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Heritage Employment Report: June Jobs Wilt in Heat

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The Bureau of Labor Statistics reported today that the June unemployment rate stands at 9.2 percent and that the economy created only 18,000 jobs last month. This is the second straight month in which job creation has been essentially flat. Job creation as reported by the payroll survey in the second quarter of 2011 was 101,000 as compared to 165,000 in the first quarter. Labor market recovery once again has not happened this summer.

Bad public policy choices are among the many factors that explain the worsening labor situation, and these choices continue to hamstring the economy. Policymakers should not agree to a debt limit deal by focusing on tax increases instead of fundamental changes in the welfare state.

The June Report. While the May report was not good, the June report is bad according to the payroll survey and horrific in the household survey. The household survey shows that the unemployment rate increased 0.1 percent to 9.2 percent while the labor force participation rate declined to 64.1 percent.

An increase in the unemployment rate coupled with a decline in the labor force participation rate at this stage of a recovery shows that the labor market is simply not improving. In fact, it has been losing ground for the past two months. The household survey also reported a staggering reduction of 445,000 in employed workers.

The labor force participation rate fell to 64.1 percent, the lowest level since 1984. The participation rate fell as non-teenage workers left the labor force in droves. For women 20 or older, the participation rate fell to its lowest level since 1996. The unemployment rate increased from 8.9 percent to 9.1 percent for adult men but held flat for adult women.

With the household survey reporting so many lost jobs, there was also a surge in the number of unemployed individuals who have been unemployed for less than five weeks. In May, this category was 19.4 percent, but it rapidly increased to 21.7 percent in June. Even with the growth in the numbers of newly unemployed, the mean and median duration of unemployment increased to 39.9 weeks and 22.5 weeks, respectively.

The payroll survey also reported bad news, with only 57,000 private jobs created and a decline of 39,000 government jobs. Revisions to the previous two months' job reports were negative as reported jobs fell by 44,000. Workers who kept their jobs saw their hours of work and pay decline. This is the first time since last fall that work hours and pay both fell.

The weakness of the labor market was widespread, with no sectors showing strong job gains. Construction (–9,000), financial (–15,000), temporary servic-

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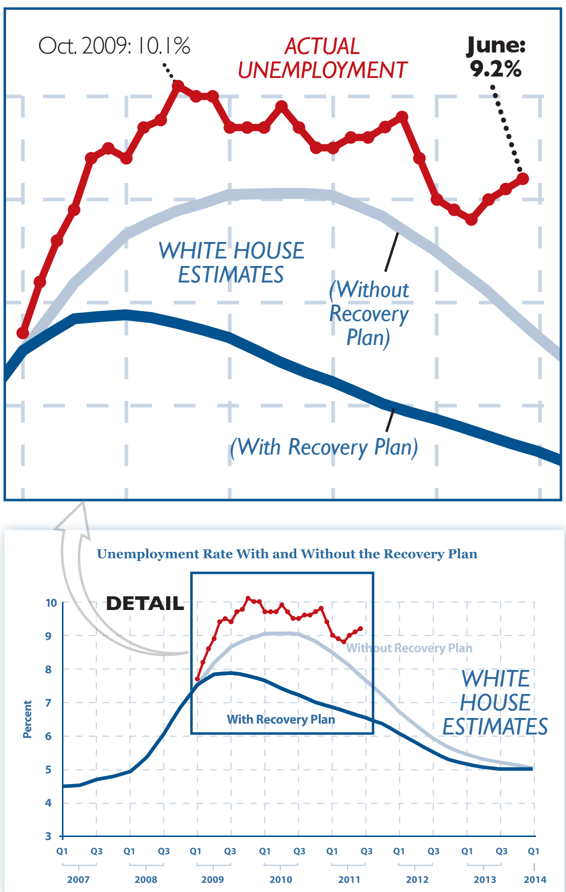
Unemployment Rate: June 2011

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 3313 heritage.org

es (–12,000), and non-durable goods manufacturing (–9,000) were the weakest sectors. Durable goods manufacturing (+15,000), mining (+8,000), trade (+12,300), professional services (+24,200), and health care (+16,500) were among the biggest job gainers. Among government workers, federal (–14,000), state (–7,000), and local (–18,000) all shed jobs.

