
Meanwhile, the National Index of Prices Paid by farmers for commodities, services, interest, taxes, wages, and rents increased by 2 percentage points compared to last quarter. This means that farmers are less better off this quarter compared to last quarter.



Meanwhile, the National Index of Prices Paid by farmers for commodities, services, interest, taxes, wages, and rents increased by 2 percentage points compared to last quarter. This means that farmers are less better off this quarter compared to last quarter.

We measure the Index of Farm Price Parity as the ratio Index of Prices Received to the Index of Prices Paid. In the first quarter of 2021, the Index of Farm Price Parity was 85 percent compared to 93 percent this quarter. Four quarters ago, the price ratio was 80 percent.

<sup>1</sup> Source – Online databases: <http://www.labormarketinfo.edd.ca.gov>; [www.usda.com](http://www.usda.com); [www.bakersfieldgasprices.com](http://www.bakersfieldgasprices.com); [www.bea.gov](http://www.bea.gov); [www.car.org](http://www.car.org); [www.trulia.com](http://www.trulia.com); [www.census.gov](http://www.census.gov); <https://www.redfin.com>; <https://www.cafmmo.com>; [www.bls.gov](http://www.bls.gov)





# Rules of Employment Arbitration

Craig W. Kelsey, PhD  
Department of Public Policy and Administration  
California State University – Bakersfield

In public agency and private sector employment settings, both employees and employers desire clear, quick and proper resolution to any disagreement that might emerge in the course of conducting the daily work of the organization. Generally, three levels of approach are available to bring needed solutions – conflict mediation, employee negotiations or employment arbitration. Conflict mediation should be the first step where the employee along with their supervisor meets with an independent third party mediator searching for a resolution to the dispute. Another possibility is when more than one employee officially represented by a collective bargaining group seeks agreement to a multi-person worksite disagreement. The more serious model is employment arbitration. This occurs when both parties are at a loss of agreement despite their collective best efforts and a binding decision is made to break the impasse by an impartial third party adjudicator. The need for this intermediary and process is vital to the continuing success of the organization. To better understand this process the what, why, when, who and how of the arbitration system is presented.

## What is Employment Arbitration?

When an employee or their representative concludes that an alleged wrongdoing has occurred in the employment setting that cannot be resolved by conflict mediation, the employee or employer may call for the use of arbitration. What is generally known as alternative dispute resolution [ADR] brings with it a pre-accepted due process protocol to both parties. Arbitration is intended to be a prompt, effective, specific and low cost process. Key behind the arbitration model is that both parties agree in advance that the decision of the independent third party representative will be binding on all parties. This is a big decision in that both parties give up their respective power to this arbitrator. As can be noted both parties must be sure that arbitration is the best method to dispute resolution. It is used only when an impasse exists. The types of issues that call for arbitration usually include alleged wrongdoing, claims of wrongful termination, unresolved claims of harassment, any type of federally protected discrimination claim or employment contract issues.

## Why and When is Employment Arbitration Necessary?

As mentioned, when both parties simply cannot agree on what to them is a fair and equitable resolution an outside view is often necessary. In addition, some federal laws require employment arbitration under certain circumstances. The Federal Arbitration Act [FAA] of 1925 requires this process and almost all states abide by its conditions. In addition, the American with Disabilities Act of 1990 and the Civil Rights Act of 1991 [update] speak to arbitration as a required model if other types resolutions are not effective. States follow the FAA guidelines however; the State of California is currently in dispute proposing Assembly Bill 58 breaking the required arbitration rule. This bill is currently in court challenge. Many union contracts set up the requirement that if after ‘good faith’ bargaining an agreement is not reached then arbitration will result. Good faith bargaining generally refers to the duty of the parties to meet and negotiate at reasonable times with willingness to reach agreement on matters within the scope of their representation; however, neither party is required to make a concession or agree to any proposal. Good faith bargaining requires employers and unions involved in collective bargaining to: [1] use their best endeavors to agree to an effective bargaining process [2] meet and consider and respond to proposals made by each other [3] respect the role of the other’s representative by not seeking to bargain directly with those for whom the representative acts, and [4] not do anything to undermine the bargaining process or the authority of the other’s representative.

