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Unemployment: The Heritage Foundation 2010 Labor Boot Camp

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What Has Happened to the Unemployment Rate?

- Unemployment has doubled since the recession began, rising from 5.0 percent in December 2007 to 10.0 percent in December 2009.
- Over 15.3 million Americans are currently unemployed.
- The average length of time workers spend unemployed has also increased sharply, rising from 16.5 weeks to 29.1 weeks over the course of the recession.

Why Has Unemployment Risen So Sharply?

- The primary factor increasing unemployment has been the sharp drop in job creation, not an increase in layoffs. Less job creation explains approximately two-thirds of the increase in the unemployment rate.
  - Employers normally hire and fire millions of workers each month as companies compete against each other.
  - Normally, most of the millions of workers who lose their jobs each month find new jobs within two or three months.
  - Now, however, monthly new hires have fallen by over 1 million jobs since the recession began. The many workers who normally lose their jobs now have much greater difficulty finding new jobs. As a result, they stay unemployed longer and the unemployment rate has risen.
- Job creation has fallen because business investment has fallen sharply.
  - Business investment in equipment and software has fallen by 20 percent since the recession began.
  - Newly created businesses now create 21 percent fewer new jobs than before the recession.
  - Less investment in new companies and projects means fewer new jobs created.
- Investment has fallen for several reasons.
  - The weakness of the economy with the collapse of the housing and financial bubbles has made investors and entrepreneurs skeptical that new projects will pay off.
  - The large increase in government spending and borrowing is crowding out private-sector investment. The federal government now accounts for almost all the net borrowing in the economy. Private businesses cannot use the resources the government spent on the stimulus on their own projects. Many businesses are experiencing a credit crunch.
  - The health care bill, cap and trade, card-check, and many other items on Congress's

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agenda will raise costs and make businesses less likely to succeed. This makes investors even more skittish.

- The prospect of large tax increases to fund the already increased government spending also deters investment.

What Can Be Done?

- First, Congress should do no harm. Congress should not pass legislation such as the health care bill, cap and trade, card-check, or tax increases that will raise business costs and make enterprises more likely to fail.
- Government spending does not address the problem of low job creation. The money spent on the stimulus will not persuade entrepreneurs not receiving a government contract to invest in their businesses or start new enterprises. The stimulus bill does not address the main reason unemployment has risen.
  - The stimulus has diverted resources from private entrepreneurs to the politically connected, reducing investment and job creation.
  - Each 100 public-sector jobs the government creates destroys between 114 and 150 private-sector jobs.[1]
  - Congress should rescind the stimulus bill and halt the spending of all funds not yet appropriated.
  - If Congress is going to spend money to "create jobs," it should do so as efficiently as possible. Rescinding the Davis–Bacon Act would reduce the cost of federally funded construction projects by 10 percent and create 150,000 more construction jobs.[2]
- Congress should reform regulations to reduce businesses costs and promote investment. For example:
  - Enact tort reform to prevent trial lawyers from jury shopping and capping punitive lawsuits,
  - Repeal of Section 404 of Sarbanes Oxley,
  - Reject internet regulation,
  - Implement a 270-day review limit for energy projects on federal lands,
  - Prohibit regulation of greenhouse gases under the Clean Air Act,
  - Streamline the nuclear permit process.

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1. 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, pp. 289–302.
2. Heritage Foundation calculations available from the author upon request.