WebMemo
Published by The Heritage Foundation
No. 2748
January 8, 2010

Heritage Employment Report: 2009 Ends with More Job Losses

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The labor market continued to shrink in December, shedding 85,000 jobs. However, the unemployment rate was unchanged at 10.0 percent because so many people exited the labor force, which dropped the labor force participation rate to the lowest level since 1985.

Construction and manufacturing shed the most jobs, while the business and service sector added jobs sparked by job creation in health care and temporary help services. Overall, the economy shed 3.4 million jobs in 2009, with the fewest job losses in the last quarter of the year.

The December Report. The economy shed 85,000 jobs in December, but the unemployment rate did not decline due to 661,000 individuals leaving the labor force. Surprisingly, the largest drop in the labor force came from men over 20, with 499,000 leaving along with 122,000 adult women. This was one of the largest drops of male participation rates in the last 40 years. With this many people exiting the labor force, labor force participation plunged to 64.6 percent, the lowest level since 1985.

These individuals will have a difficult time re-entering the labor market. Workers who tried to find jobs but could not account for one-fifth of the currently unemployed. When the labor force participation rate begins to climb, the unemployment rate will likely climb as well.

Construction (–53,000) and manufacturing (–27,000) continued to shed jobs. They lost 799,000 and 1 million jobs, respectively, in 2009. The service sector lost just 4,000 jobs, with small losses in retail trade (–10,200). Professional and business services (50,000) and education and health services (35,000) added jobs thanks to strong growth in temporary services (46,500) and health care (21,500). The finance and insurance sector (9,000) showed some job growth, while real estate (–6,100) continued to fall. Education (10,800) increased job opportunities, but leisure and hospitality (–25,000) fell.

Work hours and overtime remained flat in December. Wages showed a slight increase by three cents an hour. The long-term rate of unemployment has continued to climb, with the median duration at 20.5 weeks. Almost 60 percent of all unemployed workers have been unemployed for over 15 weeks.

Businesses Retrenching. While the fact that the economy has stopped shedding hundreds of thousands of jobs each month is good news, 10 percent unemployment remains unacceptably high. The labor market has stabilized, but it shows few signs of improving.

Businesses have retrenched during the recession, cutting back on investment and putting hiring plans on hold. The sharp drop in job creation has contributed far more to higher unemployment than

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2748.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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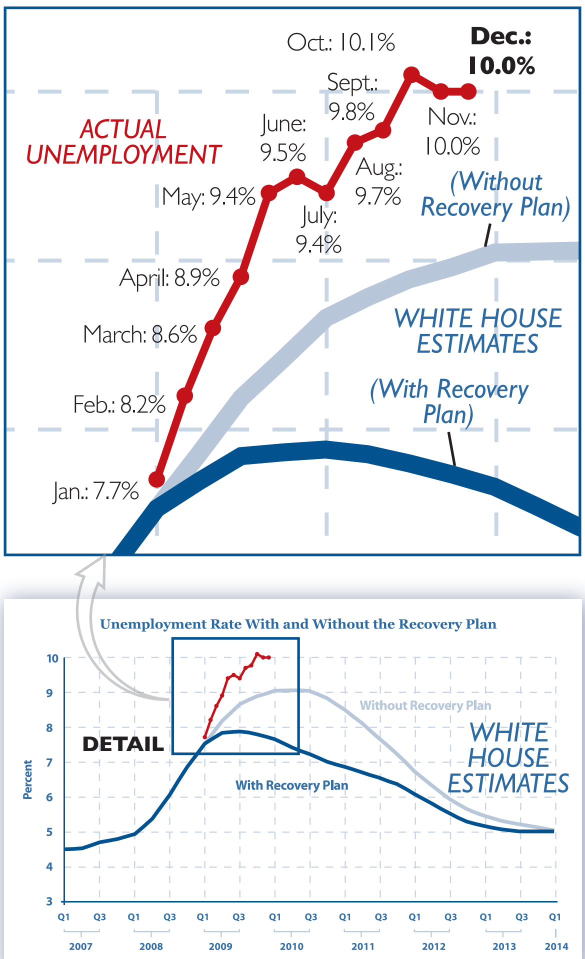
increased layoffs have.[1] Unemployment is unlikely to drop significantly until entrepreneurs increase investment in their ventures. However, surveys of business owners show that they do not plan to increase hiring or investment in the near future.

Chart 2 shows responses from the monthly National Federation of Independent Business (NFIB)

Unemployment Rate: December 2009

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.