### Who Conducts the Employment Arbitration Process?

Both parties mutually agree upon properly trained arbitrators with employment dispute resolution expertise. These individuals must be third party, independent and highly trained adjudicators, with negotiation skills, mediation and conciliation backgrounds. At times even the parties involved in the dispute cannot or will not agree on the arbitrator. Four options follow. The Federal Government will select and appoint a seasoned person or the parties may request a person from the Federal Mediation and Conciliation Service. Some states have state employment boards with trained individuals that can be selected or appointed. The American Arbitration Association offers a cadre of professionals. Lastly, the parties might request a panel of arbitrators seeking specialized skills concluding that the dispute requires additional technical background [for example engineering and law]. There is a cost to the use of an arbitrator that is usually in line with the complexity of the dispute. The arbitrators must be fair, neutral and maintain the highest levels of professionalism and confidentiality. It is fairly common that arbitrators are lawyers specializing in employment law.

### How is the Employment Arbitration Conducted?

As mentioned, the employment arbitration process follows a due process protocol that generally consists of nine steps. There may be slight variation depending on the arbitrator but these principles guide this intense and difficult approach to dispute resolution. The order and sequence of this process is critical for higher success potential.

**Step one:** *agreement to proceed.* Both parties must agree that the arbitration process is the only remaining and best approach to resolve the employment dispute. This agreement comes either from adherence to applicable federal or state laws or as a condition of union collective bargaining agreements or by an existing employment contract. Both parties must act in good faith. This means that both parties agree to meet, to do so in a timely manner and to be prepared to engage in a serious and meaningful discussion.

**Step two:** *clarity of complaint.* At this point, both parties are obligated to express in specific detail their disagreement articulating their arguments in clear, precise and truthful form. This is generally prepared in a written document and details what efforts have already occurred to reach a settlement. Reference may be made to points in any binding or non-binding contract or agreements, or applicable policies or procedures. There might be occasion that this process is verbal rather than written.

**Step three:** *pre-conference meetings.* The arbitrator, after reviewing the initial arguments concerning the disagreement calls for a pre-conference meeting. The purpose of this session is for clarity only. No attempt is made to resolve this issue at this stage but for all parties to be assured that their arguments are clearly understood. The arbitrator generally asks probing questions working to better understand the finer details coming from both sides of the disagreement. It may require several pre-conference meetings to fully understand the complexity of the situation.

**Step four:** *discovery.* This is a process where the arbitrator allows both parties to ask for and receive from the other party any information that supports the other party's case. This may include relevant documents, copies of verbal or written statements, copies of emails or other electronic information, records or data sets that might apply to this dispute. This allows both parties to better understand the strength of their own argument. It is possible that this process yields a set of information that the other party was not privy too before and alters their view [more positive or more negative] about their position. It is improper for non-shared information to be used in later stages of the arbitration process.

**Step five:** *set communications.* Both parties identify to the arbitrator who are the authorized representatives to be officially engaged in the dispute resolution process from their side. In addition, the method of communication is also agreed to. It may be that emails that are unofficial during the process are acceptable or that all communication must be in formal documents with authorizing signatures. Phone calls, side bar

meetings, private negotiation sessions may be acceptable or not and that only formal group meetings becomes the standard. The arbitrator sets the communication method only after both parties come to agreement about how that process will work.

Step six: representation. As mentioned, both parties identify and commission a designated representative [s] to be the official voice and actor in the dispute resolution process. The arbitrator will contact, interact with, proceed and recognize only that pre-determined person. Both sides also agree to interact only with the other parties clearly appointed person. Conversations outside the official loop may be viewed as an attempt to undermined the process, induce confusion, or to power broker out of turn.

Step seven: hearings. This becomes the primary activity of interest for all parties. The arbitrator calls hearings where the representatives of both parties share their views, expectations and evidence. The purpose here is for both parties to present their best arguments that supports their side of the dispute seeking that the other party reconsider or yield. The arbitrator seeks clarification, reviews the power of the arguments and looks closely at any evidence presented. Several hearing dates may be required depending on the complexity of the issues. The arbitrator is collecting and evaluating that information that will be most helpful for them to make a well-informed and fair decision.

