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Heritage Employment Report: July Jobs Scarce

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The Bureau of Labor Statistics announced that, during July, the unemployment rate was unchanged at 9.5 percent and 131,000 job opportunities were lost. However, private sector employment increased by 71,000, and most of the lost government jobs were temporary positions associated with the decennial census.

It is clear that the labor market has faltered since the spring. Employers are reluctant to hire given the looming tax increases and uncertainty over the economy and new regulations that will be imposed by federal bureaucrats. Congress should act quickly to extend the soon-to-expire tax cuts, which would encourage more economic growth.

The July Report. The July jobs report reveals an economy struggling to add jobs. While private sector jobs have increased by 151,000 over the last three months, this job growth is slower than that of March and April. An average of 50,000 new private jobs a month is disappointing for this stage of a recovery and will not lower the unemployment rate. The unemployment rate remained flat at 9.5 percent in part because 181,000 workers exited the labor force. The labor force participation rate dropped to 64.6 percent, matching its low for the recession that was set in December 2009.

The labor force increased in the first half of the year but has steadily declined since its April peak of 65.2 percent. Both adult men and women have seen their participation rate drop by 0.6 percentage points since April, while teenagers' participation rate has dropped 1.3 percentage points.

Job gains in the private sector were scattered. Manufacturing (36,000) and health care (27,800) had strong increases. Construction (–11,000), financial services (–17,000), and professional business services (–13,000) were the big losers. Government hiring fell by 202,000, with 143,000 of those losses attributable to temporary census workers. State and local workers (–48,000) had one of the sharpest job declines of this recession. Another signal indicating a weakening labor market is the drop in temporary services (–5,600), which had its first decline since the fall.

There are a few bright spots in the jobs report. The number of average weekly hours ticked up slightly and matched its high for the recovery. Overall, the number of average weekly hours has slowly increased over the last few months and has not declined during the summer. Earnings also increased after remaining flat or even down during the last month. Higher wages and more hours may simply indicate that existing workers are putting in more hours and seeing higher income from overtime.

More Government Spending Does Not Reduce Unemployment. Congress and the Administration have attempted to boost employment through government spending. Chart 1 shows the Administration's projections at the time Congress debated passing the stimulus for the unemployment rate if Congress did and did not pass the legislation,

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as well as the actual unemployment rate since then. By the President's own measure, the stimulus has failed.

This is unsurprising. 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.[1] The Congressional Budget Office reports that government borrowing eventually decreases overall economic output.[2]

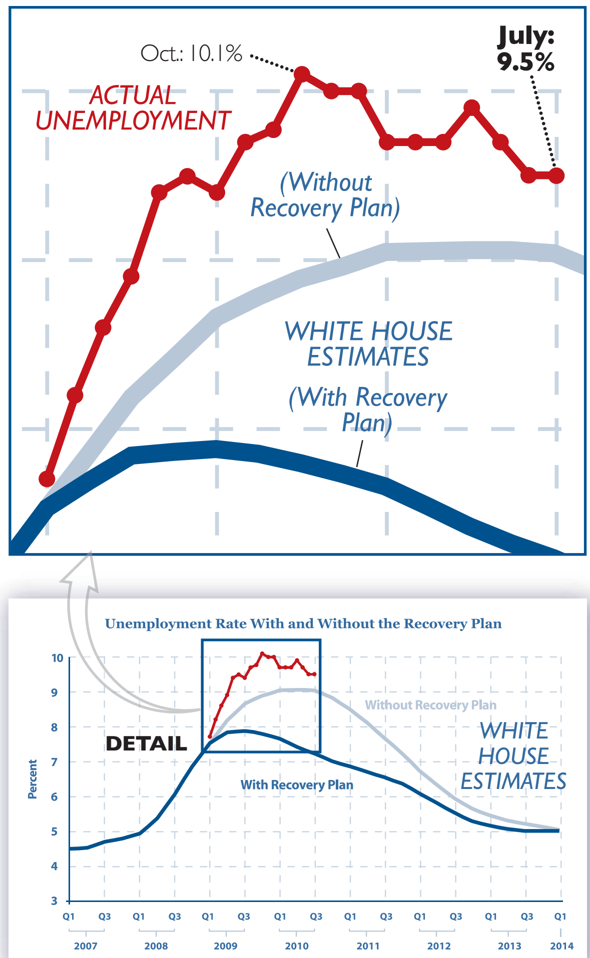
Government spending substitutes for private sector investment; it does not supplement it. Studies show that countries with greater government spending and larger public sector payrolls have higher unemployment.[3]

Government Hiring Does Not Create Jobs. Despite government spending's inability to kick start the economy, Congress and the Administration doubled down on their approach and are on the verge of passing a $26 billion bailout for state and local governments. This state bailout—partially financed with tax increases—is intended to keep state and local governments from laying off government employees in order to balance their budgets. The "maintenance of effort" provisions in the bailout prevent states that accept the money from reducing certain spending categories. The bailout will increase state and local government spending and employment.