Slow Recovery. The recovery will take a long time under any imaginable circumstances. Economists estimate that the natural rate of unemployment is 5.2 percent. 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.[1] 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.[2]

Recently, the economy has not grown nearly this fast. Through the first half of 2011, the household survey has reported that employers have created an average of 100,000 jobs a month, while the payroll survey has reported the creation of 126,000 jobs a month. This is only enough jobs to keep up with population growth. If businesses continue to hire at this slow rate, then unemployment will remain near 9 percent.[3]

This does not mean that Americans must accept French levels of unemployment as the new normal. Continued weak job growth is not inevitable.

Fewer Businesses Expanding. Unemployment remains so high because employers are expanding at a slower rate. Layoffs rose during the early days of the recession, but they have since fallen to below pre-recession levels.[4] Workers with a job are less likely to get laid off than they were before the recession began.

However, new hiring has fallen sharply and has not recovered. Between the fourth quarter of 2007 and the fourth quarter of 2008, business hiring fell

1. Heritage Foundation calculations using data from U.S. Department of Labor, Bureau of Labor Statistics, collected by Haver Analytics. The tech bubble refers to the period from January 1997 through December 1999. The time to recovery figures were calculated in the following way. The employment, unemployment, labor force, and population sizes reported in the June 2011 household survey were taken as the starting point for the economy. The (16 and over) population was

by about 20 percent. In the first quarter of 2011, employers hired fewer new workers than they did when the economy was melting down in the fourth quarter of 2008.[5]

Encouraging businesses to invest and expand—and thus hire—holds the key to reducing unemployment. Unfortunately, President Obama has subordinated the goal of creating a good business climate to his other policy aims. Most of the key 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 new financial regulations make accessing capital difficult for smaller businesses;
- 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 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:

> 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.[6]

Creating a hostile or favorable business climate is a policy choice. More small-business owners cite taxes or government regulations (35 percent) as their single greatest problem rather than poor sales (25 percent).[7] The tax and regulatory burden is a policy choice made by the government. If America creates a French-style social welfare state that erects barriers to entrepreneurship, then America will also get French levels of unemployment.[8]

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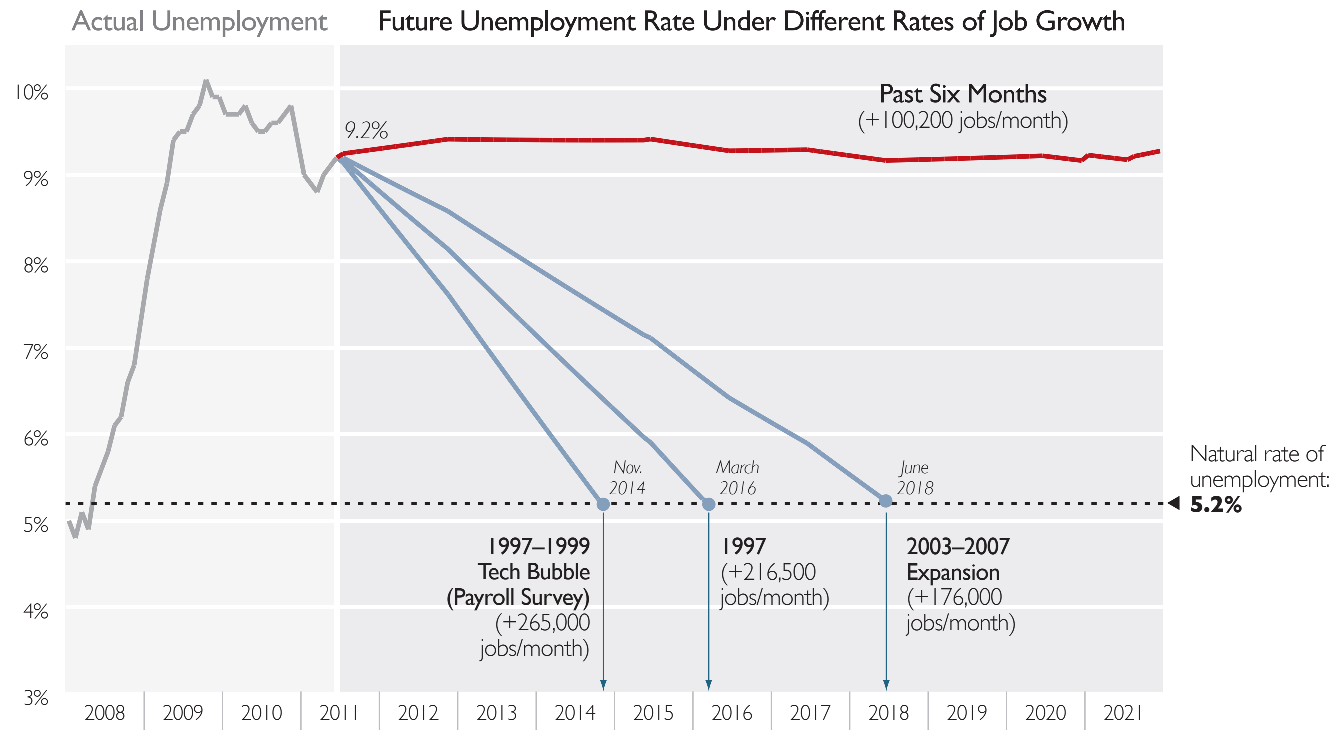
inflated at a 1 percent annual rate to account for population growth as projected by the Census Bureau. Total employment in July 2011 and subsequent months was estimated by adding to the previous month's employment the assumed level of monthly job growth—in this case, 265,000 jobs. The size of the labor force was estimated by multiplying the labor force participation (LFP) rate by the population projections. Unemployment was calculated as the difference between the size of the labor force and total employment. The unemployment rate was the ratio of the estimated unemployment level to the estimated labor force. LFP rates were derived from Congressional Budget Office (CBO) March 2011 LFP projections. Current LFP rates are below the CBO projections of the LFP rate for 2011. Consequently, the simulations held LFP at 64.1 percent between June 2011 and May 2013 and then decreased by 0.1 points per year until it reached the CBO's estimated rate of 63.9 percent in 2015. Thereafter, the CBO's projected LFP rates were used.

