

# WebMemo



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## Heritage Employment Report: Labor Market Springs Ahead in April

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The latest employment report by the Bureau of Labor Statistics (BLS) reveals that the labor market may have turned a corner. While the unemployment rate climbed to 9.9 percent, the increase is due to more people re-entering the labor force in an effort to find work. Employers created 231,000 private sector jobs, while the government added 59,000, mostly due to census hiring. Hours and wages increased, indicating that the recovery in the labor market has strengthened.

While last month was a welcome sign of improvement in the labor market, there is still a long way to go. Many individuals who were in the labor market before the start of the recession remain unemployed and out of the labor market right now. Congress should pass pro-growth policies that enable a strong, long-term labor market recovery instead of temporary measures that do nothing to encourage economic growth.

**The April Report.** Last month, 805,000 workers entered the labor force, boosting the labor force participation rate to 65.2 percent from 64.9 percent in March. Many of these potential workers are re-entrants to the labor market. As the economic recovery continues, more and more workers will re-enter the labor force to find new jobs. The strong growth in the labor force is a sign that the labor market recovery is strengthening.

Unfortunately, the rate of job creation is not high enough to keep up with these potential workers. The increase of the unemployment rate from 9.7 to 9.9 percent is simply due to the rapid growth of the

labor force and the slower rate of job creation. The unemployment rate could continue to climb if the new entrants to the labor market continue at such a brisk pace. The labor force participation rate is still well below the pre-recession level, which indicates that hundreds of thousands of workers have not yet started searching for work.

Adult men accounted for almost 70 percent of the total increase in workforce participation. Their participation rate is now 74.7 percent, which is a full percentage point lower than the start of the recession. Over 1 million adult males would have to re-enter the workforce to match the 2007 labor force participation rate levels.

Job gains were widespread as virtually every sector of the economy added jobs. Manufacturing (44,000) has now added jobs for the fourth straight month, while construction (14,000) has increased for three straight months. Job growth is more robust in the service sector (166,000), with education and health (35,000) and professional business services (80,000) creating the bulk of the jobs. Temporary help services (26,200) continued to increase, accounting for almost a third of the growth in the professional business sector. The transportation and

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<http://report.heritage.org/wm2891>

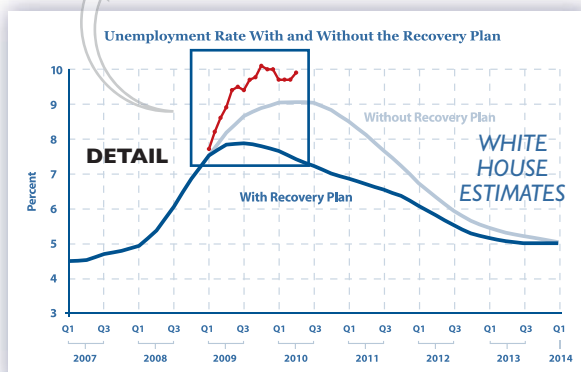
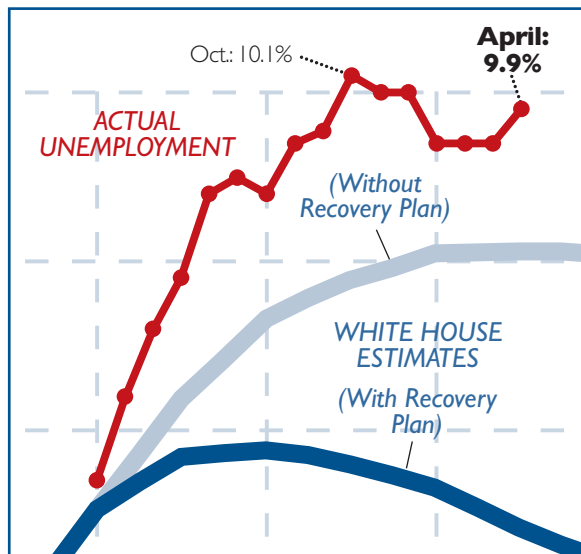
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## Unemployment Rate: April 2010

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 2891 heritage.org

warehousing sector (–19,500) was down, mainly because of layoffs in the courier and messenger services (–21,000). The other elements of transportation and warehousing added a slight number of jobs.

