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Heritage Employment Report: October Report Shows Fall in Jobs

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The October jobs report from the Bureau of Labor Statistics provided more grim news of a faltering economy. The unemployment rate increased to 6.5 percent, up almost two full percentage points from a year ago when the unemployment rate was 4.8 percent. The total number of lost jobs for October was 240,000, but of greater concern were the sharp downward revisions for the previous month. Congress should pass proposals that create a strong foundation for economic growth and increased employment.

The October Jobs Report. The unemployment rate jumped from 6.1 percent for September to 6.5 percent in October. This number is the highest rate since March 1994. The unemployment rate increased because of job losses and an increase in the labor force. The size of the labor force increased by 306,000, and the labor force participation rate climbed to 66.1 percent, which is higher than it was October of 2007.

The unemployment rate for workers without a high school education increased from 9.6 percent to 10.3 percent, the highest rate in 14 years. The unemployment rate for college graduates also climbed sharply from 2.5 percent to 3.1 percent, the highest rate since 2003.

The October jobs report showed that a net 240,000 jobs were lost, bringing the total amount of jobs lost to 1.2 million for 2008. The magnitude of job losses is increasing. The average job losses per month for 2008 is 120,000, but job losses in the past three months exceeded that average.

The construction sector remains hard hit, losing another 49,000 jobs in October. This sector has lost 357,000 jobs for the year. Manufacturing also declined by 90,000, although approximately 27,000 jobs were lost due to strikes.

The service sector shed 108,000 jobs last month. Employment in the retail sector also continued to decline (–38,000) as consumers tightened their belts and curtailed spending. Job cuts from retailers in the automotive industry accounted for over half of the lost retail sales jobs (–21,400). General retail and department stores (–18,500) also shed jobs. The financial sector (–24,000) accelerated its job losses due to the credit crisis. Employment and temporary help services (–50,800) again saw a large downturn in jobs. This sector has lost 362,000 jobs this year—over 10 percent of its workforce since January.

Federal Government's Next Steps. As Congress returns for a lame duck session, there are steps that the President and Congress can take to help the economy.

First, Congress and the President should not enact policies that would damage the economy in either the short or long term. There should be no tax

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increases while economic growth is weak. The federal government should not bail out states that spent unwisely during flush economic times. Bailing out states would reward those states who spent their tax dollars instead of saving for an economic downturn. A bailout encourages states to save even less in the future. Finally, the federal government should top showering industries with loans.[1] If markets are going to function properly, companies must be allowed to fail.

Second, Congress should lay a broad groundwork for economic recovery. The government can lower the corporate tax rate, which is the second highest in the industrial world. A lower corporate tax rate would increase employment and GDP growth.[2] Congress should move quickly to fulfill one of the President-elect's campaign promises: to make permanent many elements of the Bush tax cuts. Congress should delay the increase in the capital gains and dividends tax rate from 15 percent to 20 percent for some successful investors. This delay will keep the cost of capital low, which will make it easier for companies to build up their capital without depending on the Treasury for money.

Third, Congress can also enact a series of bilateral free trade agreements, which will open new markets for American goods. These trade agreements will also lead to lower prices on goods, which will help consumers who have already reduced their spending.

Finally, Congress should work to have a stable energy supply, and this includes drilling for new oil reserves.

A Foundation for Growth. The October jobs report shows the American economy is in bad shape. Over a million Americans have lost their jobs this year, and job layoffs are accelerating. The unemployment rate is likely to continue to climb—even after a recovery—because employment tends to lag the overall economy.

The federal government should take steps to improve the economy with policies that lay the foundation for short-term and long-term economic growth while adhering to the principle of doing no harm. Policies that reward bad decision making from either states or private companies should be avoided. Policies that increase economic opportunity such as free trade or tax cuts should be implemented.

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1. James Gattuso, "The Other Bailout: Is $7 Billion Still Real Money?," The Foundry, September 26, 2008, at *http://blog.heritage.org/2008/09/26/the-other-bailout-is-7-billion-still-real-money.*
2. William W. Beach, "Economic Recovery: Options and Challenges," testimony before the Committee on the Budget, U.S. House of Representatives, October 28, 2008, at *http://www.heritage.org/Research/Economy/tst102308.cfm* (November 7, 2008).

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