WebMemo

Published by The Heritage Foundation

No. 2278
February 6, 2009

Stimulus Won't Help Grim Jobs Report

Rea S. Hederman, Jr.

Released earlier today, the Department of Labor's Bureau of Labor Statistics January jobs report reveals that last month employment opportunities declined by 598,000 and the unemployment rate increased to 7.6 percent. These numbers represent the highest amount of jobs lost since December 1974 and the highest unemployment rate since the 1992 recession's peak of 7.8 percent.

The January Report. The January report shows that job losses continue to be widespread and deep. While the health care industry (+54,000) and government (+6,000) added jobs, every other sector continued to shed jobs, with manufacturing (–207,000) and construction (–111,000) being hit the hardest.

The unemployment rate climbed from 7.2 percent to 7.6 percent, which also included a decline in the labor force participation rate as individuals left the labor market.[1] The unemployment rate has climbed sharply for all levels of education over the past year, with workers without a high school diploma facing a 12 percent unemployment rate. Men are now much more likely to be unemployed than women, with men having a 7.6 percent unemployment rate compared to 6.2 percent for women.

Many individuals have left the labor force as the labor force participation rate, over the last year, fell from 66.1 percent to 65.5 percent. The size of the actual workforce has declined by 150,000 workers even as the civilian population increased by 2 million.

The duration of unemployment also continues to rise. The number of workers unemployed for longer than 27 weeks has doubled in the past year. The median duration of weeks workers remain unemployed is 1.6 weeks longer in 2009 than in January 2008. Alternative measures of unemployment, which include those only marginally attached to the labor force, have climbed to 8.8 percent. The number of workers employed on an involuntary part-time basis has increased over the last year as measured by the broadest definition of unemployment, jumping from 9.0 percent in January 2008 to 13.9 percent.

Several specific industries were hit particularly hard. For instance, temporary employment services (–89,000) have shed 20 percent of their total workforce in the past year. Automotive manufacturers (–31,300) have also shed about a fifth of their workers. The construction industry (–111,000) has now returned to its September 2003 level of employment, erasing large job gains in 2005 and 2006.

Hours of work remained the same for the second month in a row. Average hourly earnings showed a solid increase of five cents an hour.

Yearly Revisions. The January report contains yearly revisions to previous jobs report. Overall, the revisions increased job losses for 2008, with a total of 2.9 million jobs being lost last year. The job revi-

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2278.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

sions for the past two months were revised upwards with the November 2008 job losses now totaling 597,000—statistically the same as the January 2009 job losses of 598,000.

Stimulus Package Will Not Help. The current stimulus package being debated will do little to improve the labor market or boost economic prosperity. The stimulus package contains too many provisions based on the theory that the government is currently the most efficient spender of money. Proponents believe that these large spending packages and infrastructure projects can revive the economy.

Unfortunately, government infrastructure spending is unlikely to help. Japan tried massive infrastructure projects for a decade, but economic growth increased by only 0.6 percent a year. Efforts to use infrastructure spending likewise failed to lift the U.S. economy out of the Great Depression. Infrastructure projects are slow to implement, frequently starting after an economic recovery has already begun. Jobs are also not easily transferable, which means that many of the now unemployed—particularly those unemployed lawyers, consultants, or members of the financial services industry—would not benefit from construction jobs.[2]

The Need to Encourage New Investment and Innovation. The job reports of the last six months have gotten progressively worse. The labor market is experiencing some of the biggest job losses in almost 40 years. However, the labor market has expanded, and in percentage terms, job losses are not yet as bad as the 1981–1982 recession. The unemployment rate will continue to climb even as the economy recovers, since employment is one of the last areas to recover.

The current stimulus bill is being pushed through on the basis that it will fix the labor market. Unfortunately, the current stimulus bill contains too few provisions that will help the labor market. Instead of relying on failed policies of government spending and tax spending, the government should enact policies that encourage new investment and innovation. Lower investment costs will stimulate new businesses and entrepreneurial activity that will create jobs.

—Rea S. Hederman, Jr., is Assistant Director of and Senior Policy Analyst in the Center for Data Analysis at The Heritage Foundation.

1. The January report also contains yearly revisions to account for population effects. Comparisons to previous months need to account for the differences in the baseline.
2. Ronald D. Utt, "The Economic Stimulus Package and the Limits of Job Creation," Heritage Foundation *WebMemo* No. 2273, February 5, 2009, at *http://www.heritage.org/Research/Economy/wm2273.cfm.*