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Heritage Employment Report: A Mixed Bag of Tricks and Treats

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Today's Employment Situation Report by the U.S. Department of Labor actually consisted of two employment reports, and they paint two different pictures of the U.S. labor market.

The household survey reported that the unemployment rate remained flat at 9.6 percent because many Americans left the workforce. The establishment survey reported that 151,000 jobs were created last month and that job creation was much stronger in August and September than was previously believed. These different pictures show a labor market either in a tepid recovery or in a slow fall. If the establishment survey is correct, then the labor market may have left its summer stall and proceeded with a sluggish recovery.[1]

The October Report. Taken in isolation, the October household survey paints a worrying picture of the U.S. labor market. It reports that employment fell by a net 330,000 jobs and that the number of unemployed workers grew by 76,000 in October. The median length of time workers stay unemployed rose from 20.4 weeks to 21.2 weeks.

The unemployment rate remained unchanged at 9.6 percent only because a net 462,000 Americans dropped out of the labor force and thus do not count as unemployed. The labor force participation rate fell by 0.2 points to 64.5 percent. That is the lowest rate since November 1984, a time in which fewer women participated in the labor force. Over one in four adult men (26.2 percent) are neither working nor looking for work—the highest rate of labor force non-participation recorded in the entire postwar era.

On the other hand, the establishment survey shows a modest recovery. It reports that private sector payrolls expanded by a net of 159,000 jobs, while government payrolls decreased by a net 8,000 jobs. The strongest job growth occurred in the temporary help services (+34,000), health care and social assistance (+34,000), and retail trade (+27,900) sectors. The two sectors hardest hit by the recession—manufacturing (–7,000) and construction (+5,000)—were essentially flat. Revisions to the August and September reports also added another 110,000 jobs to employment totals. In addition to the job gains, the average weekly hours at work increased by 0.1 hour to 34.3 hours.

These figures represent smaller job gains than would be expected in a recovery from a severe recession. However, they show the economy moving in the right direction. Both weekly hours and the growth in temporary help services are encouraging signs, because employers often hire temporary workers and increase hours of work before they commit to hiring full-time workers.

Which Survey Is Right? The household survey has greater statistical error than the establishment survey and typically reports much more volatile numbers. For now, that gives greater credence to the

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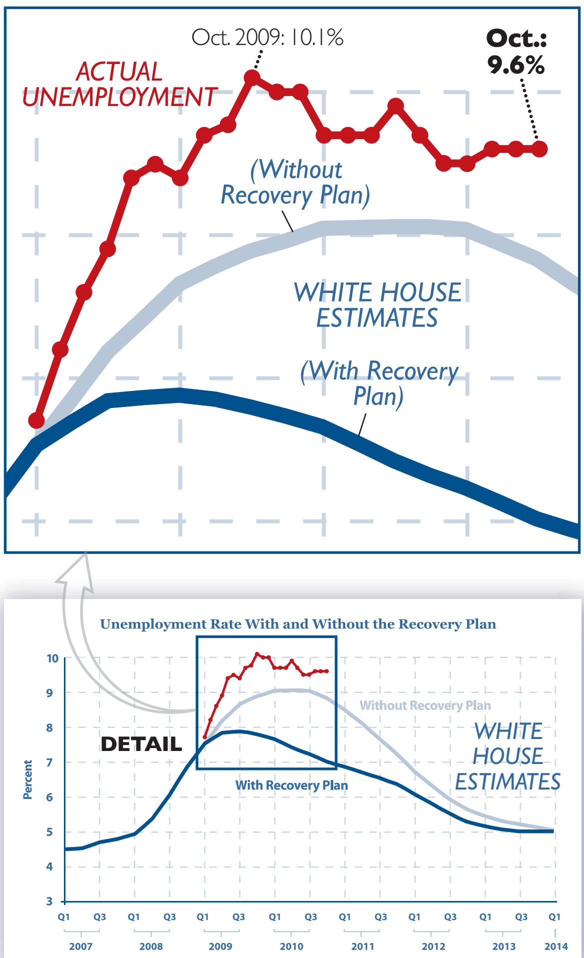
Unemployment Rate: October 2010

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 3048 heritage.org

modest signs of recovery in the establishment survey. If the household survey continues to show a weakening labor market, then policymakers will need to pay closer attention to it.

