Backgrounder

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How Congress Can Support, Not Hinder, Labor Market Recovery

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Abstract: *America now has the weakest labor market since the Great Depression. Unemployment remains above 9 percent, primarily because job creation has not recovered. Workers who lose their jobs have a much more difficult time finding new ones and the amount of time workers spend unemployed has soared. Five million potential workers have left the labor force since late 2007. The weak labor market has particularly hit younger and less-educated members of the labor force. Higher unemployment is not necessarily permanent—if Congress supports policies that improve the business climate and encourage entrepreneurship. Now is the time to remove—not erect more—barriers to business expansion.*

Americans are experiencing the weakest labor market since the Great Depression. This is primarily due to reduced job creation during and after the recession. While layoffs rose at the start of the recession, they have since sunk to slightly below pre-recession levels. New job creation, on the other hand, dropped and has recovered little—making it difficult for the unemployed to find new jobs. The duration of unemployment has risen to record highs. Many workers have responded by leaving the labor force altogether. This weak labor market has hit less-skilled workers, the young, and men the hardest.

If current rates of job creation continue, unemployment will not return to normal levels at any point in the immediate future. Fortunately, structural changes account for only a small part of the increased unemployment rate. Americans do not have to get used to a

Talking Points

- America is experiencing the weakest labor market since the Great Depression, with unemployment above 9 percent and payroll employment well below its pre-recession peak.
- The primary factor driving unemployment is not layoffs, but weak job creation. Those with jobs are slightly less likely to get laid off than before the recession, but companies are creating fewer new jobs.
- The amount of time unemployed workers spend out of work has risen to record postwar highs. Labor force participation rates have also fallen sharply. Five million additional potential workers are neither working nor looking for work.
- Structural changes in the economy, such as a mismatch between the skills of those unemployed and jobs being created, explain little of this labor market weakness.
- Congress can help speed the recovery by enacting policies that create a better business climate and encourage business expansion.

This paper, in its entirety, can be found at:
http://report.heritage.org/bg2602

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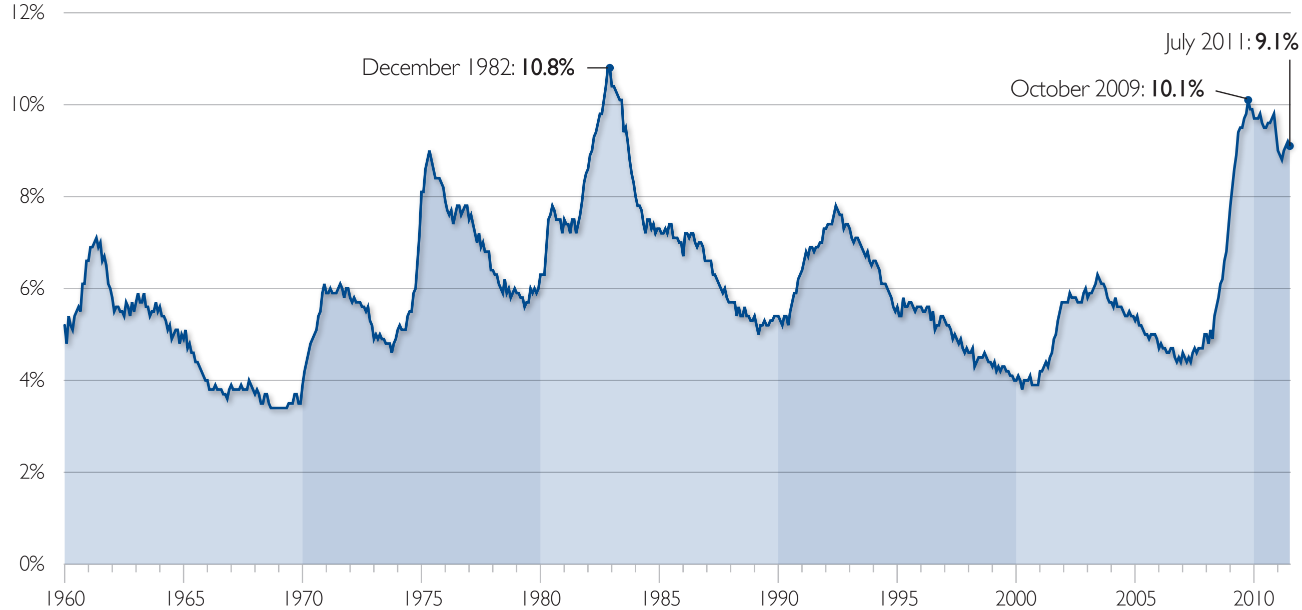
Current Unemployment Rate Remains High

Monthly Unemployment Rate



Source: U.S. Department of Labor, Bureau of Labor Statistics / Haver Analytics.

Chart 1 • B 2602 heritage.org

weak job market. If business expansions picked up, the unemployment rate would fall steadily. Congress should vote to improve the business climate and encourage entrepreneurship.

High Unemployment

The U.S. labor market is in its worst shape since the Great Depression. Between the start of the recession in December 2007 and fall 2009, the unemployment rate more than doubled, rising from 5.0 percent to 10.1 percent.[1] Since then, unemployment has only slightly recovered and the unemployment rate currently remains above 9 percent.

This represents the longest stretch of such high unemployment in the post-war era. While the unemployment rate was briefly higher during the 1981–1982 recession, the economy quickly recovered from that downturn. This has not happened today. The job market has recovered at a slower pace than from any other recession in the past half-century. Payroll employment remains 4.9 percent—7 million jobs—below pre-recession levels.