Step eight: evidence. A comment must be made regarding the concept of evidence. The arbitrator is to receive and evaluate any items that either party presents as evidence. There could be great difference of view about the strength of purported evidence. The arbitrator is obligated to verify the significance, accuracy and context of items put forward as evidence. All items presented as evidence must have been gathered by appropriate means and in a tone of professional ethics. Much of the evidence might have been and probably should have been shared during the discovery phase of the process.

Step nine: notice of decision. The arbitrator after serious and thoughtful deliberation concludes what course of action is most appropriate and presents that decision. In almost all cases, the decision is binding and all parties are obligated to comply. It is not uncommon, in the written statement for the arbitrator to provide a point-by-point discussion so that both parties have clarity though not necessarily agreement with the decision of the arbitrator. It is common for the record of decision to be codified by the signatures of the representatives of all parties involved and the arbitrator.

## Summary

The work world is a complex and dynamic enterprise requiring adjustments to what at times are significant differences of agreement. Many tools are available to assist in these moments of dispute. The more severe circumstances usually requires an employee and employer negotiation approach. If an impasse occurs then the use of an arbitrator may be called for. Depending on the type of organization, the unionization of the employees and applicable federal or state laws an arbitrator intervenes to resolve the lingering issues with a binding decision. Arbitrators usually follow a standard protocol or model of due process consisting of multiple steps seeking clarity, fairness and equity to all involved.

# Job Creation by Small, Medium, and Large Firms before and during the COVID-19 Pandemic

The economy is far short of maximum employment. Achieving maximum employment will depend on job gains relative to job losses over the next few years. Job gains and job losses are compared by firm size: firms with 1–49 employees, 50–499 employees, and 500+ employees. Two facts emerge: First, net job creation at large firms, the difference between job gains and job losses, seems to be more cyclical, except during the Great Recession. Second, the levels of job gains and losses are much higher at firms with 1–49 employees, indicating less stable employment opportunities at small firms. These facts are discussed in light of the COVID-19 pandemic.

## Introduction

Charting macroeconomic time series around the COVID-19 pandemic is an education in sorrow. Axes of older charts fail to document the economic loss. This is especially true for employment statistics.

Monthly employment numbers are depicted in figure 1. These data come from the Current Employment Statistics program of the Bureau of Labor Statistics, often referred to as the establishment survey. Figure 1 shows that between February and April 2020, 22 million jobs were lost. Employment in April 2020 was lower than employment in January 2011, 130.2 million jobs compared to 130.8 million jobs, erasing years of job gains.

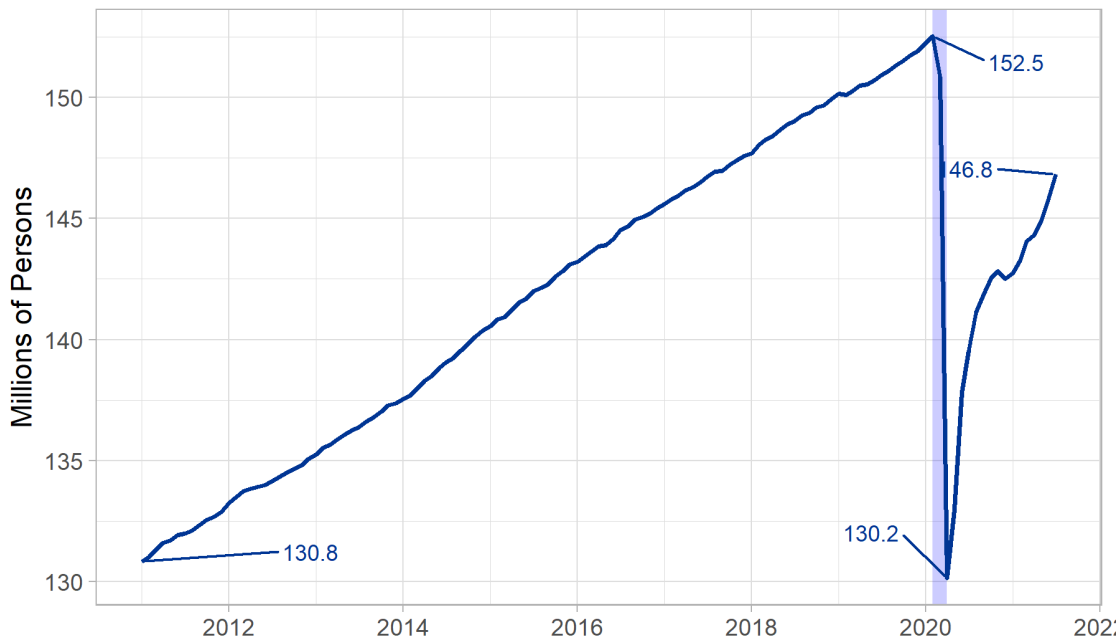
The most recent Employment Situation released by the BLS reported that the US economy added 943,000 jobs between June and July and the level of employment rose to 146.8 million. To offer some context for that number, it would take another six months of adding close to a million jobs a month to return employment to its pre-pandemic level. A basic exercise in economic forecasting—lining up a ruler with the pre-pandemic trend in employment—shows that adding 6 million jobs over 6 months would still represent a labor market short of maximum employment.



