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U.S. Labor and Employment Report: Jobs Report for December Underscores Need for Pro-Growth Economic Policies

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The December jobs report provided another grim reading on the state of the U.S. economy. The unemployment rate increased to 7.2 percent, the highest it has been since January 1993. Employment at the nation's factories, stories, and offices declined by 524,000 in December, slightly less than the 584,000 total jobs lost in November. In the last quarter of 2008, 1.5 million jobs were lost.

Tough Year in 2008. With the economy in a recession for the entire year of 2008, such a sharp increase in unemployment is not surprising. For the year, the unemployment rate increased from 4.9 percent in December of 2007—the peak of the last economic expansion—to 7.2, an almost 50 percent increase. Employment fell by 2.6 million jobs, the largest aggregate reduction since World War II. However, the labor force is much larger and the job losses more comparable to the 1981 recession as a percentage of the labor force.

Like the previous month, job losses in December were widespread, affecting almost every industry. The major sectors all lost in excess of 100,000 jobs, with manufacturing the hardest hit (–149,000), followed by professional and businesses services (–113,000) and construction (–101,000). Retail trade (–67,000) and leisure and hospitality (–22,000) shed fewer jobs. Mining (1,200), education and health (45,000), and the government (7,000) were among the only sectors to add jobs last month.

The automobile industry (–21,400) continued to struggle and accounted for almost a seventh of the total manufacturing job losses. Automobile dealers (–25,000) accounted for almost 40 percent of the job losses in retail trade. Employment crashed at temporary help agencies (–80,900), and accounted for over 70 percent of the total job losses in the business services sector. Temporary help agencies have shed one-fifth of their total employment since December 2007. Automobile manufacturers have shed one-seventh of their total jobs over the same period.

Another indicator of the downturn in the labor market is that the duration of unemployment has increased. The number of workers unemployed for less than 27 weeks has doubled over the past year. The median duration of unemployment has increased by 2.2 weeks, while the average duration has increased by 3.2 weeks.

Why Job Creation Matters. Even as unemployment has climbed, policymakers and the media have paid relatively little attention to what has caused the job market to deteriorate so quickly. Contrary to popular impressions, employers are only slightly more likely to lay off their employees than a year ago. The unemployment rate has

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jumped because employers have sharply slowed new hiring, and workers who lose their jobs are having much greater difficulty finding new work.

The Bureau of Labor Statistics reported that 524,000 jobs were lost in December, but that number is not fully accurate. The U.S. economy is very dynamic, even during a recession. Millions of jobs are created and lost every month. Employers shed a *net* of 524,000 jobs in December; total job losses were much higher. Roughly 4.4 million workers leave their jobs each month—either voluntarily or involuntarily—but employers hire millions of new workers as well.[1] Of the millions of jobs created and lost in December, the job losses outnumbered newly created jobs by 524,000.

Unemployment can rise for two reasons. First, unemployment rises when job losses increase, thereby directly expanding the population of unemployed workers. Second, unemployment rises when new job creation falls. In that case the millions of workers who naturally leave their jobs or enter the labor force each month take longer to find new jobs and remain unemployed longer.

Unemployment has risen sharply for the second reason, not the first. The Bureau of Labor Statistics directly measures job loss rates and hiring rates. Workers are only slightly less likely to be laid off from their jobs now than a year ago. The most recent figures show that employers discharged 1.4 percent of workers in October 2008 versus 1.3 percent in October 2007.[2] In fact, fewer workers are leaving their jobs each month because fewer workers are quitting.

Job creation rates, however, have fallen sharply, dropping from 3.6 percent to 3.0 percent a month over the last year, a fall of one-sixth.[3] If job creation rates had stayed at their previous levels, over 600,000 new jobs would have been created each month and net job losses would be slight.[4]

Instead, employers are cutting back on hiring during the current economic downturn, choosing instead to conserve cash and hold off on new investments and new projects. Consequently, workers who are laid off from one job cannot as easily find work with a different company. The lack of job creation makes it more painful to lose an existing job: 73 percent of Americans report that jobs are difficult to find in their area.[5] This statistic also explains why the percentage of workers who are unemployed because of lost jobs has increased dramatically in the last year.

Few in the media or public policy arena have paid much attention to the fact that lack of new job creation has caused unemployment to rise, a development that requires a distinct response from Congress. Many in Congress are focused on massive fiscal policy stimulus, primarily in the form of public works projects and direct aid to individuals and state governments. Such forms of stimulus will do little to encourage new business investment or hiring. Make-work projects only create temporary jobs while consuming funds that could have been invested by the private sector.

Therefore, instead of massive new government spending, Congress should adopt policies that will promote entrepreneurship and business investment which will, in turn, create new jobs. One such policy has been proposed by President-elect Barack Obama: eliminating the capital gains tax on business startups. This policy would encourage addi-

1. Department of Labor, Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," Haver Analytics. Between November 2007 and October 2008, the average number of monthly job separations was 4.4 million. October 2008 is the most recent data available.
2. *Ibid.* Layoffs and Discharges (Not Seasonally Adjusted).
3. *Ibid.* Hires Rates, October 2007–October 2008 (Seasonally Adjusted). Note that the job creation rate means that 3.0 percent of all employees in October 2008 were newly hired that month, versus 3.6 percent of employees in October 2007 were newly hired that month.
4. *Ibid.* Throughout all of 2007 new hire rates averaged 3.5 percent. Over the last four months for which data is available (July–October 2008) that figure has fallen to 3.0 percent. Half a percent of 136 million jobs is 678,000 jobs a month.
5. Pew Research Center for People and the Press, "Psychology of Bad Times Fueling Cutbacks," December 11, 2008, at *http://people-press.org/report/475/economic-worries-mount* (January 12, 2009).

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tional venture capital investment in business startups by making successful businesses more profitable. To fix rising unemployment, Congress needs to lower tax rates dramatically and reduce regulatory burdens that impede business activity and job creation.

Bolstering Employment. The jobs reports of the previous two months have been the worse in decades. The current recession started in 2007 and is likely to continue through the first half of 2009. Congress should enact policies aimed at bolstering employment opportunities by reducing the burden on businesses. Taxes and regulations that change business incentives are more likely to succeed than policies that merely give businesses money with no incentive for investment or job creation.

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