This proposed bailout will not improve the labor market. Increased government hiring does not increase the total number of jobs in the economy. Money spent on government jobs creates new jobs in government, but it also takes jobs away from the private sector. The result is fewer jobs overall. Studies of Sweden's labor market show that for every 100 new jobs the government creates, 114 jobs in the private sector are elimi-

Unemployment Rate: July 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 2979 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.
2. Congressional Budget Office, "Federal Debt and the Risk of Fiscal Crisis," July 27, 2010, at *http://cbo.gov/doc.cfm?index=11659* (August 6, 2010).

nated.[4] Other studies have found similar results.[5]

Government Spending Does Benefit Government Workers. Greater government spending does benefit one group of workers: government employees. The stimulus has not encouraged private sector employers to hire, but it has insulated government employees from the effects of the recession.

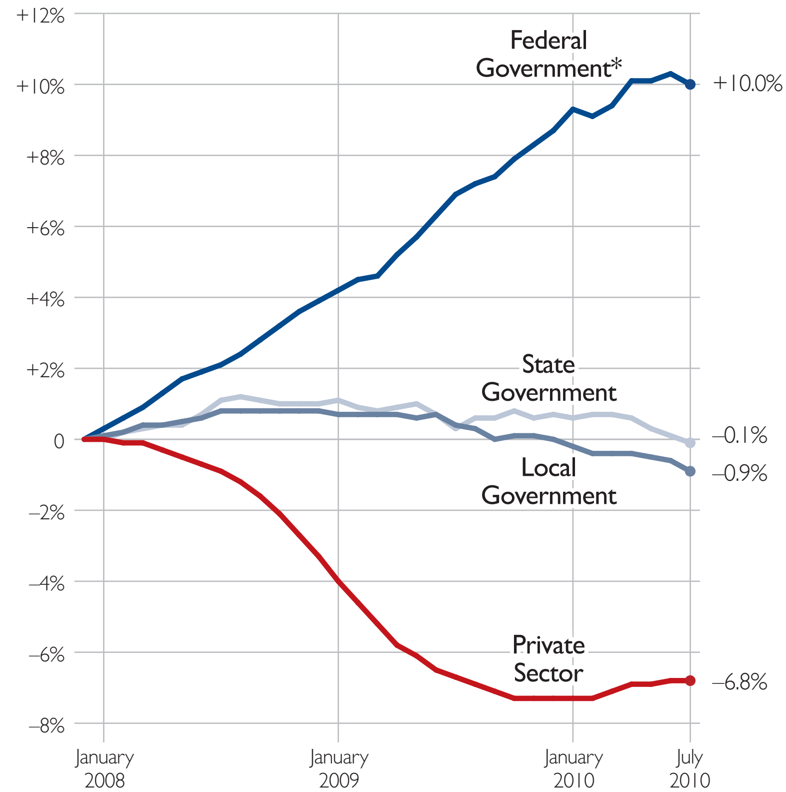
Chart 2 shows the change in employment since the start of the recession for private sector and government employees. Since the start of the recession in December 2007, private sector employment has fallen by 7.8 million jobs (6.8 percent), federal government employment has increased by 198,000 jobs (10.0 percent), and state and local employment has dropped by just 138,000 jobs (0.7 percent).

In no small part because of the stimulus, government workers enjoy the lowest unemployment rates of workers in any industry.[6] Government employees have enjoyed a privileged position in this recession, largely insulated from the downturn.

State Bailouts Prevent Needed Reforms. The state bailout that Congress passed will do more than protect the jobs of government employees at the expense of private sector employment. It will actively harm the economy going forward by preventing state and local governments from making needed reforms.

Since the Recession, Private Sector Employment Tumbled While Federal Employment Grew

Percent Change in Employment Since the Start of the Recession



Jobs Gained or Lost Since the Start of the Recession

Federal Government*	State Government	Local Government	Private Sector
+198,100	**–6,000**	**–128,000**	**–7,837,000**

* Does not include temporary census workers..

Source: U.S. Department of Labor, Bureau of Labor Statistics, Haver Analytics.

Chart 2 • WM 2979 heritage.org

Many state and local governments—largely insulated from competitive forces that keep private

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3. 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.
4. Malley and Moutos, "Does Government Employment 'Crowd-Out' Private Employment?"
5. Algan, Cahuc, and Zylberberg, "Public Employment and Labour Market Performance."

sector companies efficient—have adopted unsustainable spending plans. Pensions for public sector workers are unaffordable and state payrolls are bloated. State and local taxpayers are not getting their money's worth.

The austerity of a recession forces state and local governments to prioritize spending and layoff redundant employees. New Jersey and Illinois, for example, have reformed their pension plans for new government employees. This will help these states for decades going forward.

By bailing out state governments, Congress enables them to put off essential reforms and keep spending high. This is bad public policy. 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.

Focus on Good Policies. Economic growth sputtered in the second quarter—as demonstrated by the anemic GDP growth. Slower economic growth means that the labor market will add fewer jobs. Unfortunately, Congress still does not equate GDP growth with job creation. Congress should focus on good policies that will promote economic growth, which will in turn benefit the labor market far more than government spending and government transfers. Congress should make permanent the pro-growth elements of the Bush tax relief. Instead Congress is trying to raise taxes on multinational companies, which will discourage investment and job creation.

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6. Department of Labor, Bureau of Labor Statistics, "The Employment Situation—July 2010," Table A-14.