WebMemo

Published by The Heritage Foundation

No. 2467
June 5, 2009

Heritage Jobs Report: May Report Shows Small Silver Lining

Rea S. Hederman, Jr., and James Sherk

The May employment report released by the Bureau of Labor Statistics revealed a glimmer of sunlight in the recession's stormy clouds.

The establishment survey reported job losses of only 345,000 in May, which is the lowest level of job reductions since October 2008. The lower job loss estimate confirmed the lower-than-expected unemployment claims data reported earlier this week. The household survey increased the unemployment rate to 9.4 percent, the highest since the peak of the 1981–82 recession.

The May jobs report offers some hope that while the downturn in the labor market is continuing, it is doing so at a slower rate. Given the increasing likelihood that the economy is recovering now, Congress should do nothing to make labor markets less flexible. In fact, Congress should free up business to create more incentives for increased worker productivity. Passing the RAISE Act would be a step in the right direction.

The May Report. The May jobs report was the fourth straight month of declining job losses. Job losses peaked in January at 741,000 but have fallen by over half to 345,000 job losses in May. The April and May employment reports show 150,000 fewer job losses than the preceding month. This indicates that the rate of job losses has slowed and that the labor market is nearing a bottom. Another positive sign is that job losses for the previous two months were revised upwards.

The unemployment rate increased from 8.9 percent to 9.4 percent in May. The unemployment rate increased not only due to job losses but also because a large number of workers entered the labor force. The labor force participation rate increased to 65.9 percent, the largest number since October 2008.

This recession has hit working men especially hard. The unemployment rate for men over 16 is now 10.5 percent and 9.8 percent for men over 20. This is significantly higher than the unemployment rate for women of 8.0 and 7.5 percent, respectively. This is due in part to the fact that industries such as construction and manufacturing—which have a higher percentage of male workers—have been hard hit in the recession.

The construction industry shed another 59,000 jobs and has lost almost a fifth of the total workers since the peak of the construction market in 2007. Manufacturing (–156,000) has lost 15 percent of total jobs since January 2007. While the service sector shed jobs overall (–120,000), it had some sectors that showed job growth over the last month. The leisure and hospitality (+3,000) showed small growth, but education and health services had a solid month of employment increases (+44,000).

With the downturn of the labor market now in its second year, the duration of unemployment has

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2467.cfm

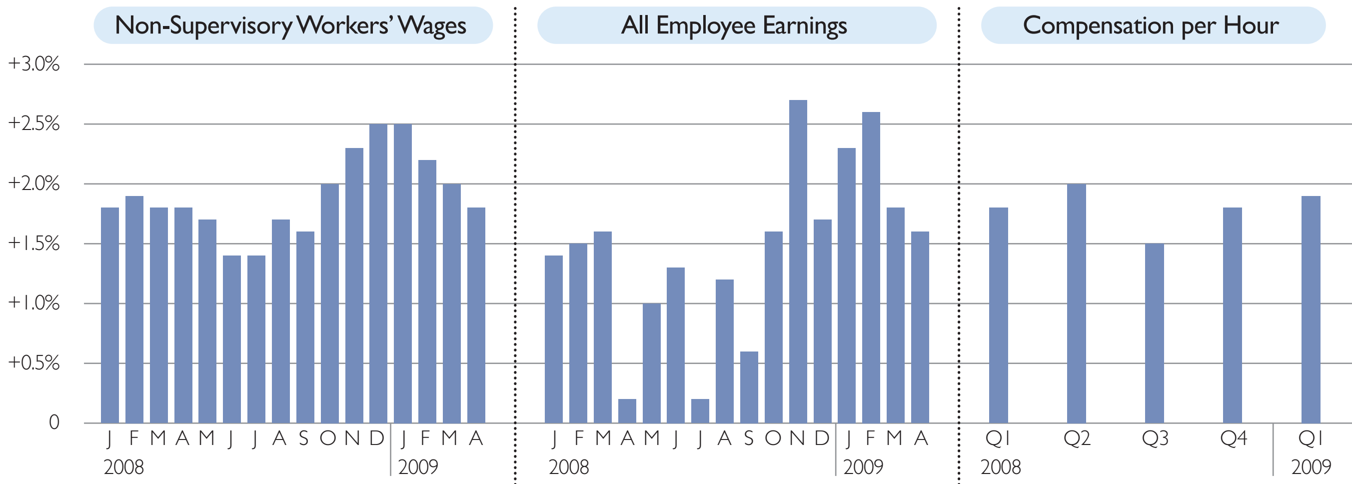
Produced by the Center for Data Analysis

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

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Workers' Wages Continue to Rise Despite Economic Downturn

Figures Are Year-to-Year Percentage Changes, Adjusted for Inflation



Source: U.S. Department of Labor, Bureau of Labor Statistics / Haver Analytics, "Productivity and Costs," "Experimental All Employee Hours and Earnings," and "Employment Report." Non-supervisory workers' wages and all employee earnings are inflation-adjusted using the core chained consumer price index. Compensation per hour for the nonfarm business sector are inflation-adjusted using the implicit price deflator.

increased. The median duration of unemployment is now 14.9 weeks, the highest level ever recorded. The percent of workers unemployed for over 15 weeks is 48 percent, also a new high. A quarter of all unemployed have been out of work for over 27 weeks.