The Real Unemployment Rate is 9 Percent

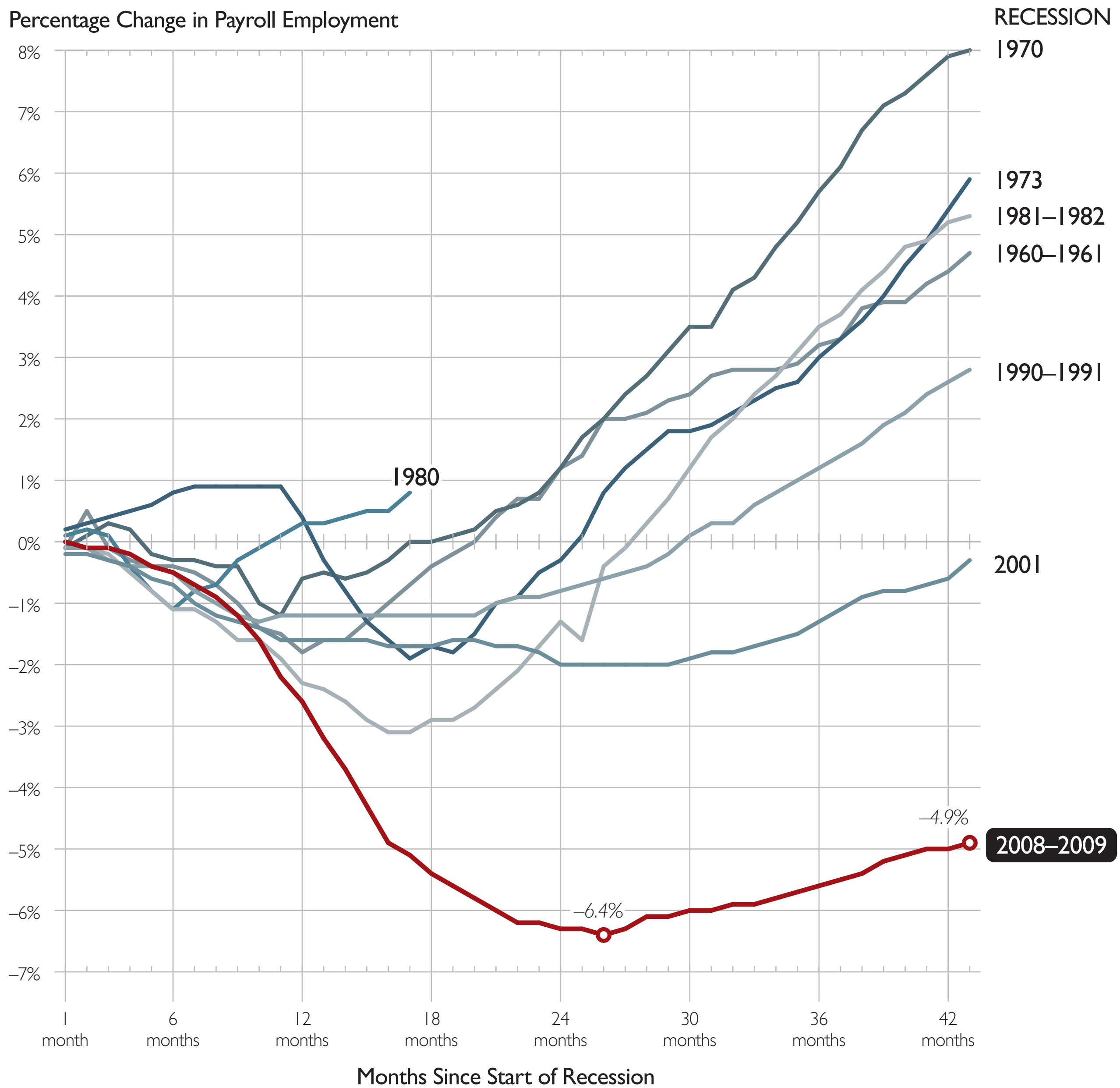
Some analysts argue that the labor market is even worse than these figures suggest. The Bureau of Labor Statistics (BLS) publishes several measures of labor utilization. The broadest of these measures adds those working part-time for economic reasons and those marginally attached to the labor force to the official unemployment rate.[2] This measure, called U-6, has fluctuated between 15 percent and 17 percent since the recession began. Many pundits argue this reflects the real unemployment rate.[3]

1. Department of Labor, Bureau of Labor Statistics, "The Employment Situation" / Haver Analytics, data from 2007 to 2011. The unemployment rate was 5.0 percent in December 2007 and 10.1 percent in October 2009.
2. The marginally attached are those not looking for work but who want to work, are available to work, and have looked for work at some point in the past 12 months.
3. See, for example, Mary Engel, "The Real Unemployment Rate? 16.6%," MSN Money, June 4, 2010, at *http://articles.moneycentral.msn.com/learn-how-to-invest/The-real-unemployment-rate.aspx* (August 29, 2011).

Policymakers and conservatives should reject these claims. This broader measure of unemployment includes many workers unlikely to work in a full-time job no matter how the economy is doing. Studies have found that even in a booming economy "marginally attached" workers are more likely to stop stating that they want to work than to actually start working.[4] The U-6 measure

Recovery from Current Recession Much Slower than Normal

Payroll employment today is 4.9 percent lower than it was before the recession began 43 months ago. That places the current economic recovery far below all other recessions since the 1960s.



Source: U.S. Department of Labor, Bureau of Labor Statistics / Haver Analytics. Figures are for nonfarm payrolls and exclude temporary Census workers.

Chart 2 • B 2602 heritage.org

of underemployment conveys little additional information about how many Americans want jobs but cannot find them. The real unemployment rate is 9 percent—painfully high by any standard.

Layoffs

What has caused this labor market weakness? The immediate answer seems obvious: job losses. Thousands of companies have gone out of business or downsized, laying off millions of workers and increasing unemployment. While this answer contains a large element of truth, layoffs and job losses are not the main reason unemployment remains high.

Layoffs surged at the start of the recession, rising from 5.7 million in the fourth quarter of 2007 to 7.3 million in the first quarter of 2009, a 29 percent increase.[5] Between 2007 and 2009 fully 16 percent of American workers went through at least one layoff.[6]