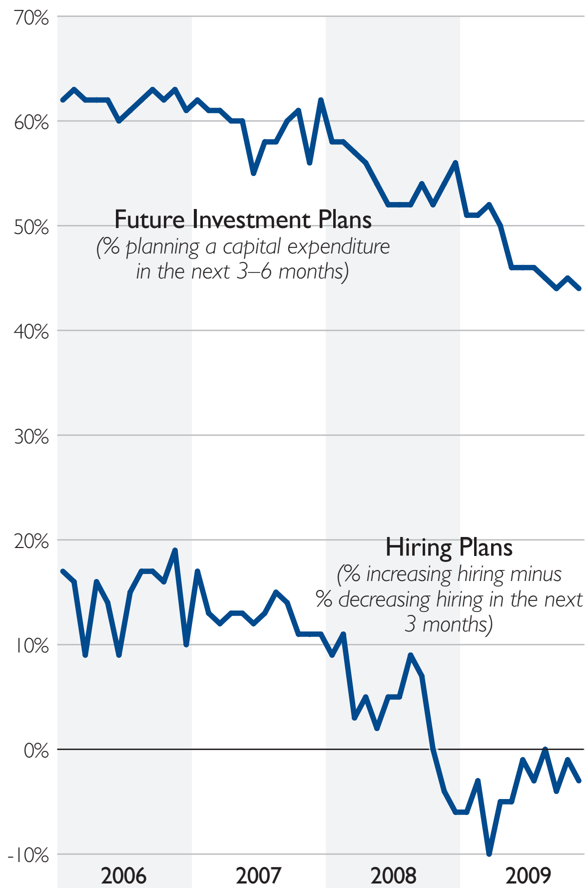


Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 10, 2009.

Chart 1 • WM 2748 heritage.org

Fewer Small Businesses Plan to Hire, Make Investments

Monthly Responses to Survey of Small Businesses



Source: NFIB Small Business Economic Trends Survey, December 2009.

Chart 2 • WM 2748 heritage.org

1. James Sherk, "Reduced Investment and Job Creation to Blame for High Unemployment," Heritage Foundation *Backgrounder* No. 2349, December 9, 2009, at *http://www.heritage.org/Research/Economy/bg2349.cfm*.

survey of small and independent business owners. It shows that business owners have put their expansion plans on hold. Only 16 percent of businesses plan to make capital investments in the next three to six months, just half the rate before the recession. Unsurprisingly, hiring has also stalled. More small business owners now plan to cut jobs than to increase them over the next three months.

Policies to Encourage Investment Needed. As long as entrepreneurs remain skeptical about their expansion prospects, job creation will remain low and unemployment unacceptably high. The NFIB asked small business owners about the single most important problem they faced. Their three most common responses were poor sales (32 percent), taxes (24 percent), and government regulations and red tape (11 percent).[2] While Congress can do relatively little about poor sales, it has direct control over both the tax and regulatory burden businesses face.

If Congress wants to reduce unemployment, it should reduce the barriers to business success. Specifically, Congress should:

- Pass legislation placing a moratorium on any tax increases until unemployment falls below 5 percent;
- Rescind the unspent "stimulus" spending to reduce the deficit and allay entrepreneurs' concerns about future tax increases;
- Not vote on the financially harmful cap-and-trade or card-check proposals in this session;
- Prohibit the regulation of CO_2 under the Clean Air Act, which would place another burden on small and medium-size businesses;
- Cap punitive damages, limit the ability of lawyers to file class action lawsuits, and prevent jury shopping to obtain favorable verdicts;
- Repeal Section 404 of the Sarbanes–Oxley Act;
- Reduce energy costs by reducing the regulatory burden on domestic energy production; and
- Suspend the Davis–Bacon Act until the unemployment rate falls below 5 percent, stretching federal construction funding further and enabling small construction contractors to bid on federally funded projects.

These steps would increase entrepreneurs' confidence in their business success and encourage more private-sector investment and hiring. More entrepreneurial activity—not more spending from Washington—holds the key to an employment recovery.

Uncertain Times. The December jobs report showed that job losses slowed but continued throughout the entire year. Businesses are not increasing hiring in part due to the fears of an activist government agenda that makes labor costs uncertain. Right now, businesses cannot project their labor costs due to the hidden discussion of the health care bill.

Businesses like predictability, and they are unlikely to increase hiring in the current economic climate. Congress should attempt to spur hiring instead of increasing costs through new regulations and legislation.

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2. William Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends Survey," National Federation of Independent Businesses, December 2009, p. 18, at *http://www.nfib.com/Portals/0/PDF/sbet/SBET200912.pdf* (January 8, 2010).