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Heritage Employment Report: February Continues Winter Blues

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In February, the U.S. economy lost 36,000 jobs while the unemployment rate remained at 9.7 percent. The heavy snowstorms on the East Coast last month certainly affected today's employment report, since many businesses temporarily closed, but the storms' exact impact is unknown. In the first two months of 2010, the economy shed 62,000 jobs, but the unemployment rate remains below the high of 10.1 percent set in October 2009. Almost all other private industries added jobs except for construction, which accounted for the majority of job losses.

Despite these encouraging numbers, Washington's constant threat to impose new taxes and business regulations has slowed the job market recovery and kept businesses from adding to their workforce. Businesses are also reluctant to hire due to the slow recovery in the financial market, and strong growth in productivity means that businesses can wait longer before adding new workers. As a result of Washington's interference, the current recovery's job creation numbers are lagging behind those of previous recessions.

The February Report. The labor market continued its slow decline last month by shedding 36,000 jobs, with the private sector and the government each losing 18,000. The rate of job losses accelerated a bit as January job losses were revised downward by 6,000 jobs, and February lost slightly more jobs than January. However, these are much smaller job losses than occurred in previous months. The unemployment rate remained flat for the second straight month at 9.7 percent but stayed at 10.0 percent for adult men and showed a slight uptick (0.1) for adult women to 8.0 percent.

The job losses were entirely confined to government and the construction industry (–64,000). Manufacturing (1,000) was flat, but the service sector experienced positive job growth (42,000). Temporary help services (47,500) continued to surge, adding 284,000 jobs since September. Information systems (–18,000), transportation (–12,000), and the financial sector (–10,000) shed jobs. Health care and education (32,000) and leisure and hospitality (7,000) had some job growth in the last month.

Hours of work fell slightly, but the Bureau of Labor Statistics believes that the blizzards affected these numbers. Future job reports will provide a better understanding of the labor market—one not distorted by mammoth snowstorms.

While the labor force participation rate was basically on par with the unemployment rate, the unemployment rate including discouraged workers increased slightly from 10.3 percent to 10.4 percent. The number of workers dropping out of the labor force due to discouragement over job prospects increased by 139,000 over the last month.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2826.cfm

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Comparing Unemployment in the Recent Recession to the 2001 Recession

Job losses in the recession that began in 2001 were higher than those occurring during the same period of the recession that began in 2008. Unemployment has risen more rapidly now because employers have created 7.3 million fewer new jobs than during the 2001 recession.

Time Period	Change in Unemployment Rate	Gross Job Gains	Gross Job Losses	Net Change in Jobs
2001 Q1– 2002 Q2	+1.5	47.6 million	50.8 million	–3.2 million
2008 Q1– 2009 Q2	+4.3	40.3 million	48.2 million	–7.9 million
Difference	**2.8 percentage points higher in 2008–2009**	**7.3 million fewer jobs gained in 2008–2009**	**2.6 million fewer jobs lost in 2008–2009**	**4.7 million more jobs lost on net in 2008–2009**

Source: Bureau of Labor Statistics, Business Employment Dynamics Data.

Table 1 • WM 2826 heritage.org

Combined with the previous month, this is the current recession's largest two-month spike in discouraged workers and a likely suspect in the decreasing numbers of long-term unemployed workers.

Low Job Creation at Fault. These job loss figures are net job losses: the sum of the new jobs employers created and the old jobs they eliminated. Unemployment increases when employers either lay off more workers or create fewer new jobs.

It is the second factor—reduced job creation—that has so badly weakened the labor market. At this point in the 2001 recession, employers had laid off more workers than they have now. Table 1 shows the gross jobs gained and lost by employers between Q1 2008 and Q2 2009 (the most recent data available) and the comparable period in the 2001 recession.

By the sixth quarter of the 2001 recession, employers had shed 2.6 million more jobs than they had by the sixth quarter of the 2008–2009 recession. Job losses were worse then than they are now. Unemployment has increased more rapidly in this recession solely because of a dramatic drop in job creation: Employers have created 7.3 million fewer jobs in this recession than they had at this point in the 2001 downturn.

Stimulate the Business Climate. Entrepreneurs are investing less in expanding or launching new enterprises than before the beginning of the current recession. Fixed non-residential investment has fallen $327 billion since the recession started, a 19 percent drop. Less investment means less job creation. As long as business investment remains low and entrepreneurs hold back from starting new enterprises, job creation will remain low and unemployment will stay high.

The policies that Washington has promoted will only encourage entrepreneurs' current hesitation to create new jobs. After all, more government spending does not make a new business a better investment, but it does raise the prospect of higher taxes. Additionally, many items on the congressional agenda—health care reform, cap and trade, card check—will significantly raise business costs if they become law. Eleven percent of small business owners say that now is a poor time to expand and give the political climate as the primary reason for their reluctance to do so. By raising the costs of doing business and increasing the risk that a new business endeavor might fail, government spending, more regulations, and taxes will prevent a strong recovery.

Encourage Entrepreneurship and New Investment. Congress should jettison ideology and instead promote job creation by encouraging entrepreneurship and new investment. Congress can do this through a combination of explicit actions and by eliminating specific, Washington-based threats to the economy. Such a no-cost stimulus would create jobs without adding to the deficit by:

- Freezing all proposed tax hikes and costly regulations at least until unemployment falls below 7 percent;

- Freezing spending and rescinding unspent stimulus funds;
- Reforming regulations to reduce unnecessary business costs, such as repealing Section 404 of the Sarbanes–Oxley Act;
- Reforming the tort system to lower costs and uncertainty facing businesses;
- Removing barriers to domestic energy production in Alaska and the Outer Continental Shelf;
- Repealing the job-killing Davis–Bacon Act;
- Passing pending free-trade agreements with South Korea, Colombia, and Panama; and
- Reducing taxes on companies' foreign earnings if they bring those earnings home.

A Powerful, No-Cost Strategy. The February report contains some seeds for spring optimism as many business sectors increased employment. The steep job losses of last year have disappeared, but the labor market's slow slide—driven by low hiring, not heavy layoffs—continues. Employers actually laid off more workers in the 2001 recession than they have during the current slump. New investments spurring new hiring will be the key to getting the economy back on track.

Washington, however, is currently part of the problem, not the solution. A strong recovery and new hiring depends on the confidence businesses have in the future. Uncertainty is a fact of life for all businesses, but when Washington adds materially to that uncertainty, businesses invest less and hire less. This is especially true following a deep recession, with so many producers still struggling with excess capacity. The most powerful, no-cost strategy Congress can adopt is to stop threatening those in a position to hire—no more taxes, no cap-and-trade legislation, no government takeover of private health care, and no massive increase in the public debt.

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