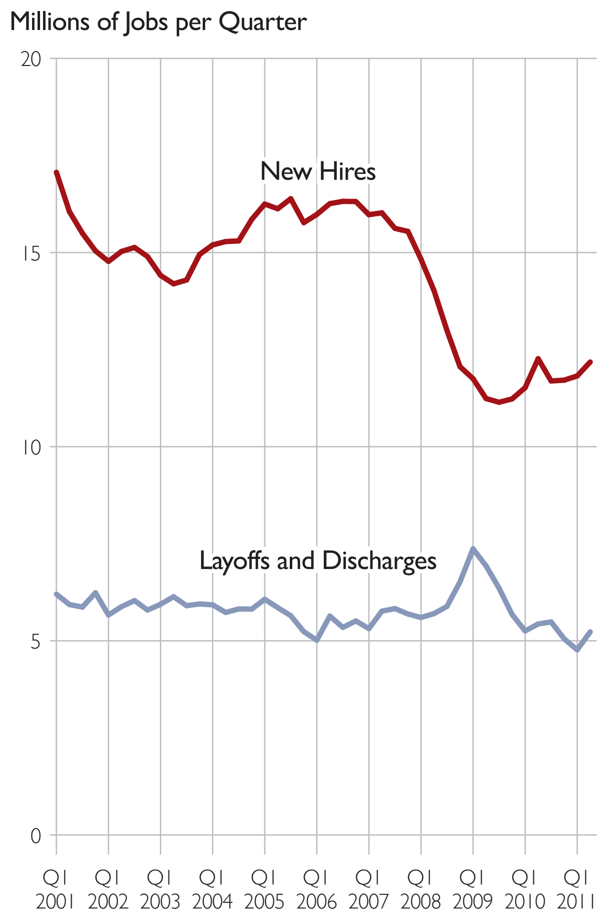
Since then, however, layoffs have returned to normal levels. In the second quarter of 2011, employers laid off 5.2 million workers.[7] Employees with jobs today are, in fact, slightly less likely to lose them than they were when the recession began.

Stalled Job Creation

Unemployment remains high because new job creation dropped when the recession began and has not recovered. Employers hired 12.2 million new employees in the second quarter of 2011—22 percent fewer than the 15.5 million new workers hired in the last quarter of 2007. Unemployment remains high primarily because businesses are creating fewer new jobs—not because of increased layoffs.

Hiring Rates Continue to Languish

After spiking in 2009, the layoff rate returned to its normal level within a year. However, the number of new hires per quarter is still about 3 million lower than normal.



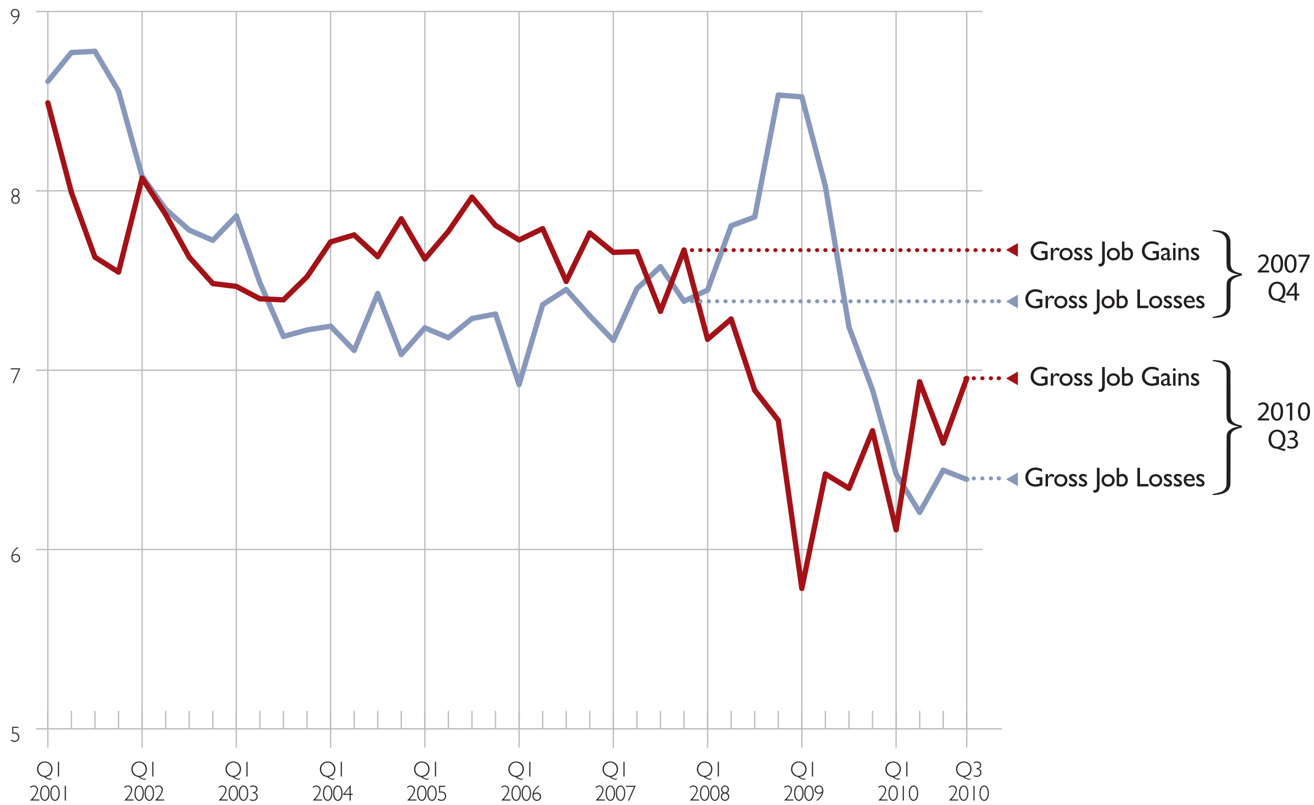
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey" / Haver Analytics.

Chart 3 • B 2602 heritage.org

4. Rea S. Hederman, Jr., "What Is Unemployment?" *National Affairs,* Summer 2010, at *http://www.nationalaffairs.com/publications/detail/what-is-unemployment* (August 29, 2011).
5. Department of Labor, Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey" / Haver Analytics. These figures represent individual layoffs.
6. Henry Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers' Survey, 1984–2010," National Bureau of Economic Research *Working Paper* No. 17040, May 2011, Appendix Table 3.
7. Department of Labor, Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey" / Haver Analytics. These figures represent individual layoffs.

Unemployment Remains High Due to Lack of New Jobs, Not Layoffs

Millions of Gross Job Gains and Losses per Quarter



Source: U.S. Department of Labor, Bureau of Labor Statistics, Business Employment Dynamics / Haver Analytics.

