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# Heritage Employment Report: January Report Shows Some Thawing

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The Bureau of Labor Statistics reported that, according to the household survey in January, the unemployment rate fell from 9.4 percent to 9 percent, the lowest level since April 2009. The payroll survey—which measures job growth, hours worked, and wages—reported that only 36,000 new jobs were created.

The January report continues to show a divergence in the two surveys, with the household survey reporting fabulous news and the payroll survey painting a more worrying picture. Usually, the household survey is considered less precise than the payroll survey. However, the payroll survey could be significantly revised if the inclement weather proves to be a large negative factor in this month's report.

**The January Report.** The household survey reported that the unemployment rate continued to drop from last December's decrease to 9.0 percent in January. The unemployment rate has declined from 9.8 percent to 9.0 percent in the past two months. The reason for the sharp decline in the unemployment rate is that the household survey reported a sharp spike in job growth of 589,000 jobs.[1]

In more good news, the number of workers unemployed for longer than 15 weeks continued to decline. Furthermore, individuals who lose their jobs are a declining share of the number of unemployed. New entrants into the labor market are now almost a tenth of all unemployed. This is further evidence that layoffs have declined but it is still difficult to find work.

The payroll survey painted a different story than the household survey. While revisions to previous reports increased hiring by 40,000, jobs increased by only 36,000 in January, far below expectations. However, terrible wintry weather throughout most of the country most likely lowered employment for some sectors, such as temporary employment (–11,000). It is unknown to what extend the weather contributed to the lackluster report.

The manufacturing sector (49,000) continued its strong growth of the last few months. Retail trade (27,500) and professional services (31,000) were also strong. Construction (–32,000) and transportation (–38,000) were the biggest losers, in part probably because of the weather. Government workers (–14,000) declined, with most of the job losses at the local level, excluding education (–10,000).

Yearly revisions to the data showed a reduction in U.S. population and the labor force of almost 500,000 people. Revisions also indicated that the labor market was worse than previously reported in 2010. Before the yearly revisions, job growth was over 1 million jobs. Total job creation was revised downwards by 170,000 jobs—over 10 percent—which lowered job creation to 940,000.

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**Counter-Keynesian Growth.** Despite the differences between the household and establishment surveys, the economy appears to have turned a corner. The major unanswered question is the pace of future growth—not whether the economy will slip back into a recession.

This directly contradicts the Keynesian theorists who used demand-focused, public-spending economics to justify the 2009 stimulus. Keynesianism holds that government spending has a direct "multiplier effect" and boosts the economy almost immediately, not with a delayed effect. Following this theory, many liberal economists predicted that the stimulus would boost the economy in 2009 and 2010 and worried that the economy would slip back into a recession in 2011 when the stimulus ran out.[2] Instead, the opposite has occurred.

**Government Spending Misdirects Resources.** This should not come as a surprise. The resources the government spends do not materialize out of thin air—they are taken from the private sector. Research shows that government spending crowds out private investment. Each $1 increase in government spending reduces private-sector investment by between $0.46 and $0.97 after two years and $0.74 and $0.95 over five years.[3] Government spending *substitutes* for private-sector investment; it does not supplement it. Increased government spending further reduces private-sector investment, making the problem of low job creation worse.

Moreover, government spending misdirects economic resources. Political priorities, not economic return, drive government spending. The desires of influential Members of Congress and political fads determine where government appropriations are allocated. This often differs greatly from the use that creates the most wealth and jobs.

This is one of the main reasons why countries in which the government spends heavily to create jobs—such as France and Germany—do *not* enjoy higher employment rates. In fact, countries with greater government spending and larger public-sector payrolls have higher unemployment.[4]

**Time to Cut Spending.** Government spending is, however, driving America into fiscal ruin. The Congressional Budget Office estimates that the federal government will run a record $1.5 trillion deficit in 2011 and that the national debt will double over the next decade.[5] Higher government spending—not lower taxes—is driving these historic deficits.[6] Interest payments on the national debt will increasingly crowd out the private investment necessary for the economy to grow.

To protect America's economic future, Congress needs to bring spending under control now. The proposal to reduce federal spending to 2008 levels is an important first step. Congress should follow up by eliminating non-essential programs and reforming America's entitlement programs.

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1. This is the reported amount of job creation in January as compared to December after adjusting for the population adjustments.
2. See, for example, Paul Krugman, "Double Dip Warning," The Conscience of a Liberal, December 1, 2009, at *http://krugman.blogs.nytimes.com/2009/12/01/double-dip-warning* (February 4, 2011).
3. Alberto Alesina, Silvia Ardagna, Roberto Perotti, and Fabio Schiantarelli, "Fiscal Policy, Profits, and Investment," *American Economic Review*, Vol. 92, No. 3 (June 2002), pp. 571–589; Olivier Blanchard and Roberto Perotti, "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output," *Quarterly Journal of Economics*, Vol. 117, No. 4 (November 2002), pp. 1329–1368.
4. 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 (1996), pp. 289–302; Horst Feldmann, "Government Size and Unemployment: Evidence from Industrial Countries," *Public Choice*, Vol. 127, No. 3 (June 2006), pp. 443–459.
5. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, at *http://cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf* (February 3, 2011).
6. Brian Riedl, "New CBO Budget Baseline Reveals Permanent Trillion-Dollar Deficits," Heritage Foundation *WebMemo* No. 3121, January 26, 2011, at *http://www.heritage.org/Research/Reports/2011/01/New-CBO-Budget-Baseline-Reveals-Permanent-Trillion-Dollar-Deficits*.

**Non-Keynesian Growth.** The labor market is growing but slower than it should. While the unemployment rate has dropped sharply in the past two months, it is likely that it is a result of the household survey's volatility. However, job growth is no doubt much better than the payroll survey is indicating. Revisions to the payroll survey have been consistently upward for the past few months, indicating an expanding job market.

The U.S. economy is growing because of its strong fundamentals. The latest large experiment in Keynesian spending achieved little. Indeed, some Keynesians would be surprised by the expanding level of growth that is occurring even as government spending turns down.

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