Hours of work and earnings increased in the last month as well. The average work week increased by 0.1 hours to 33.4 hours for production and non-supervisory employees. While the average work week has been increasing, it is still a half hour below the rate at the start of the recession. Employers will continue to increase the work week, which will slow some new hiring. Earlier this week, a new BLS report showed that productivity growth had slowed but was still robust,<sup>1</sup> which means that job opportunities will increase as the economy recovers.

**Long Path to Recovery.** The April employment report shows that the labor market has finally turned a corner and has begun to recover. However, the report also demonstrates that the economy has a very long way to go before it reaches normal levels of unemployment.

As noted above, unemployment increased even as the economy created jobs because many workers entered or re-entered the labor force and began looking for work. While many of these workers found jobs, many did not. Because they have started looking for work, however, the BLS counts these workers as unemployed instead of outside the labor force. As a result, the ranks of the officially unemployed swelled by a net 255,000 in April, driven primarily by the net increase of 195,000 unemployed re-entrants to the job market.

The fact that the economy has recovered enough to lead these workers to rejoin the labor market is good news. But it also shows that the economy has a very long path ahead to a full recovery. The economy lost more jobs in the recession than the official unemployment rate suggests. Labor force participation remains 0.8 percentage points below pre-recession levels. The unemployment rate will stay persistently high during the recovery as these workers rejoin the labor force.

1. Press release, “Productivity and Costs, First Quarter 2010,” U.S. Department of Labor, Bureau of Labor Statistics, May 6, 2010, at <http://www.bls.gov/news.release/prod2.nr0.htm> (May 7, 2010).

If the economy continues to add private sector jobs at the rate it did in April (+231,000 jobs), it would take 35 months before private sector employment returned to its pre-recession levels. Even at that point, unemployment would remain well above normal levels, because the population will have grown during that time. High unemployment will continue for a long time even as employers resume hiring.

**Congressional Response.** Congress should promote more rapid job growth in this recovery. America cannot afford a repeat of the European experience. In the 1970s, Europe had relatively low levels of unemployment. Unemployment increased sharply in the early 1980s and has remained persistently high through the present day. This is in large part because of the expensive social-democratic welfare states that European nations created. These highly regulated welfare states discouraged entrepreneurship and wealth creation—and thus the incentive to create new businesses and jobs. Ten percent unemployment has become normal in Europe.

Congress should not allow 10 percent unemployment to become normal in America. Congress should jettison Keynesian ideology and instead promote job creation by encouraging entrepreneurship and new investment. Congress can do this through a combination of explicit actions and by eliminating specific, Washington-based threats to the economy. Such a no-cost stimulus would create jobs without adding to the deficit by:

- Freezing all proposed tax hikes and costly regulations at least until unemployment falls below 7 percent;
- Freezing spending and rescinding unspent stimulus funds;
- Reforming regulations to reduce unnecessary business costs, such as repealing Section 404 of the Sarbanes–Oxley Act;
- Reforming the tort system to lower costs and uncertainty facing businesses;
- Removing barriers to domestic energy production in Alaska and in Colorado oil shale;
- Repealing the job-killing Davis–Bacon Act;
- Passing pending free-trade agreements with South Korea, Colombia, and Panama; and
- Reducing taxes on companies' foreign earnings if they bring those earnings home.

**Stop Digging.** Last month was the best month for the labor market since its downturn in December 2007. Increases in the labor force, job opportunities, pay, and hours of work show that the labor market is on an upward trend. The strength of the recovery will depend on not only American enterprise but also policymakers in Congress. Members should pass legislation that will aid businesses rather than increasing taxes, costs, and regulations that will slow employment opportunities.

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