Chart 4 • B 2602 heritage.org

Data from unemployment insurance (UI) records show this as well. The government uses UI records to track gross job losses and gross job gains. Gross job gains occur when a company's total employment rises; gross job losses occur when a firm's total employment falls. These figures track job changes at the company level—which can differ from job changes at the individual level.[8] Since the recession began, quarterly gross job gains have fallen by 9 percent. Gross job losses rose at the start of the recession, but have since fallen 13 percent below their pre-recession levels. [9] Companies are less likely to eliminate positions now than before the downturn started—but they are also less likely to create new jobs.

Difficult Re-Employment Prospects

Fewer new jobs mean more difficult re-employment prospects for those workers who have been laid off. A Bureau of Labor Statistics survey asks

8. Consider a company that laid off five employees, had five workers quit, and hired 15 new employees. That firm would record five gross jobs gained. However, at the individual level the company would show five layoffs, five quits, and 15 new hires.
9. Heritage Foundation calculations using data from the Department of Labor, Bureau of Labor Statistics, "Business Employment Dynamics" / Haver Analytics. Figures from Q4 2007 to Q4 2010. Business Employment Dynamics figures take approximately three quarters to process before being published.

workers if they have been laid off in the past three years.[10] The most recent figures show how difficult finding a job has become. Typically, between 70 percent and 80 percent of workers who have gone through a layoff find a new job by the time the BLS surveys them. That number has fallen sharply. Just 56 percent of workers laid off between 2007 and 2009 found a job by January 2010.[11] Job-finding rates have dropped sharply.

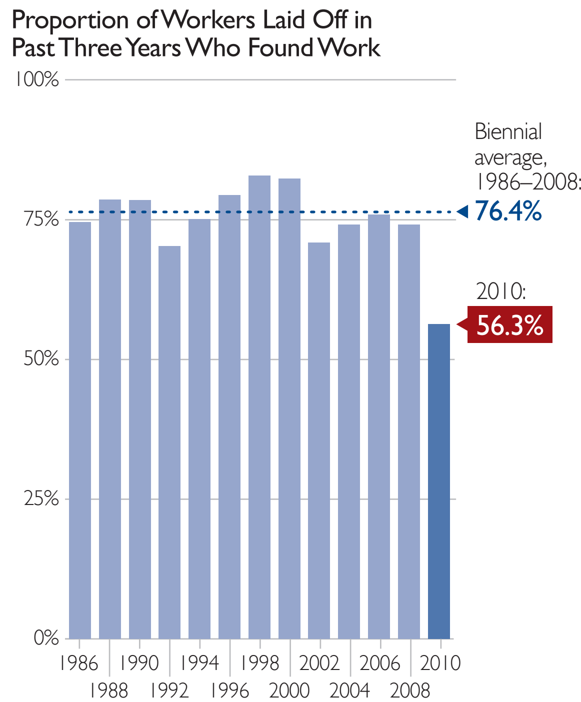
Employers are creating fewer new jobs and workers are having more difficulty finding new work. As a result, the time that many unemployed workers spend out of work has risen to record highs.[12]

The median unemployed worker interviewed by the BLS has been unemployed for five months. Almost half—44 percent—of those currently out of work have been unemployed for six months or longer. The average unemployed worker has been out of work for nine months.[13] These are the highest figures in the post-war era.

Surprisingly, however, those workers who do find new jobs are not taking unusually long to find them. The same survey tracks how long laid-off workers were unemployed before finding a new job. Laid-off workers who found a job by January 2010 spent an average of 13.4 weeks (three months) unemployed—less time than it took to find work in 2004. The median laid-off worker who found a new job took only eight weeks to find it.[14] The unemployed who successfully find work are not taking particularly long to do so.

Finding New Employment Difficult in Current Job Market

Laid-off workers were less likely to find new jobs in 2010 than those who had lost their jobs during the previous 22 years.

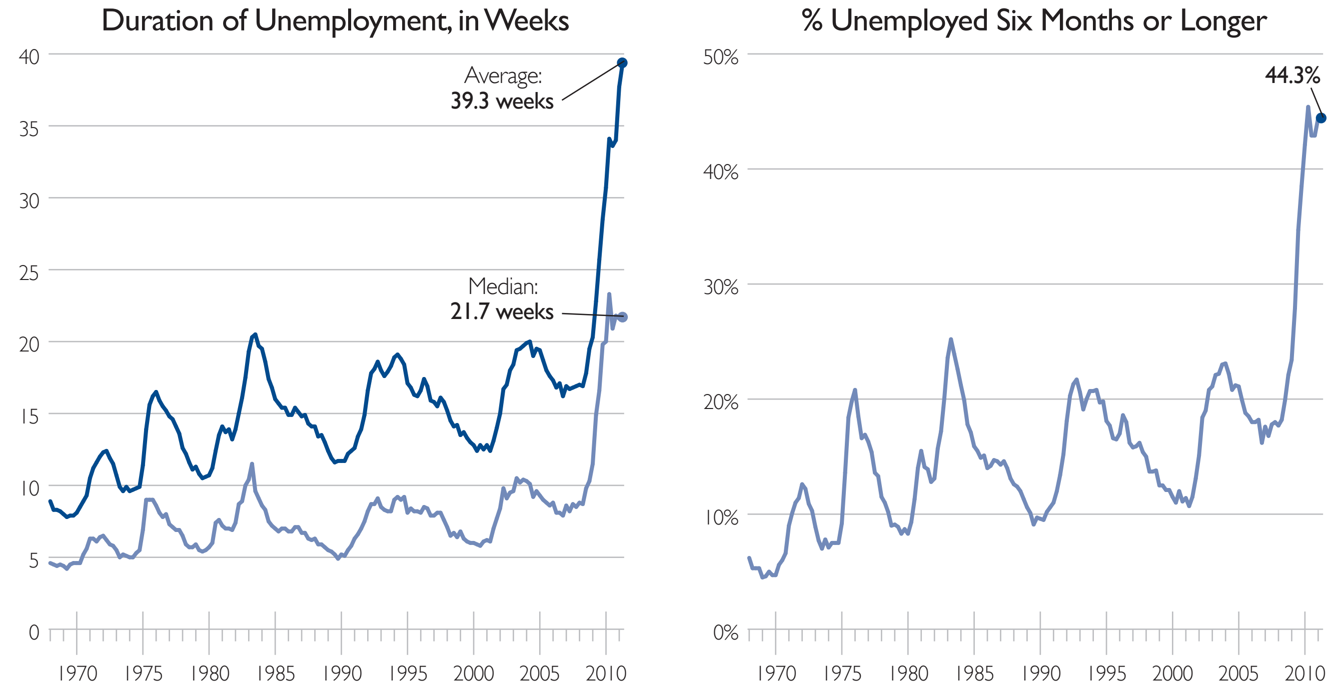


Source: Henry Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers' Survey, 1984–2010," National Bureau of Economic Research *Working Paper* No. 17040, May 2011, Appendix Table 10.