2. *Ibid.*, assuming the creation of 176,000 jobs per month, the same rate the household survey reported from August 2003 through November 2007.
3. *Ibid.*, assuming the creation of 100,200 jobs per month, the same rate the household survey showed for January through June 2011.
4. Heritage Foundation calculations using data from U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, October 2007–April 2011, collected by Haver Analytics. Figures refer to seasonally adjusted layoff and discharge levels.
5. *Ibid.* Figures refer to seasonally adjusted hiring levels.
6. Dennis Lockhart, "Business Feedback on Today's Labor Market," November 11, 2010, at *http://www.frbatlanta.org/news/speeches/lockhart_111110.cfm* (July 8, 2011).
7. William Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends Survey," National Federation of Independent Business, June 2011, p. 18, at *http://www.nfib.com/Portals/0/PDF/sbet/sbet201106.pdf* (July 8, 2011).

Under Current Trend, Unemployment Rate Would Remain High

Over the past six months, the economy has added an average of about 100,200 jobs per month. At that rate, due in part to population growth, the U.S. would effectively never reach the natural rate of unemployment, 5.2 percent. By comparison, if jobs grew at the same rate as they did in 1997–1999, unemployment would reach 5.2 percent sometime between 2014 and early 2016.



Source: Heritage Foundation calculations using data from the U.S. Department of Labor, Bureau of Labor Statistics/Haver Analytics.

Chart 2 • WM 3313 heritage.org

Congress should act quickly to create a better business climate. Congress should repeal both Obamacare and the new financial regulatory bill. Congress should pass legislation expediting the approval of domestic energy production and preventing the EPA from regulating carbon dioxide. Repealing the Davis–Bacon Act and prohibiting prevailing-wage restrictions on federally funded construction projects would create 150,000 new construction jobs at no additional cost to the economy.[9] Passing the pending free trade agreement with South Korea, Columbia, 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 remove the barriers to a strong recovery that the government has erected.

Time to Choose Expansion. The June jobs report is a dark cloud without a silver lining. Unemployment rose, labor force participation and wages both fell, and employment growth was anemic. The economy is in troubled waters. If job growth con-

8. As of May 2011, the French unemployment rate stood at 9.5 percent.
9. James Sherk, "Repealing the Davis–Bacon Act Would Save Taxpayers $10.9 Billion," Heritage Foundation *WebMemo* No. 3145, February 14, 2011, at *http://www.heritage.org/Research/Reports/2011/02/Repealing-the-Davis-Bacon-Act-Would-Save-Taxpayers-$10-9-Billion*.

tinues at the pace it has this year, French levels of unemployment will become the new normal. The driving force behind these weak unemployment figures is the lack of new business hiring.

The government is partly responsible for entrepreneurs' reluctance to expand, as the many tax and regulatory proposals coming out of Washington raise business costs and make new businesses less likely to succeed. Congress and the Administration can choose to worsen the business climate or to improve it. They should remove the burdens they have placed on entrepreneurs over the past three years.

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