Wages Holding Up. The job market and the rising unemployment rate have attracted the most media attention. Commentators have paid relatively little attention to how wages have held up during the recession. Perhaps surprisingly, wages have continued to rise modestly. Chart 1 shows the annual change in inflation adjusted earnings reported by three different surveys conducted by the Department of Labor.

All three surveys show that workers' earnings have grown at a roughly 2 percent annual rate, after inflation, during the recession. This is roughly the same rate as during normal economic circumstances. Wages have held up throughout the downturn.

RAISE Act Boosts Productivity and Wages. These encouraging signs should spur Congress to remove barriers to upward mobility. Wages can rise in the long-term only when workers productivity does. Boosting both productivity and wages will spur economic growth—the only way to turn the economy around permanently and end the recession.

The Rewarding Achievement and Incentivizing Successful Employees (RAISE) Act, recently introduced by Senator David Vitter (R–LA) and Representative Tom McClintock (R–CA) would provide exactly this economic boost.

Under current law, union contracts set not just a wage floor but a wage ceiling: Employers may not pay individual union members more than the contract calls for without negotiating with the union. However, unions usually reject individual pay increases—they want workers to view the union, not their own efforts, as the reason they get ahead. Most unions insist on seniority-based pay systems.

This destroys the incentive to work harder and become more productive to earn higher wages—the heart of the American dream. The RAISE Act changes this by allowing the 8.6 million union members covered by the National Labor Relations Act (NLRA) to earn more than their union contract

The Heritage Foundation
LEADERSHIP FOR AMERICA

calls for.[1] The RAISE Act maintains the NLRA ban on giving discriminatory raises to anti-union workers to undercut union support, but it allows employers to give performance pay and merit bonuses to deserving employees.

Real Economic Stimulus. Lifting the union "seniority ceiling" will help both workers and the economy. Economic research shows that the average worker's earnings rise by 6–10 percent when the pay is performance-based.[2] Most workers take advantage of the opportunities presented by performance pay and work harder to prosper. If Congress passes the RAISE Act, the typical union member would earn between $2,600 and $4,300 per year more than if Congress left the union wage ceiling in place.[3]

These higher earnings would provide the right type of stimulus to get the economy moving more rapidly. Workers would earn more money by creating wealth through their own hard work, adding tens of billions of dollars to the economy. Their greater productivity would also improve business earnings. Instead of fighting over how to redistribute wealth, the RAISE Act encourages employers and employees to work together to create more wealth and spark economic renewal.

Not All Bad News. The May jobs report paints another grim picture of the labor market. Still, there is some good news, especially for those currently employed. Wages continue to rise, and legislation like the RAISE Act can offer higher wages to workers. Congress should focus on passing pro-growth legislation, especially given how little help the stimulus bill has been to the labor market and the economy.

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

1. Heritage Foundation calculations based on data from Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," Industrial and Labor Relations Review, Vol. 56, No. 2 (January 2003), pp. 349–54, at *http://unionstats.gsu.edu/UnionStats.pdf* (June 5, 2009). The NLRA covers private sector employers outside the agricultural, railroad, and airline industries. This figure includes both union members and non-members covered by collective bargaining agreements.
2. Alison L. Booth and Jeff Frank, "Earnings, Productivity, and Performance-Related Pay," *Journal of Labor Economics*, Vol. 17, No. 3 (July 1999), pp. 447–63; Edward Lazear, "Performance Pay and Productivity," *American Economic Review*, Vol. 90, No. 5 (December 2000), pp. 1346–1361; Tuomas Pekkarinen and Chris Riddell, "Performance Pay and Earnings: Evidence from Personnel Records," *Industrial and Labor Relations Review*, Vol. 61, No. 3 (April 2008), pp. 297–319; Adam Copeland and Cyril Monnet, "The Welfare Effects of Incentive Schemes," *Review of Economic Studies*, Vol. 76, No. 1 (2009), pp. 93–113; Daniel Parent, "Methods of Pay and Earnings: A Longitudinal Analysis," *Industrial and Labor Relations Review*, Vol. 53, No. 1 (October 1999), pp. 71–86.
3. Heritage Foundation calculations based on data from the Department of Labor's Bureau of Labor Statistics on the median earnings of private-sector workers covered by collective bargaining agreements in 2008 and assuming a 6–10 percent rise in median annual earnings due to merit raises.