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The August Jobs Report: Mixed Signals Send a Warning to Congress

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Today's employment report from the Department of Labor shows both strengths and weaknesses in the economy. For the month of August, workers' earnings rose and unemployment remained low. At the same time, the turmoil in the housing sector led to a net loss in jobs. However, these statistics mask a large increase in American workers' well-being over the past generation due to an increase in leisure time. Nonetheless, with the economy showing signs of slowing, Congress should not enact policies that would harm the economy. Congress should not raise taxes, increase the regulatory burden, or enact laws that would make energy more expensive.

Moderate Growth in Employment and Earnings. The report sends mixed signals about the strength of the economy, despite the rise in subprime mortgage defaults and the slowdown in the housing sector. The economy lost 4,000 jobs in August, primarily in the construction and manufacturing sector.[1] This was the first time in almost four years that businesses shed more jobs than they created. Almost all of the jobs lost in the construction sector involved residential construction, a result of the weakness in the housing market.[2] Manufacturing continued its long-term employment decline, shedding another 46,000 jobs. Surprisingly, local governments removed 32,000 education positions, on top of the 50,000 removed in July.

Despite the discouraging employment numbers, other figures show a much stronger economy. Employers in the education and healthcare sector added 63,000 new jobs during the month, and the unemployment rate remains at the historically low level of 4.6 percent.[3]

Low unemployment has forced companies to raise wages as they compete to hire scarce workers. Average hourly wages rose at a 3.5 percent annual rate in August and have risen 3.9 percent over the past year.[4] Accounting for inflation, average hourly wages still rose 1.7 percent in the past year.[5]

Many commentators and policymakers argue that average wages are a misleading measure of economic well-being. They believe that only the very wealthy have benefited during this recovery, causing average wages to rise despite most workers seeing no benefit.[6] These pundits are mistaken. The weekly earnings of the median worker have risen by 1.6 percent over the past year—almost the same rate as the rise in average wages.[7]

Workers' pay consists of more than their wages or salaries. Benefits make up 30 percent of the average worker's compensation.[8] Accounting for benefits, workers' total compensation has risen even faster than their wages. Total compensation per hour in the non-farm business sector has risen 3.0 percent in the past year, after inflation—almost

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double the rate of wage and salary growth.[9] Despite the job losses, the economy shows signs of strength with low unemployment and rising wages.

More Leisure Time. Workers' standards of living have also increased in ways that do not show up in employment statistics. Contrary to popular perceptions, Americans today work fewer hours and enjoy far more leisure time than they did a generation ago.

Between 1965 and the present, the amount of time the average working-age American spent working at home and in the marketplace fell by 8 hours a week.[10] During that same period, the amount of time that working-age Americans spent enjoying leisure activities—entertainment, social activities, relaxing, napping, eating, and playing with children—rose by 7 hours a week.[11]

This represents a substantial increase in the amount of time workers spend enjoying their own pursuits. The increase adds up to an extra 7 to 9 weeks of additional paid vacation a year. If Americans chose to work those hours instead, the typical worker's pay would rise by between $5,000 and $5,500 a year.[12]

However, leisure time has not increased evenly across the board. In the 1960s, high- and low-income Americans enjoyed roughly the same amount of leisure. Today, Americans with more than a high school diploma enjoy more than 4 hours less leisure time than Americans with a high school diploma or less.[13] High-income families have seen smaller leisure gains over the past generation—a mirror image of the increase in wage inequality during this time.

Conclusion. The economy has real strength, despite last month's job losses and the problems in the housing market. Unemployment is low, and businesses and earnings are rising for most workers—not just for the wealthy. Counting benefits, total compensation is rising even more quickly. Accounting for leisure time, American workers are doing even better than these statistics imply. Low-income workers have benefited the most from increased leisure. The economy is showing signs of weakness but is still improving the living standards of most Americans.

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1. Bureau of Labor Statistics, "Employment Situation News Release," Table B-1, September 7, 2007, at *www.bls.gov/news.release/empsit.toc.htm*.
2. *Ibid*, Table B-1.
3. *Ibid*, Table A-1.
4. *Ibid*, Table B-3.
5. *Ibid*, inflation adjusted using the CPI-U-RS. Note that the BLS has not yet released inflation data for August, so this figure is for real hourly wage growth between July 2006 and July 2007.
6. The BLS average hourly wage figures are for production and non-supervisory workers only. Consequently they already exclude the pay of many of the wealthiest workers, such as management.
7. Heritage Foundation calculations using data from the Bureau of Labor Statistics, "Usual Weekly Earnings of Wage and Salary Workers," Table 1, July 19, 2007, at *www.bls.gov/news.release/wkyeng.toc.htm*. The median worker is the worker in the middle of the wage distribution. Half of workers earn more than the median and half earn less. Therefore, the median wage is unaffected by changes in the wages of only wealthy workers, unlike the average wage.
8. Authors' calculations using data from the Bureau of Labor Statistics, "Employer Costs for Employee Compensation," June 21, 2007, at *www.bls.gov/news.release/ecec.nr0.htm*. The figure is the ratio of total benefits to total compensation for all civilian workers.
9. Heritage Foundation calculations using data from the Bureau of Labor Statistics, "Productivity and Costs," Table 2, September 6, 2007, at *www.bls.gov/news.release/prod2.toc.htm*. The figures are from Q2 2006 to Q2 2007.
10. Mark Aguiar and Erik Hurst, "Measuring Trends in Leisure: The Allocation of Time Over Five Decades," NBER Working Paper No. 12082, March 2006, pp.14–18, at *www.nber.org/papers/W12082*.
11. *Ibid*, pp. 22–26.
12. *Ibid*, pp. 35–36.
13. *Ibid*, pp. 26–29 and Table 6.

This would be a terrible time for Congress to do anything that could tip the economy into a recession. Many activists want Congress to raise taxes to pay for more government spending on their favorite programs and to redistribute wealth. Other activists want Congress to pass more regulations, especially ones that would raise the cost of energy for businesses and consumers. Congress should reject these entreaties. Tax increases reduce the incentive to save and invest. Higher energy costs make production more expensive. Both would damage an economy that has improved the lives of most Americans and has given them more time with their families.

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