<sup>1</sup>All the data I use are seasonally adjusted.

<sup>2</sup>Maximum employment is one of the goals assigned to the Federal Reserve by Congress.





*Total nonfarm employment, January 2011–July 2021, seasonally adjusted. These data are available from the Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/PAYEMS>. Shaded areas indicate US recessions.*

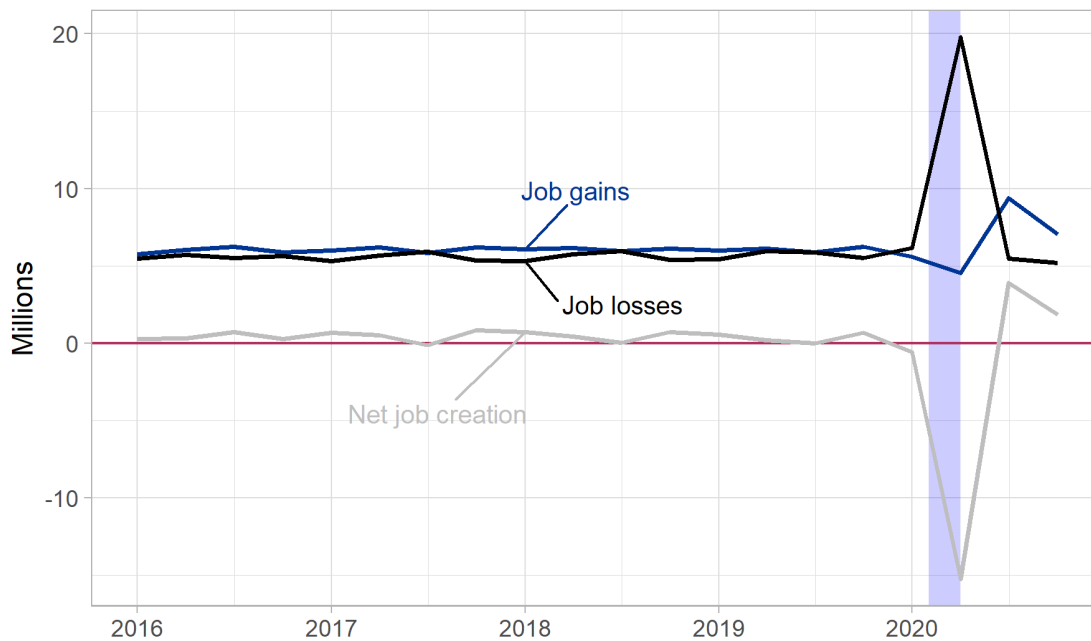
These statistics are startling. Yet they mask even more startling statistics. The gray line in figure 2 depicts the change in employment between each quarter. Between the first and second quarter of 2020, for example, over 15 million jobs were lost. This net statistic is the result of workers losing nearly 20 million jobs and gaining close to 5 million jobs. Job losses and job gains are depicted in figure 2 with black and blue lines.