Even if the establishment survey is correct, however, it only shows signs of a tepid recovery. At this rate, it will take years for the economy to recover the nearly 8 million jobs lost during the recession. Policymakers need to improve the business climate to encourage businesses to expand and hire.

Tax Policy Uncertainty. The expiration of the 2001 and 2003 tax cuts is keeping hiring low by reducing incentives to invest and work. Business managers have been forced to price in higher capital costs as a result of the impending tax hikes and the tax increases in health care. Investors know that capital gains taxes could increase by 60 percent in the next three years. However, the top rate on dividends would almost triple in the next three months before increasing to over 44 percent as a result of the health care taxes.

These higher taxes on investment mean that some investments, which would have been profitable with the lower tax rates, are now too risky. Some business start-ups will not occur, and some entrepreneurs will not be able to receive adequate funding for their ideas.

The result of the Obama tax hikes is reduced employment opportunities and wages. Before Tuesday's election, President Obama wanted to raise taxes on those who make over $250,000 a year and claim that other Americans would not be affected. However, raising taxes on entrepreneurs and small businesses affects everyone. When taxes on saving and investment are increased—which the Obama tax hikes do by increases in capital gains, dividends, and the death tax—businesses do not expand as fast or as much, and other businesses are never created, because they are no longer seen as profitable.

The Obama tax hikes on the "rich" would result in 238,000 fewer jobs in 2011, and the U.S. econ-

1. The Household survey is a survey of individuals conducted by the Census Bureau on behalf of the Bureau of Labor Statistics. This survey measures the employment status of an individual and is used to determine the unemployment rate. The establishment survey asks businesses about changes in their employment and payroll. It is used to determine changes in the overall level of employment as well as hours worked and pay per hour.

omy would average 693,000 fewer jobs each year over the next decade.[2] The loss of potential jobs affects other workers as wages do not increase as fast. For a typical family, disposable income would be $1,000 lower each year for the next five years. Business investment and personal savings would fall by over $70 billion each year for the next five years.[3] These lost jobs and incomes would make it even harder for the economy to reach its full potential.

Congress and the President have already delayed the recovery in the labor market by not stopping these tax hikes. In the early stages of a recovery, Washington policymakers should have given certainty to businesses and workers. Instead, no one knows the amount of taxes they will pay next year and what the tax rates on savings will be. It is likely that some investors have not engaged in some investment opportunities because the higher taxes make these opportunities too risky.

Congress and the President should reverse their course of action by preventing tax hikes on *all* Americans. A strong signal that the tax hikes will be prevented will allow businesses and investors to expand. The best pro-growth course of action is to block the tax hikes permanently, which ensures the most investment opportunities and will thereby increase jobs and wages.

Washington Doing No Favors. The job gains in the establishment survey exceeded expectations, giving hope that the labor market recovery may have taken a step forward. The more volatile household survey indicates that the recovery will still be slow and painful for many workers and potential workers.

But policymakers in Washington have done the workforce no favors by delaying action on the impending tax hikes. The tax hikes preferred by President Obama would reduce job opportunities by 238,000 in 2011 alone. If Congress fails to act quickly, the job losses will be higher as the size and impact of the tax hikes grow.

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2. William W. Beach, Rea S. Hederman, Jr., John L. Ligon, Guinevere Nell, and Karen A. Campbell, "Obama Tax Hikes: Fiscal and Economic Effects," Heritage Foundation *Center for Data Analysis Report* No. 10-07, September 20, 2010, at *http://heritage.org/research/reports/2010/09/obama-tax-hikes-the-economic-and-fiscal-effects.*

3. *Ibid.*