Chart 5 • B 2602 heritage.org

10. This is the Displaced Workers Survey, a supplemental survey added to the monthly Current Population Survey in January or February of even-numbered years.
11. Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers' Survey, 1984–2010," Appendix Table 10.
12. Because of length-sampling bias and interruption bias, these figures are not comparable with the time workers take to find a new job reported in Chart 7. The BLS unemployment-duration figure measures how long individuals have been unemployed at the time they are surveyed, not the total length of time the workers spend unemployed before they find a job. This measure omits any time workers spend unemployed after they are interviewed. The interruption bias reduces the reported duration of unemployment. The BLS is also more likely to sample workers who have been unemployed for a long time, precisely because they are unemployed a long time and thus more likely to be surveyed while unemployed than those who find jobs quickly. This length-sampling bias increases the estimated average duration of unemployment.
13. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," The Household Survey, Table A-12 / Haver Analytics. As of July 2011 the average duration of an unemployment spell was 40.4 weeks and the median duration was 21.2 weeks.
14. *Ibid.*, Appendix Table 12.

Unemployed Staying Out of Work Longer



Source: U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: Household Survey," Table A-12 / Haver Analytics.

Chart 6 • B 2602 heritage.org

These facts appear to contradict each other, but they do not. The data show both that the average length of time that workers remain unemployed has risen, and that it does not take unusually long for those who do land a new job to find it. These facts suggest a bifurcation in the labor market. Some workers find work within a few months. Many others who lose their jobs have extreme difficulty finding new ones.

Structural Change Explains Little

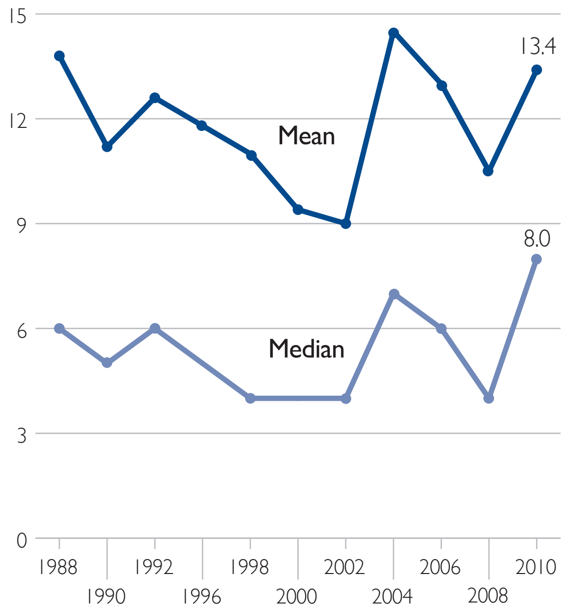
A popular theory for why unemployment has risen so sharply is "structural change" in the economy. One version of this theory holds that, since the collapse of the housing bubble left millions of homeowners with negative equity, these workers have great difficulty moving. If these workers lose their job, the theory posits, they cannot move to a better job market to take a new one. Since they are locked into their existing homes, they remain unemployed where they live.

Another version of this theory points out that disproportionately large job losses occurred in a few sectors of the economy: manufacturing, construction, and finance. If the skills of the workers in these industries are less useful in other sectors of the economy, it will be difficult for them to find new jobs. A precision machinist laid off from General Motors cannot start work as an x-ray technician without extensive retraining. Instead, he or she will probably remain unemployed. Skill mismatches between unemployed workers and available jobs could lead to a structural increase in unemployment.

These theories are plausible and intuitively appealing. However, they explain little of the persistent increase in unemployment. Economists have thoroughly studied the consequences of the

Successful Job-Seekers Do Not Take Unusually Long to Find Work

Number of Weeks of Unemployment Before Finding a New Job



Source: Henry Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers' Survey, 1984–2010," National Bureau of Economic Research *Working Paper* No. 17040, May 2011, Appendix Table 12.

Chart 7 • B 2602 heritage.org

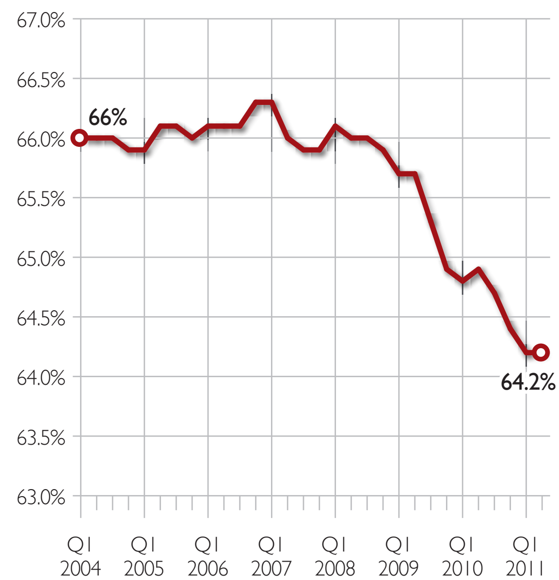
housing downturn. Housing-lock has had little effect on workers' mobility and explains virtually none of the recent increase in unemployment.[15] Further research show that skill-mismatch can account for between 0.4 percent and 0.7 percent of the increase in unemployment since 2007.[16] So while it is part of what has happened, structural changes cannot explain most of the increased unemployment. Americans do not have to simply accept higher unemployment.

