

# WebMemo



Published by The Heritage Foundation

No. 2948  
July 2, 2010

## Heritage Employment Report: June Job Market Jolts Economy

*Rea S. Hederman, Jr., and James Sherk*

The June jobs report released by the Bureau of Labor Statistics revealed that while total employment had declined by 125,000 jobs, the unemployment rate dipped slightly to 9.5 percent from 9.7 percent. Private employment increased 83,000 jobs but was swamped by the ending of many temporary government jobs associated with the decennial census.

This is a weak labor market report, with the health of the labor market not improving even as the slow recovery continues. Job growth and wages in the private sector are still anemic, especially compared to government workers who have not experienced nearly the same amount of job losses. The American experiment in Keynesianism has not fared well.

**The June Report.** While total employment fell by 125,000 jobs, the reason is not quite as alarming as the number. Government jobs fell by 208,000, almost all of them associated with the census. Private hiring increased in many industries, including manufacturing (9,000) and the service sector (91,000). The construction industry again shed jobs (-22,000) as both the private and commercial real estate market continue to struggle.

While the unemployment rate dropped from 9.7 to 9.5 percent, this is due to a large drop (-652,000) in the labor force, which decreased from 65 to 64.7 percent. A large drop in working teenagers accounted for almost 40 percent of the decline in labor force. Women over 20 accounted for another 41 percent, while adult men were less than one-fifth of the labor force decline.

The number of teens in the civilian labor force has reached its lowest level since the 1960s. The large decline in potential adult working women dropped the female labor force to its lowest level this year, erasing the labor force growth for the rest of 2010.

A larger concern is that the number of hours and wages did not increase in the last month. In fact, the average hourly earnings for all private workers actually declined by two cents. This indicates that the labor market is not recovering as fast as it was earlier in the spring. Businesses are not hiring or expanding their work hours as much. Even temporary help hiring (20,500) has slowed significantly, growing at the lowest rate since last September.

**More Government Does Not Reduce Unemployment.** Congress and the Administration have attempted to boost employment through government spending. Chart 1 shows the Administration's unemployment if Congress did and did not pass the stimulus, as well as the actual unemployment rate since then. By the President's own measure, the stimulus has failed.

This is unsurprising. Government spending does little to boost private sector hiring, for two reasons.

This paper, in its entirety, can be found at:  
<http://report.heritage.org/wm2948>

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](http://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.

First, government spending does not encourage new private investment. For example, government highway construction, while funding construction jobs, does not address the underlying factors that discourage entrepreneurs from starting new firms.

Second, the resources the government spends do not materialize out of thin air—they are taken from the private sector. Each dollar the government borrows is one dollar less that entrepreneurs can borrow to fund new operations or that private consumers can spend. Research shows that government spending crowds out private investment. Each \$1 increase in government spending reduces private sector investment by between \$0.46 and \$0.97 after two years and \$0.74 and \$0.95 over five years.<sup>1</sup>

Government spending substitutes for private sector investment; it does not supplement it. This is why countries in which the government spends heavily to create jobs—such as France and Germany—do *not* enjoy higher employment rates. In fact, countries with greater government spending and larger public sector payrolls have higher unemployment.<sup>2</sup>

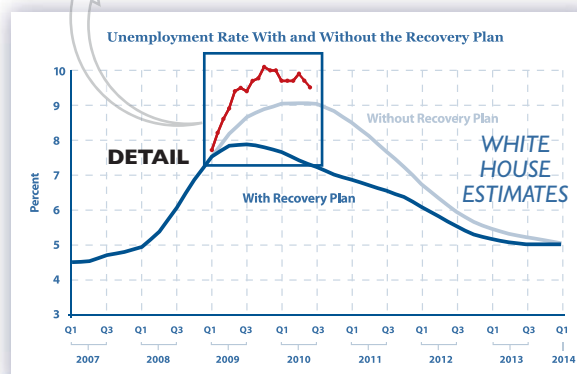
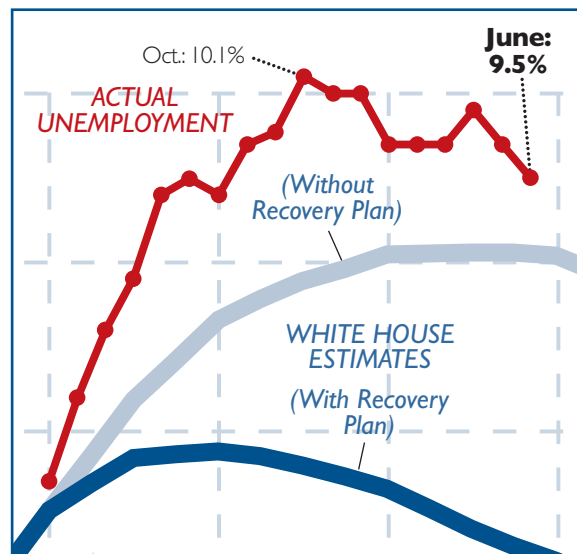
**Government Spending Does Benefit Government Workers.** Greater government spending does benefit one group of workers: government employees. The stimulus increased federal spending and directed billions to state governments. As a result, government employment has stayed steady even as private sector employment has plunged.

