WebMemo
Published by The Heritage Foundation
No. 2584
August 7, 2009

Heritage Employment Report: July Jobs Report a Jolt

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The Bureau of Labor Statistics reported today that in the month of July, the U.S. unemployment rate dropped from 9.5 to 9.4 percent despite the economy shedding 247,000 jobs. While this jobs report is hardly good news, it is still the least bad employment report since August 2008.

The July Report: Payroll Survey. The report's payroll survey shows that 247,000 workers lost their jobs last month.

While almost a quarter of million lost jobs is bad news, this is the lowest monthly total of jobs lost since August 2008. Over 300,000 jobs were lost on average every month since last August until July 2009. The rate of job losses has slowed dramatically since the peak of the first quarter of this year.

The payroll survey also showed a small uptick in the average number of hours worked, reversing a small downtick the previous month. The June jobs report recorded the lowest amount of hours worked per week in the 40-year history of the survey. July's increase of 0.1 hours means that the number of hours worked has remained essentially flat for the last six months, thereby providing modest further evidence that the labor market decline has slowed.

Wages increased by three cents from June to July and are up 46 cents since July of last year. This is a solid jump, given that wages had increased by only three cents the previous three months combined. It is also a total increase of 2.5 percent since July 2008, which is significant given that the inflation has been virtually flat over the last year.

The July Report: Household Survey. The household survey's headline number that the unemployment rate had fallen from 9.5 to 9.4 percent seems to be good news. However, the decline results entirely from the fact that 422,000 people left the labor force. As a result, the labor force participation rate fell to 66.5, which equals the lowest recorded number for the current recession. The civilian employment to population ratio continued to decline as people left the labor market. It fell to 59.5, the lowest level in 25 years.

When labor markets begin to firm, many of these discouraged workers will begin to re-enter the workforce, making it likely that the unemployment rate will remain high or even increase past 10 percent before the start of 2010. After all, labor force re-entrants account for over a fifth of all unemployed workers. When companies are reluctant to hire, it becomes even harder for these workers to obtain a job.

Another factor that will boost the unemployment rate in future months will be the fate of teenage workers. Teens accounted for a quarter of the decline in the labor force last month. July's jobs report was conducted before the minimum wage

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2584.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
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took effect. Therefore, it is likely that the job market for teenagers will be further weakened by the minimum wage increase. Teenagers already have the highest unemployment rate at 23.8 percent, which is more than double the national average.

Industry Specific Job Losses. Job losses in specific industries were widespread. Manufacturing (–52,000), construction (–76,000), and the service sector (–119,000) all experienced heavy job losses. The auto industry had a month of growth (+28,200) as the industry stabilized. The future of the construction industry remains bleak as not only did construction workers lose jobs, but job losses mounted among architects and engineers (–13,500), a part of the professional service sector that has lost almost 10 percent of its total jobs in the last year.

As always, health care employment was a bright spot (+19,600). The government also added jobs at the federal level (+12,000) while contracting employment at the state level (-5000). Job creation at the local level was unchanged from the previous month.

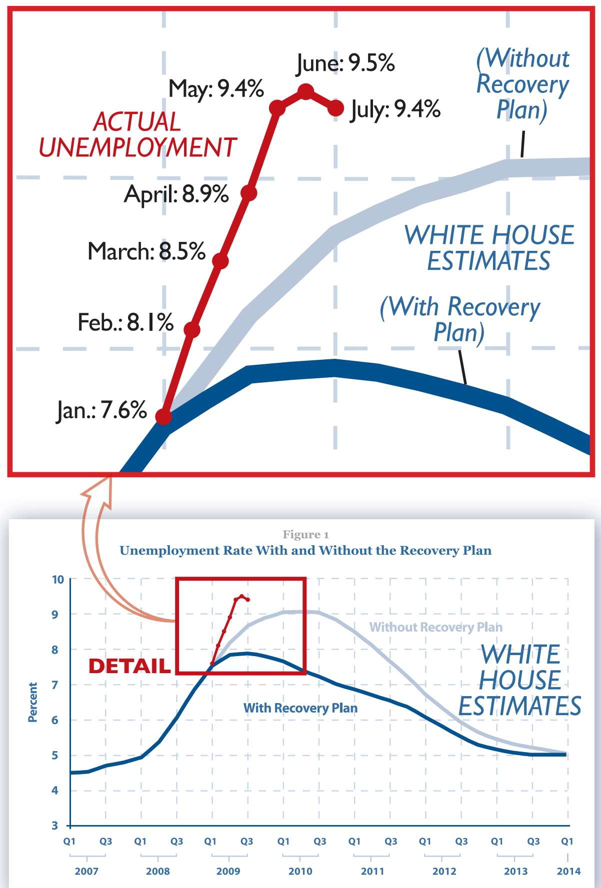
Policymakers Should Resist Return to Keynesian Economics. Politicians in Washington are spending money on a cornucopia of projects arising out of the stimulus bill and now another $2 billion for the "Cash for Clunkers" program. The idea behind these programs is that government spending will jumpstart an economy in an economic downturn. Unfortunately, this government spending will not help the labor market and will impede its future recovery.

The historical record of Keynesian economics is not kind. In country after country, high government spending has failed to generate economic growth: Europe in the 1960s and Japan in the 1990s are two strong examples of the Keynesian fallacy that government spending can create economic growth.

As Heritage Foundation scholar J. D. Foster writes, "Deficit spending must still be financed, and financing carries budgetary consequences and economic costs. Proponents generally acknowledge the long-term budgetary costs, but ignore the offsetting near-term consequences that render Keynesian stimulus useless. In a closed economy, government borrowing reduces the pool of saving available for private spending, either investment or consumption."[1]

Unemployment Rate

President Obama promised that government spending would "stimulate" the economy and quell rising unemployment by "creating or saving" millions of jobs. In January, Obama's advisers produced a chart (bottom) visualizing the positive results of his recovery plan. But actual unemployment (below, detail from box at bottom) has far exceeded the White House estimates.



Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 10, 2009.

Chart 1 • WM 2584 heritage.org

Pro-Growth Polices Needed. Despite containing some of the least bad numbers of the year, the July jobs report is still bad news. It shows that the economy is leveling out, albeit with a labor market that is still expected to shed jobs for the next several months.

Unfortunately, policies in Washington are making it likely that job growth will be sluggish in the future. Mandates and tax increases on businesses will hinder employment. Massive government borrowing and spending will impede businesses' ability to obtain capital to expand and create new jobs. Policymakers should end their reliance on failed Keynesian economics and concentrate on pro-growth policies such as extending the lower tax rates for dividends and capital gains.

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1. J. D. Foster, "Keynesian Fiscal Stimulus Policies Stimulate Debt—Not the Economy," Heritage Foundation *Backgrounder* No. 2302, July 27, 2009, at *http://www.heritage.org/Research/Economy/bg2302.cfm*.