Tracking statistics like these are important because an economy that loses 20 million jobs and gains 5 million is different from an economy that loses 15 million jobs and gains none. The fact that 5 million workers were able to find jobs in the teeth of the COVID-19 pandemic offers some hope to workers who depend on labor income to get by. In addition, data from the Business Employment Dynamics program at the Bureau of Labor Statistics, which are used to produce figure 2, disaggregate job gains and job losses by firm size. Tracking statistics by firm size will offer a picture of how small and large firms fared before and during the COVID-19 pandemic.

Small firms, for example, may face tougher credit constraints. When a negative shock like COVID-19 hits, larger firms may have more access to more affordable credit (Gertler and Gilchrist 1994). Conversely, large firms may have access to cheaper credit during economic expansions. In this story, aggregate shocks should have an outsized effect on net job creation at large firms compared to smaller firms. Large firms may also be able to poach employees from smaller firms during periods when the unemployment rate is low, limiting small firms' ability to add jobs during expansions. Continuing this story, in recessions, large firms have larger payrolls, which allows them to shed more jobs (Moscarini and Postel-Vinay 2012). The narrative of this story is similar to the credit story. On the other hand, small firms are often financed by personal finances like home equity. Fort et al. (2013) document the importance of home-equity financing for small businesses during the Great Recession.

To understand how these macroeconomic forces matter for net job creation in light of the COVID-19 pandemic, the next section looks at job gains and losses by firm size.





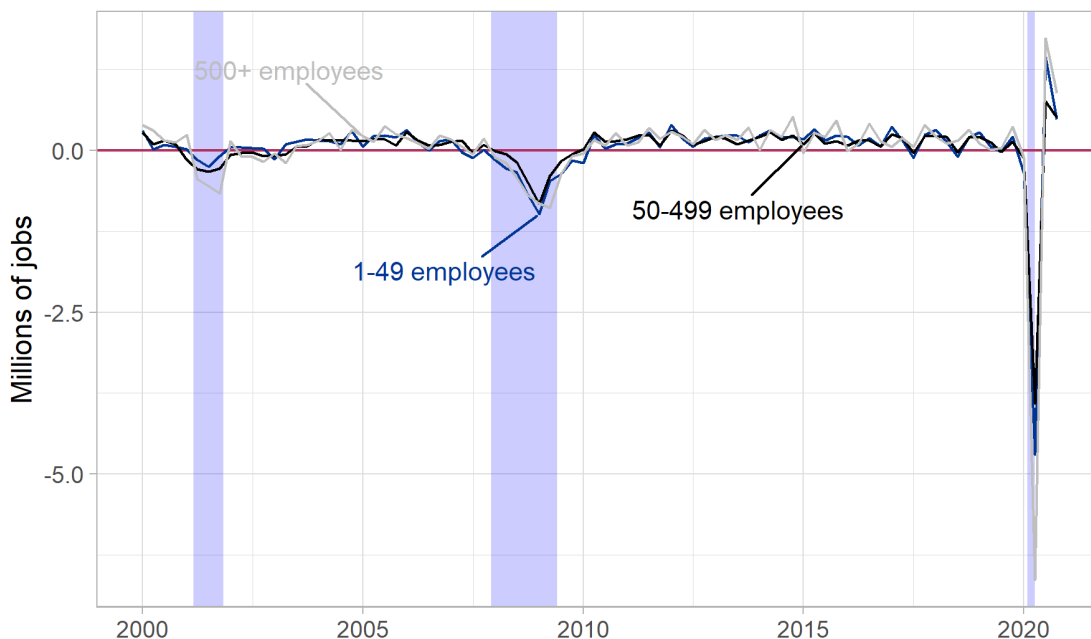
*Job gains, job losses, and net job creation, 2016:q1–2020q4. The data come from the Business Employment Dynamics program at the Bureau of Labor Statistics and are quarterly. Shaded areas indicate US recessions.*