Labor Force Participation Down

A less reported weakness in the economy is the drop in labor force participation. Since the start of the recession, the proportion of adults either working or looking for work has dropped by 2 percentage points, from 66 percent to 64 percent.[17] This is the lowest labor force participation since 1984, a time when far fewer women worked. If labor force participation rates had remained at their pre-recession levels an additional 5 million workers would either have jobs or be looking for them.[18] In this

Labor Force Participation Drops

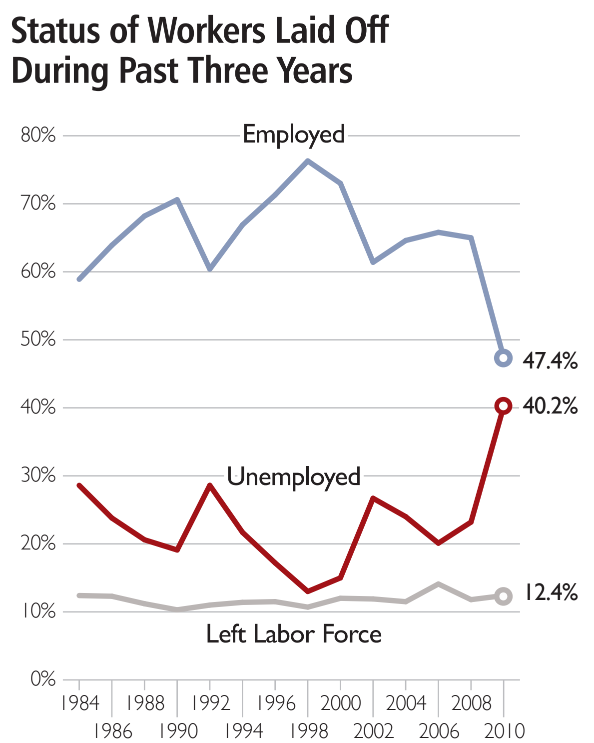
The labor force participation rate—the percentage of working-age persons who are either employed or looking for a job—is at its lowest level since 1984.



Source: U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: Household Survey" / Haver Analytics.

Chart 8 • B 2602 heritage.org

15. Raven Molloy, Christopher L. Smith, and Abigail Wozniak, "Internal Migration in the United States," *Journal of Economic Perspectives*, Vol. 25, No. 3 (Summer 2011), pp. 173–196, and Sam Schulhofer–Wohl, "Negative Equity Does Not Reduce Homeowners' Mobility," National Bureau of Economic Research *Working Paper* No. 16701, January 2011.
16. Maria E. Canon and Mingyu Chen, "The Mismatch Between Job Openings and Job Seekers," *The Regional Economist,* July 2011, at *https://www.stlouisfed.org/publications/pub_assets/pdf/re/2011/c/mismatch.pdf* (August 29, 2011).
17. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," The Household Survey / Haver Analytics.



Note: The figures display the labor force status (at the time the survey was conducted) of employees who were laid off at least once in the past three years.

Source: Henry Farber, "Job Loss in the Great Recession: Historical Perspective from the Displaced Workers' Survey, 1984–2010," National Bureau of Economic Research *Working Paper* No. 17040, May 2011, Appendix Table 6.

Chart 9 • B 2602 heritage.org

economy these potential workers are no longer working or looking to work.

When pundits do comment on these labor force participation figures they often speak of job-seekers simply giving up. Interestingly, it does not appear to be the case that people give up. Chart 9 shows the current labor force status of workers laid off during the past three years. These figures differ from the overall re-employment figures shown in Chart 5 because some displaced workers who find a new job subsequently get laid off or quit.

In January 2010, only 47 percent of workers laid off in the previous three years held a job. However, few of the remaining workers dropped out of the labor force. Only 12 percent of displaced workers had left the labor force—approximately the same rate as over the past two decades. The balance of the laid-off workers remained unemployed. They are looking for work but unable to find it.

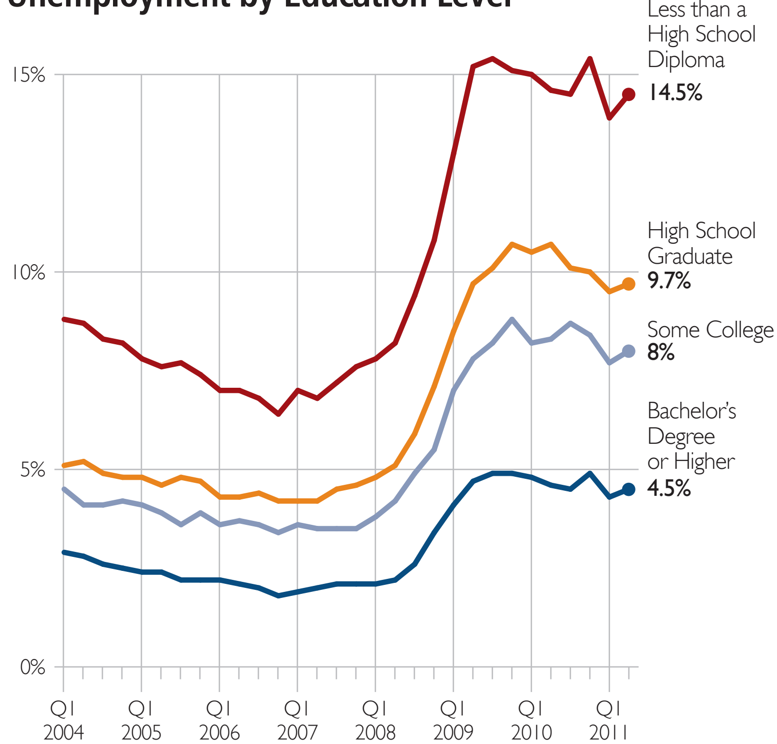
This suggests that the fall in labor force participation does not primarily reflect job-seekers "giving up" in the bad economy.[19] Instead, it appears that workers who have other options are increasingly taking them. The proportion of 16- to 24-year-olds enrolled in school has increased by 2 percentage points since the recession began.[20] Annual applications for Social Security disability insurance have increased by 700,000 since 2008.[21] Many potential employees with alternatives to work are choosing them instead of participating in the labor market.

