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Summer Slowdown of Jobs Continues in August

Rea S. Hederman, Jr., and James Sherk

The Bureau of Labor Statistics announced that the unemployment rate climbed to 9.6 percent and the number of job opportunities decreased by 54,000 on net in August. However, 114,000 of these job losses came from the ending of temporary jobs affiliated with the decennial census. Private employment increased by 67,000 jobs. Revisions to the June and July reports added 123,000 jobs to the previous estimates.

The labor market is continuing to struggle as employers have created an average of only 78,000 new private sector jobs per month over the past quarter. Businesses are reluctant to hire, in no small part due to the uncertainty that politicians have created by enacting harmful policies. This report is another example of the slow recovery that the labor market is experiencing.

The August Report. The unemployment rate increased from 9.5 to 9.6 percent. This was in part because participation in the labor force increased from 64.6 to 64.7 percent as 550,000 workers entered the labor market. The participation rate is unchanged from the start of the year but down 0.5 percent from April.

Adult male workers accounted for two-thirds of the increase in the labor force, while the participation rate of adult women was flat. Workers have slowed their re-entrance into the labor market as they have become skeptical about the strength of the recovery.

In August, there were a net of 67,000 job opportunities created in the private sector. Construction (+19,000) increased employment in August. Construction has been the industry hit hardest by the recession, and it has seen only a few months of job growth since 2007. It is too early to tell if the construction labor market has bottomed out, but positive growth is welcome news for the industry.

Manufacturing (–27,000) had its first month of negative job growth for the year. Employment had been increasing for seven straight months, and total job gains are 145,000 for the year. Temporary help services (16,800) increased after a slight dip in July. Temporary services are usually a forecast of more permanent job gains, but that has not been the case in this recovery. Temporary help has increased by 392,000 since bottoming out in September 2009.

The private service sector (67,000) experienced job gains led by health care (40,200). Financial services (–4,000) continued to struggle, as did retail trade (–4,900). State government (–14,000) reduced its labor force, while local government employment (4,000) increased.

Long-term unemployment continues to be a troubling factor. The median length of unemployment is 19.9 weeks, which is up almost 30 percent from 15.5 weeks in August 2009. However, the median length of unemployment has fallen the last two months. Fifty-seven percent of all workers have

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214 Massachusetts Avenue, NE
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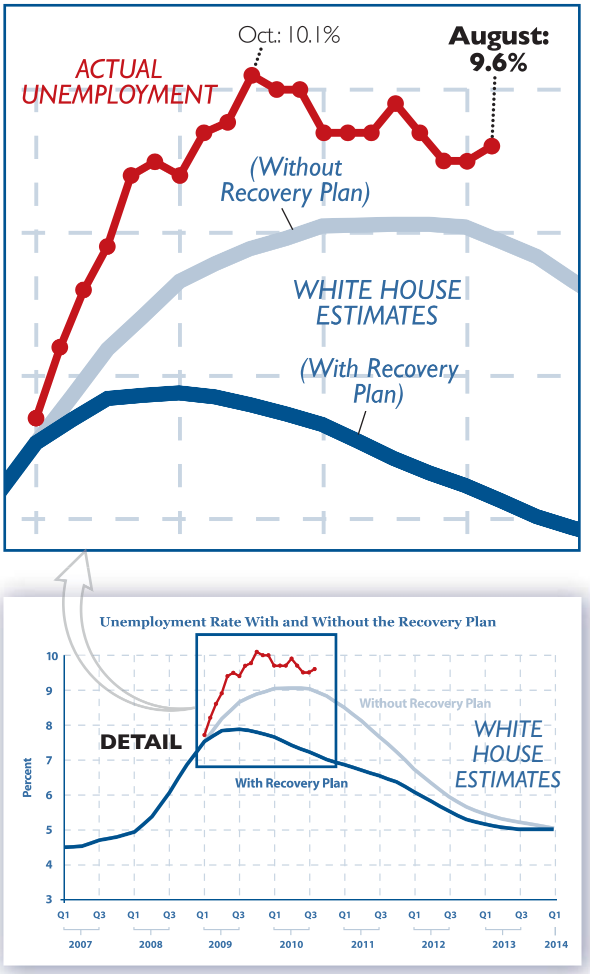
(202) 546-4400 • heritage.org

been unemployed for longer than 15 weeks. In the last quarter, the number of workers unemployed 15–26 weeks has been basically flat, while those unemployed five to 14 weeks increased. The number of workers unemployed by longer than 27 weeks fell as many of these workers exited the labor market.

Unemployment Rate: August 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 3000 heritage.org

The hours of production and non-supervisory workers increased to 33.5, the highest level in almost two years. Wages increased by 3 cents to $19.08 an hour. The weekly average of hours worked has increased from 33.3 to 33.5 since January.