## Business Employment Dynamics Data by Firm Size

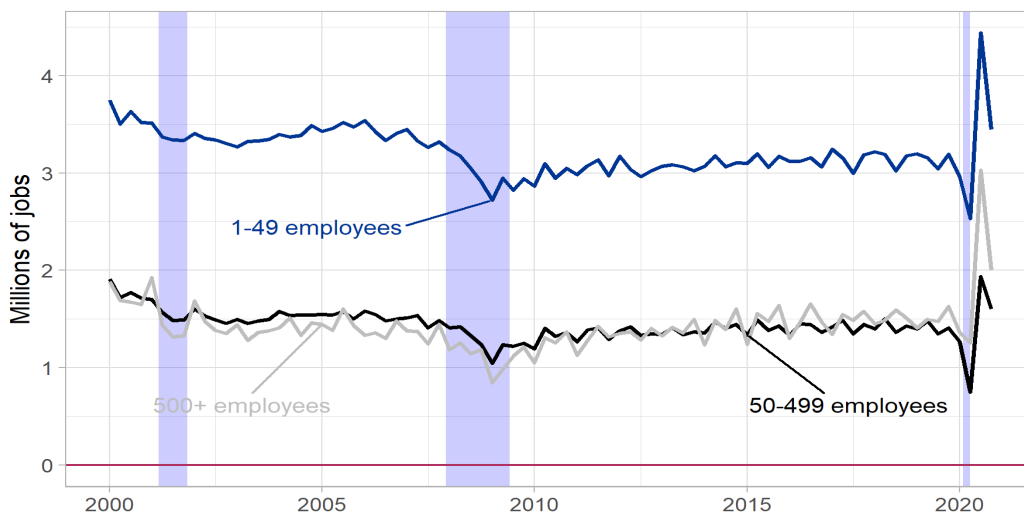
The data in figure 2 come from the Business Employment Dynamics program at the US Bureau of Labor Statistics. These data are based primarily on employers' reports to states' unemployment-insurance programs. Most employers are required to report employment and wages for workers covered by unemployment insurance and pay taxes. This coverage makes the data useful for looking at firm-level changes in employment.

One drawback of the data collection, however, is the way firms are identified. A reasonable model of firm behavior posits that major economic decisions are made by The Kroger Company, for example, and not at the hundreds of individual supermarkets that compose Kroger. In the BED data, however, firms are identified by Employer Identification Number. Large firms with many establishments in multiple states often have multiple Employer Identification Numbers. In other words, the establishments that comprise Kroger may have different EINs. For my purposes here, this means some large firms will show up as smaller firms, potentially undercounting the influence of large firms. One way to investigate this identification issue further would be to compare BED data the Census Bureau's Business Dynamic Statistics data, which use a broader measure of what a firm is. Yet the Business Dynamic Statistics data are only available at an annual frequency, which would make analyzing the rapidly changing economic conditions during the coronavirus period challenging.

For the rest of the analysis, I use BED data and aggregate firms into three size classes: small firms with 1–49 employees, medium firms with 50–499 employees, and large firms with 500 plus employees.



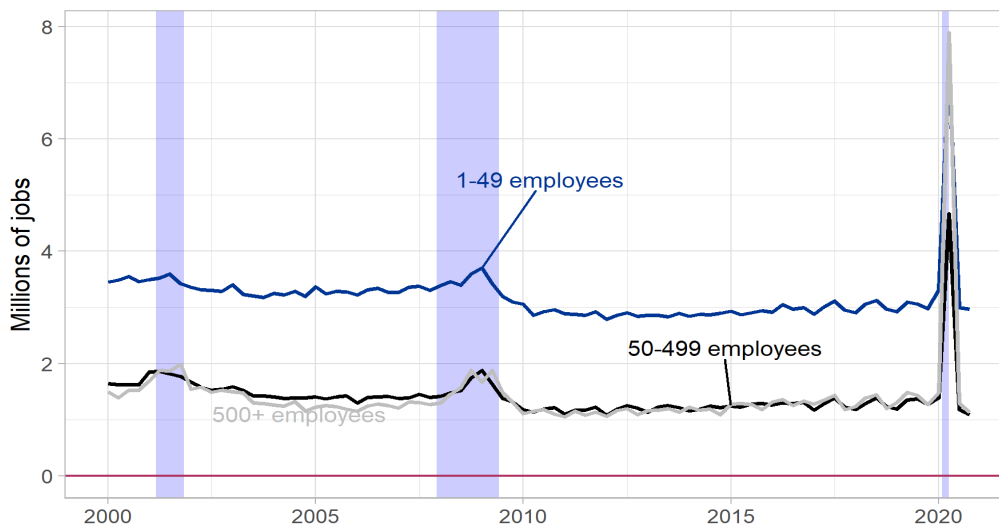
Net job creation by firm size, 2000:q1–2020q4. Shaded areas indicate US recessions.