Unemployment and Education

The recession has not changed the fundamental operations of the labor market. Many of the same trends that existed before the downturn have persisted through it. More skilled and more educated

18. Heritage Foundation calculations using data from the Department of Labor, Bureau of Labor Statistics, "The Employment Situation." Calculations based on the counter-factual assumption of the labor force participation rate in July 2011 remaining at 66.0 percent instead of the actual rate of 63.9 percent.
19. This has happened to some extent. The Bureau of Labor Statistics reports that the number of self-reported "discouraged workers" who have stopped looking for work because they do not think they can find a job has risen from roughly 400,000 before the recession started to 1.1 million in July 2011. However, this increase explains relatively little of the overall drop in labor force participation.
20. Heritage Foundation calculations using data from the Current Population Survey, January 2008 to December 2008 and July 2010 to June 2011 survey months. In 2008, 52.4 percent of 16- to 24-year-olds were enrolled in school, while in the 12 months between July 2010 and June 2011, 54.5 percent of 16- to 24-year-olds were enrolled.
21. Stephen Ohlemacher, "Social Security Disability on Verge of Insolvency Amid Flood of Claims," Associated Press, August 22, 2011.

Unemployment by Education Level



Source: U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: The Household Survey," Table A-4 / Haver Analytics.

Chart 10 • B 2602 heritage.org

workers had lower unemployment rates before the recession began. While unemployment has risen for all groups, educated workers continue to have significantly lower unemployment rates.

The unemployment rate for workers with an advanced or bachelor's degree stood at 4.5 percent in the second quarter of 2011. By contrast, workers with some college education had an 8 percent unemployment rate and workers with a high school degree had a 9.7 percent unemployment rate, while high school dropouts had a 14.5 percent unemployment rate.[22] Skills and education remain an important protection for workers against the fluctuations of the labor market.

Interestingly, this is not because more educated employees have an easier time finding new work. Right now they do not. Job-finding rates dropped nearly equally across education levels and are currently almost identical irrespective of a worker's education.[23] Rather, workers with less education had and have higher job-loss rates to begin with.[24] However, their job-finding rates are no higher than those with more education. Thus the unemployment rates are higher for those with less education.

Unemployment by Age

A similar pattern has occurred across age groups. Unemployment has risen for workers of all ages, but it has risen the most for younger workers. This is nothing new; younger workers typically have higher unemployment rates than workers more established in their careers. What is new is how high unemployment for younger workers has risen. The unemployment rate for 16- to 24-year-olds stood at 17.4 percent in the second quarter of 2011. Among 35- to 44-year-olds, unemployment stood at 7.6 percent. Those 55 and older had an unemployment rate of 6.7 percent.[25]

Higher youth unemployment has long-term implications. A study of college graduates before, during, and after the 1981–1982 recession—the

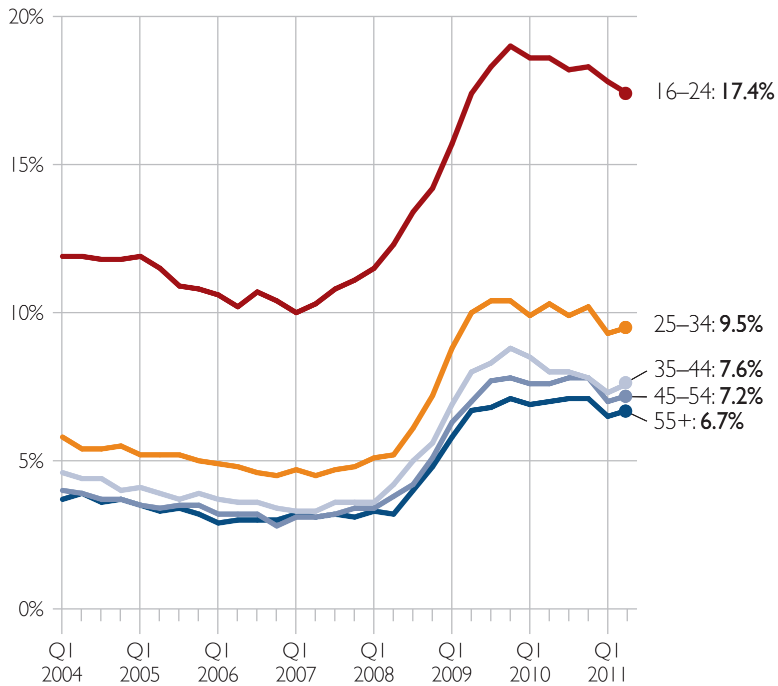
22. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," The Household Survey / Haver Analytics.

23. Job-finding rates have also dropped by roughly the same amount for workers across educational levels.

24. Michael Elsby, Bart Hobijn, and Aysegul Sahin, "The Labor Market in the Great Recession," *Brookings Papers on Economic Activity* Vol. 41, No. 1 (Spring 2010), pp. 14–16 and Figure 8.

25. Department of Labor, Bureau of Labor Statistics, "The Employment Situation" The Household Survey / Haver Analytics. The definition of unemployment excludes students and retirees who are not seeking work.

Unemployment by Age Group



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey" / Haver Analytics.

Chart 11 • B 2602 heritage.org

last recession as deep as the current downturn—found that workers who graduated in the recession had lower earnings 15 years later and were less likely to work in desirable occupations.[26] This happens for two reasons. First, younger workers have more difficulty gaining work experience and thus take longer to advance in their career ladder. Second, in tough times younger workers are more likely to accept jobs they are less suited for; they take the best job they can find. Going forward they do not do as well as they would in a job which better matched their talents.

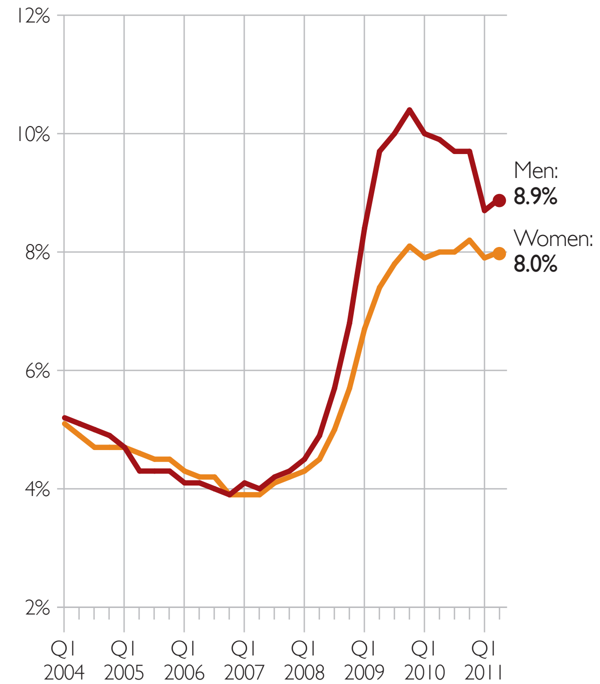
The rise in unemployment among older workers also has serious implications. Older workers are less likely to lose their jobs than younger workers, but when they do it takes them longer to find new work.[27] The unemployment rate for workers in their thirties and above has doubled since the recession began.[28] Many of these workers will take a long time to find new jobs, and this is part of why the average length of unemployment has risen.