Since the start of the recession in December 2007, private sector employment has fallen by 7.9 million jobs (6.8 percent), federal government employment has increased by 240,000 jobs (12.2 percent), and state and local employment has dropped by just 60,000 jobs (0.3 percent).

As a result, government workers enjoy the lowest unemployment rates of workers in any industry. Figure 2 shows unemployment rates by industry in June 2010. Across all industries, private sector workers endure an average unemployment rate of

## Unemployment Rate: June 2010

President Obama promised that government spending would “stimulate” the economy and quell rising unemployment by “creating or saving” millions of jobs. In January 2009, 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 2948 [heritage.org](http://heritage.org)

1. Alberto Alesina, Silvia Ardagna, Roberto Perotti, Fabio Schiantarelli, “Fiscal Policy, Profits, and Investment,” *American Economic Review*, Vol. 92, No. 3 (June 2002), pp. 571–589; Olivier Blanchard and Roberto Perotti, “An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output,” *Quarterly Journal of Economics*, Vol. 117, No. 4 (November 2002), pp. 1329–1368.

9.7 percent. Unemployment for government employees is less than half that rate at 4.4 percent.

Government employees have enjoyed a privileged position in this recession, largely insulated from the effects of the downturn.

**No Bailout for Government Workers.** As the recession continues to affect tax revenues, many states are now proposing budget cutbacks. These cutbacks would mean layoffs of some state and local government employees, primarily teachers. To prevent this, the House of Representatives has added a \$10 billion bailout for state and local government education budgets.

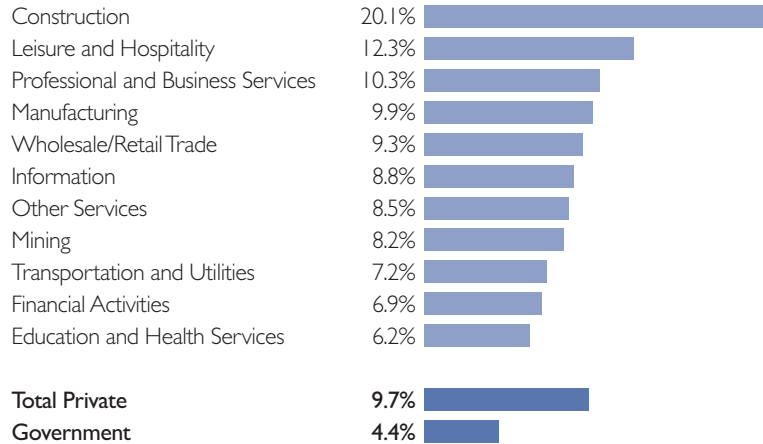
Such a bailout would prevent state and local governments from having to prioritize spending and layoff redundant employees. It would help insulate government employees from the uncertainty of the recession and add billions to the national debt. It would not, however, boost the economy. If government spending and job security for government employees helped the economy, then Greece would be booming right now.

The state government bailout is a special interest handout that boosts the job security of a politically favored group—government employees—at a cost to America's future fiscal health and taxpayers' wallets.

**Businesses Hunkering Down.** The June jobs report illustrates that the recovery in the labor market has slowed. The labor market remains weak and

## Government Unemployment Rate Is Far Lower Than the Private Sector

### Unemployment Rate for June 2010



Source: U.S. Department of Labor, Bureau of Labor Statistics, June 2010 Household Survey, at <http://www.bls.gov/news.release/empsit.t14.htm> (July 2, 2010).

Chart 2 • WM 2948 heritage.org

job growth is elusive. Businesses are saving their cash as they worry about looming tax increases, government regulations, and below-average economic growth. Congress should resist efforts to pass another weak stimulus bill that would transfer resources from the private to the public sector. Instead, Congress should look to encourage private business development and formation through tax cuts and fewer regulations.

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

- Yann Algan, Pierre Cahuc, and André Zylberberg, "Public Employment and Labour Market Performance," *Economic Policy*, Vol. 17, No. 34 (2004), pp. 7–66; Jim Malley and Thomas Moutos, "Does Government Employment 'Crowd-Out' Private Employment? Evidence from Sweden," *Scandinavian Journal of Economics*, Vol. 98, No. 2 (1996), pp. 289–302; Horst Feldmann, "Government Size and Unemployment: Evidence from Industrial Countries," *Public Choice*, Vol. 127, No. 3 (June 2006), pp. 443–459.