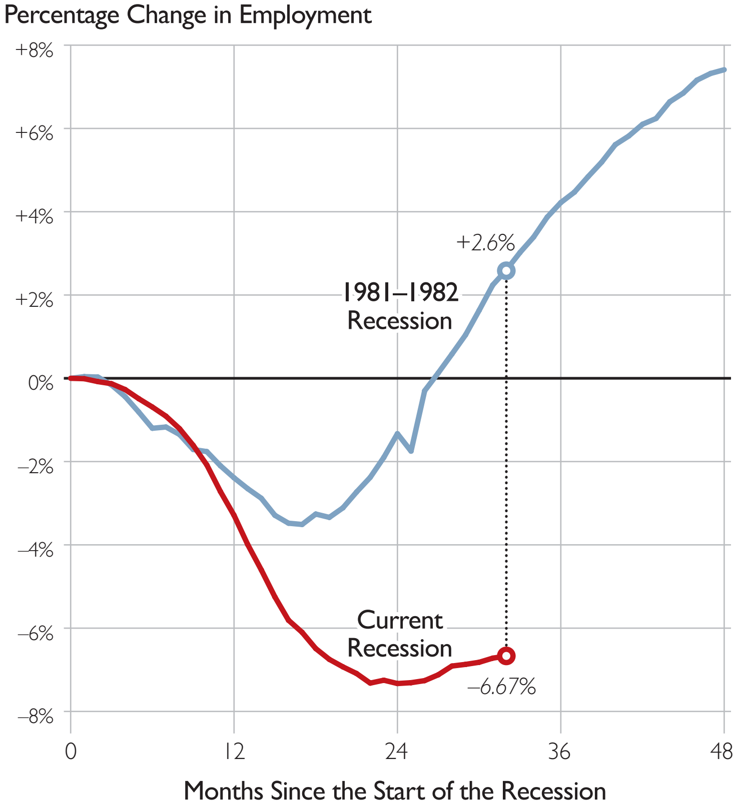
Overall these signs point to a stalled economy. The economy has not gotten substantially worse over the past three months. However, it has not experienced the growth necessary to pull it out of the recession either.

Slow Recovery. America has not experienced a recession this deep since the 1981–1982 recession. The economy swiftly recovered from that recession and unemployment fell rapidly afterward. The economy has not recovered nearly as quickly this time. Differences in the causes of, and the government response to, these recessions mean the economy is unlikely to have a robust recovery in the near future.

Chart 2 compares the percent change in private sector employment from the start of the 1981–1982 recession to the current recession. The current recession started 32 months ago in December 2007. At this point in the 1981–1982 recession, the economy had recovered all the private sector jobs it had lost and had entered into a period of rapid job creation.

The economy is very far from any such recovery now. Total private sector employment remains 6.7 percent below its levels when the recession began and has only slightly improved in recent months. The economy is not experiencing the quick snapback to full employment that it did in 1983.

Different Reasons for the Recessions. This should not come as a surprise, as these two recessions occurred for completely different reasons. In the 1970s and early 1980s the economy had experienced high inflation. In the early 1980s Paul Volcker, the chairman of the Federal Reserve, brought inflation down by sharply curtailing the growth of the money supply. This caused interest rates to temporarily surge, and the economy went through a wrenching adjustment to the new monetary policy.



Comparing Employment During Two Recessions

Source: Heritage Foundation calculations using data from the U.S. Department of Labor, Bureau of Labor Statistics, Establishment Survey / Haver Analytics.

Chart 2 • WM 3000 heritage.org

to acceptable levels, interest rates fell and the economy quickly recovered.

The current recession was caused by a housing bubble and a financial crisis. The housing bubble does not appear to have fully deflated, and banks still have many potentially bad loans on their books. It takes several years for an economy to recover from a financial crisis, and these problems will continue to hamper lending and investment in the future.

Different Policies and Different Outcomes. The government's responses to the two recessions have also influenced their respective recoveries. President Reagan responded to the weak economy he inherited by cutting domestic spending, reducing income taxes by 25 percent, and streamlining burdensome federal regulations. President Obama has responded by sharply increasing government spending, increasing the reach of the federal bureaucracy, and promising massive tax hikes on the financially successful. These differences in policy have contributed to the differences in the recoveries.

In the private sector, investors allocate resources on the basis of potential economic returns. Government spending directs resources according political criteria. While some government spending is necessary for essential services (such as the military and the court system), additional government spending tends to misdirect economic resources to the politically connected.

For example, the government spent $75 billion bailing out General Motors and Chrysler because the United Auto Workers had the political influence to win those bailouts—not because those companies were promising investments. In fact, the taxpayers will almost certainly lose money on these companies.

Unsurprisingly, studies show that governments that cut spending have far more robust economic recoveries than those that raise taxes.[1] By choosing to expand the government with the stimulus instead of cutting spending and taxes, the President has contributed to the weak recovery.

Summertime Blues. The rebound in the labor market that was so promising in the spring wilted under the summer heat. Private employment has increased by just 78,000 during the last three months. While the growth in hours worked is an

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1. See Alberto Alesina and Silvia Ardagna, "Large Changes in Fiscal Policy: Taxes Versus Spending," *Tax Policy and the Economy*, Vol. 24 (2010), pp. 35–68.

indication that labor market demand is increasing, businesses are very reluctant to add permanent workers. The economy is very unlikely to experience the sort of quick recovery from this recession that it went through in 1983 and 1984.

Businesses are concerned by both the overall macro-economic conditions and policies that are coming from Washington policymakers. The President and Congress are intent on ending tax relief from 2001 and 2003. Congress has also enacted many tax increases and regulations in the health care bill that reduce business opportunities, such as an $11 billion hike in August to pay for more government spending. Business expansion and creation is a forward-looking enterprise, and businesses are nervous about the future effects of the higher taxes and increased regulatory burdens that are the legacy of the past two years. Congress should make permanent the pro-growth tax relief of 2001 and 2003.

*—**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.*