Unemployment by Gender

The recession has also hit men harder than women. Men and women typically have quite similar unemployment rates. Since the recession began, unemployment increased more among men than it did among women. At the worst point of the recession, men had an adult unemployment rate 2 percentage points higher than that of women.[29] That gap has only partly closed. Currently, 7.9 percent of adult women and 9.0 percent of adult men are unemployed.[30]

This employment gap was not caused by widespread sexism and discrimination against men. Rather, the industries hit hardest by the downturn—construction and manufacturing—have disproportionately male workforces. Job-finding rates remain similar for both sexes.[31] With more men

26. Lisa Kahn, "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy," *Labour Economics*, Vol. 17, No. 2 (2010), pp. 303–316.
27. Elsby, Hobijn, and Sahin, "The Labor Market in the Great Recession."
28. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," / Haver Analytics.
29. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," / Haver Analytics. In Q4 2009, the unemployment rate for men 20 years and older was 2.3 percentage points higher than the unemployment rate for women 20 years and older.
30. *Ibid.*, figures for July 2011.
31. Elsby, Hobijn, and Sahin, "The Labor Market in the Great Recession."



Source: U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: The Household Survey," Table A-1 / Haver Analytics.

Chart 12 • B 2602 heritage.org

than women laid off, but men no more likely than women to find new work, the male unemployment rate rose faster.

Slow Recovery

The labor market is on course to recover slowly from this surge in unemployment. Economists estimate that the natural rate of unemployment is 5.2 percent.[32] If the economy began growing immediately at the same rate the payroll survey reported during the tech bubble (+265,000 jobs per month), unemployment would not return to this level until mid-2014. More realistically, if employers began hiring at the same average rate they did during the 2003–2007 expansion (+176,000 jobs per month), unemployment would not return to its natural rate until 2018.[33]

The Congressional Budget Office forecasts a recovery at roughly this pace, projecting that unemployment will return to its natural rate in 2017.[34]

Improve the Business Climate

Congress should do what it can to speed this process. To encourage businesses to hire, and thus improve the labor market, Congress should focus on improving the business climate. Businesses do not hire more workers with the goal of creating jobs. Businesses hire workers in order to take advantage of opportunities to create goods and services consumers will pay for. If Congress removes barriers to business success, it will encourage business expansion—and thus job creation.

Unfortunately, the Obama Administration has subordinated the goal of creating a good business climate to other policy aims. Many items on the President's agenda raise business costs and discourage expansion:

- The health care reform legislation raises the costs of employer-sponsored health insurance;
- The pending Environmental Protection Agency (EPA) regulations of carbon dioxide and coal-fired power plants will raise the cost of energy;
- The promised tax increases on successful businesses discourage entrepreneurs from taking risks on new ventures; and
- Obama's activist National Labor Relations Board (NLRB) seeks to foist unions on employers and

32. Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," p. XII, at *http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf* (August 30, 2011).

33. James Sherk and Rea S. Hederman Jr., "Heritage Employment Report: June Jobs Wilt in Heat," Heritage Foundation *WebMemo* No. 3313, July 8, 2011, at *http://www.heritage.org/Research/Reports/2011/07/Heritage-Employment-Report-June-Jobs-Wilt-in-Heat*.

34. Congressional Budget Office, "The Budget and Economic Outlook: Update," August 2011, p. 46, at *http://www.cbo.gov/ftpdocs/123xx/doc12316/08-24-BudgetEconUpdate.pdf* (August 29, 2011).

employees, despite the fact that unionized businesses create fewer jobs.

These policies discourage business expansion. Dennis Lockhart, president of the Federal Reserve Board of Atlanta, reports that

> In addition to slow and uncertain revenue growth, contacts in this recovery are frequently citing a number of other factors that are impeding hiring. Prominent among these is the lack of clarity about the cost implications of the recent health care legislation. We've frequently heard strong comments to the effect of "my company won't hire a single additional worker until we know what health insurance costs are going to be." More generally, our contacts cite a litany of uncertainties as reason for a wait-and-see posture toward expansion-related spending and hiring. These include the longer-term fiscal plan at the federal level, the extension of the Bush tax cuts, and the effect of various regulatory proposals. I know it's difficult to disentangle these concerns from mere frustration about weak demand. But the restraining effects of policy uncertainties are repeated frequently and with great vehemence.[35]

Creating a hostile or favorable business climate is a policy choice. Laws that make it more costly for businesses to operate also cost jobs. More small-business owners cite taxes or government regulations (36 percent) as their single greatest problem rather than poor sales (23 percent).[36]

Congress should act quickly to create a better business climate. Congress should repeal Obamacare. Congress should pass legislation expediting the approval of domestic energy production and preventing the EPA from regulating carbon dioxide. Passing the pending free trade agreements with South Korea, Colombia, and Panama would create tens of thousands of new jobs. Congress should also amend the National Labor Relations Act to reduce the NLRB's regulatory discretion. Congress can and should improve the business climate.

Conclusion

America is experiencing the weakest labor market since the Great Depression. Unemployment remains above 9 percent, primarily because job creation has not recovered. Workers who lose their jobs have a much more difficult time finding new ones and the amount of time workers spend unemployed has soared. Five million potential workers have left the labor force. The weak labor market has particularly hit younger and less-educated employees. Fortunately, research shows that higher unemployment is not necessarily permanent. Structural changes in the economy account for little of the unemployment increase. Congress should strengthen the labor market by removing government barriers to business expansion. This is no time for the government to stand in front of entrepreneurs shouting "Stop!"

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35. Dennis P. Lockhart, "Business Feedback on Today's Labor Market," Federal Reserve Bank of Atlanta, November 11, 2010, at *http://www.frbatlanta.org/news/speeches/lockhart_111110.cfm* (August 29, 2011).
36. William Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends Survey," National Federation of Independent Business, August 2011, p. 18.