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Heritage Employment Report: November's Weak Thanksgiving Jobs Numbers

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With the nation officially in a recession, the November jobs report shows the painful state of the current economy. The Bureau of Labor Statistics announced that in November, 533,000 jobs were lost and the unemployment rate increased from 6.5 percent to 6.7 percent. This employment report is grim and underscored by the highest decline in the payroll survey since 1974. It should be noted, however, that as a percent of the labor force, these job losses are not nearly as bad as the 1974 job losses.

The November Jobs Report. The job losses in the payroll establishment survey were the largest in almost 40 years. While the unemployment rate only increased by 0.2 percent, this is because 422,000 workers left the labor force and the labor force participation rate declined. However, over half (280,000) of those who left the workforce were teenagers, who move in and out of the labor force at high rates. At 20.4 percent, teenagers' unemployment rate is over three times the national average, so the decline in teenagers in the labor force kept the unemployment rate from spiking.

Job losses were deep and widespread throughout many different industries. Construction (–82,000) and manufacturing (–85,000) continued their steady declines over the past two years, bringing their total job losses since 2007 to 300,000 and 278,000, respectively. Job losses in the service sector were painfully deep (–370,000) as consumer spending declined, and companies responded accordingly. Even leisure and hospitality felt the effects of the economic downturn reducing employment opportunities by 76,000.

Industries that have made the news due to the credit crisis and financial woes also lost jobs. The financial sector (–32,000) continued to reduce employment and has now shed 142,000 jobs in the last year. Losses in automobile retailers (–27,000) accounted for almost one-third of the total retail trade job losses (–91,000). Clothing stores (–17,600) and sporting good, music, and hobby stores (–10,700) were the other sectors that also suffered a decrease in employment.

The November jobs report also revises previous jobs reports for October and September. Both months were sharply revised downward, with October reporting job losses over 400,000. Such revisions make November and October two of the worst 12 months in terms of jobs losses for the American economy.

For workers who have jobs, wages increased by 0.4 percent, and weekly earnings increased by 2.8 percent over the past year. The decline in the cost of gas and other goods means that the wage increases will be able to purchase more goods for these workers.

How Bad Are the Job Losses? Current job losses have already exceeded the magnitude of the previ-

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ous two recessions. Peak job losses in the 2001 recession were 325,000, which were reported in October, the last month of that recession. Peak losses during the 1990–91 recessions—306,000—were reported in February 1991, again one month before the recession ended. During the 1981–82 recession, peak job losses were 343,000, a figured reported four months before the end of the recession. A bottom in the labor market often indicates the near bottom of a recession, since employment is a lagging indicator.

While in terms of raw numbers the November job losses are the largest since 1974, it is important to realize that the economy and labor market are much larger than they were in 1974. In percentage terms, the number of establishment jobs declined by 0.4 percent. In comparison, the December 1974 job losses of 602,000 were twice that number—a 0.8 percent decline from the previous month. The size of the decline in percentages is the same as the peak job losses in the 1981–82 recession but twice that as compared to peak job losses in the 1990–91 and 2001 recessions.

While the official unemployment rate has climbed from 4.7 percent to 6.7 percent, other measures of unemployment have been even worse. The Bureau of Labor Statistics includes workers that have dropped out of the labor force due to discouragement over job prospects as well as part-time workers who wish to work full-time. These unofficial numbers are a bit speculative since even during boom economic times of rapid job growth, there are discouraged workers. The important concern is that these alternative measures of unemployment have rapidly increased, especially the rise of part-time workers. The broadest measure of unemployment is now 12.5 percent, up from 8.4 percent. This measurement nearly doubles the official tally of how many workers are shifting to part-time work as a result of the weak economy.

The Government's Response. With the economy in a recession, many companies and states are begging the federal government for handouts. It is important to remember that the federal government spends money by either borrowing more or taxing productive assets. Increased government spending comes at the expense of demand from the private sectors. As Heritage Foundation Senior Fellow Dr. J. D. Foster writes, "The simple fact is that when government borrows a dollar, either the dollar was borrowed at home (reducing domestic consumption or investment) or it was borrowed from abroad, thereby increasing the trade deficit. Either way, the increase in aggregate demand from government spending is matched by a reduction in aggregate demand from the private sector."[1]

Many of the current stimulus plans being bandied about on Capitol Hill simply consist of new government spending that will slow the future economic recovery. Some of the stimulus ideas—such as giving money to the states—reward states who did not save enough money in their rainy day funds. Government handouts discourage states from prudently managing their budget during good economic times.

A better stimulus package would be one that reduces the cost of investment to businesses and individuals. Lower investment taxes promote entrepreneurship and small business formation.[2] For instance, the 2003 tax bill cut taxes on investment, resulting in higher employment as businesses investment increased.

Do Not Make a Bad Situation Worse. The November jobs report is one of the worst jobs reports in 30 years. Job losses totaling over a half a million is a very worrisome number. However, it is important to realize that the numbers are not as bad as the 1973–75 recession. The employment picture is already worse than the last two recessions, but right now the 1981–82 recession appears to be an apt comparison due to the increased relative scale of our economy.

Despite this economic turmoil, the government should be careful to not make things worse. Presi-

1. J. D. Foster, Ph.D., "Growth, Deficits, and the Future," Heritage Foundation *WebMemo* No. 2150, December 3, 2008, at *http://www.heritage.org/Research/Economy/wm2150.cfm.*
2. Alison Acosta Fraser and Curtis S. Dubuy, "Cutting Taxes to Promote Growth and Restore Fairness: A Memo to President-elect Obama," Heritage Foundation *Special Report* No. 29, at *http://www.heritage.org/Research/Taxes/sr29.cfm.*

dent-elect Barack Obama should not try to repeal the Bush tax cuts next year, which will only worsen the economy. Instead, he should extend the pro-growth elements of the Bush tax cuts and enact pro-growth tax cuts of his own. Furthermore, he should not encourage a massive stimulus bill that could crowd out private investment and spending.

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