Job gains by firm size, 2000:q1–2020q4. Shaded areas indicate US recessions.

<sup>3</sup> The Small Business Administration, it may be worth noting, counts any business with fewer than 500 employees as “small.”

<sup>3</sup>The Small Business Administration, it may be worth noting, counts any business with fewer than 500 employees as “small.”



*Job losses by firm size, 2000:q1–2020q4. Shaded areas indicate US recessions.*

## Analysis of Data

Turning to the BED data disaggregated by firm size, figure 3 depicts net job creation. Job creation equals job gains less job losses. Firm size in the figure is differentiated by color. Broadly, the series exhibit similar patterns in expansions; that is, non-recessionary periods defined by the National Bureau of Economic Research's Business Cycle Dating Committee. (Recessionary periods are shaded in the figures.) In recessions, some patterns emerge. In the 2001 recession, large firms contributed more to the fall in employment than small or medium firms. This is consistent with large firms being able to add more workers in expansions, which allows them to shed more jobs during downturns. This pattern, however, does not hold during the Great Recession when small and medium firms' contributions to net job creation were similar to large firms' contributions. This pattern is consistent with smaller firms using sources of personal finance. The fall in housing prices around the Great Recession period disproportionately hurt small firms.

The economic recovery from the COVID-19 pandemic is ongoing. So far, the patterns of net job creation are consistent with the stories of net job creation on credit-constrained small firms and the model of employment poaching by larger firms. Whether these patterns will continue to hold is unknown.

Net job creation by firm size in figure 3 is the difference between job gains and job losses by firm size. Figures 4 and 5 show these two components of net job creation. Figure 4 depicts job gains by firm size. Each quarter, small firms add more jobs. For example, of the 4.5 million jobs added in 2020:q2, during the teeth of the COVID-19 pandemic, over half were added by small firms. Of course, turning to figure 5, 40 percent of jobs lost during 2020:q2 were the result of small firms shedding employees.

<sup>3</sup>Details are available at <https://www.nber.org/research/business-cycle-dating> as of August 10, 2021.

One take-away from the figures is small firms' contribution to churning, the inevitable job destruction and job creation in a thriving economy.

## Discussion

“Large firms offer, on average, higher-paying, more stable jobs and are more productive, while small firms grow faster” (Moscarini and Postel-Vinay 2012, 2512). How these dynamics interact with economic downturns remains an open question. Patterns in figure 3 provide some evidence that net job creation is more cyclical at large firms, yet patterns observed during the Great Recession are anomalies. Figures 4 and 5 indicate the dynamism offered by the churn of small firms.

Economic policy that aims to achieve maximum employment, a major challenge as indicated by figure 1, will need to balance jobs offered by larger and smaller firms. For example, while large firms offer stable jobs, small startups may play an outsized role as the economy reallocates to telework.

## References

- Fort, Teresa C, John Haltiwanger, Ron S Jarmin, and Javier Miranda. 2013. “How Firms Respond to Business Cycles: The Role of Firm Age and Firm Size.” *IMF Economic Review* 61 (3): 520–59. <https://doi.org/10.1057/imfer.2013.15>.
- Gertler, M., and S. Gilchrist. 1994. “Monetary Policy, Business Cycles, and the Behavior of Small Manufacturing Firms.” *The Quarterly Journal of Economics* 109 (2): 309–40. <https://doi.org/10.2307/2118465>.
- Moscarini, Giuseppe, and Fabien Postel-Vinay. 2012. “The Contribution of Large and Small Employers to Job Creation in Times of High and Low Unemployment.” *American Economic Review* 102 (6): 2509–39. <https://doi.org/10.1257/aer.102.6.2509>.



WELCOME

WE ARE

**OPEN**

PLEASE COME IN





# CSU Bakersfield

School of Business and Public Administration

KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions. Please visit <https://bpa.csub.edu/menus/kern-economic-journal.html> for more information.