

WebMemo



Published by The Heritage Foundation

No. 3388
October 7, 2011

Sluggish September for Job Creation

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The Bureau of Labor Statistics' September employment report finds a stalled labor market. The unemployment rate remained flat at 9.1 percent. After accounting for the end of the Verizon strike, private-sector employers created a net 92,000 new jobs. While government employment fell by 34,000 jobs, government employees continue to enjoy the lowest unemployment rate of any industry. The report contained a few hopeful indicators, but these mostly represented statistical corrections from previous decreases, not new upward trends.

President Obama has prescribed another stimulus bill to boost the labor market. His proposals would do little to change employers' behavior; they would merely direct resources into politically popular projects with little economic benefit. Like the past two stimulus packages, the American Jobs Act would fail to encourage businesses to hire. Unemployment will come down when the rate of business startups and expansions increases. Such entrepreneurship cannot be centrally planned from Washington. However, the government can and should remove barriers it imposes that harm business prospects.

The September Report. September's employment report shows little improvement in the labor market. Total nonfarm payrolls increased by just 103,000 jobs—a figure artificially inflated by the return to work of 45,000 striking Verizon employees. The unemployment rate remained unchanged at 9.1 percent. After removing the effects of the Verizon strike, private-sector employers added just 92,000 net jobs. That figure is virtually unchanged

from the 87,000 net private-sector jobs created in August.¹

The largest payroll gains came in health care (+44,000 jobs) and professional and business services (+48,000 jobs). Manufacturing employment fell (-13,000). The average duration of unemployment rose—again—to 40.5 weeks. The average unemployed worker has been without a job for more than 9 months.

Government payrolls dropped (-34,000 jobs), with virtually all of that decrease coming at the local level. Employment in the U.S. Postal Service fell (-5,000), while employment in the rest of the federal government increased slightly (+4,000). While the recent decline in government employment has attracted attention, government employees have fared far better than private-sector workers in the recession. The unemployment rate of government employees is just 4.7 percent, the lowest rate of any industry.

The September report contained a few hopeful signs. The labor force participation rate increased by 0.2 percentage points to 64.2 percent. Hourly wages also increased by 4 cents, and average weekly hours increased by 0.1 hours. Unfortunately, these improvements are probably statistical noise. Hours

This paper, in its entirety, can be found at:
<http://report.heritage.org/wm3388>

Produced by the Center for Data Analysis

Published by The Heritage Foundation
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and wages fell unexpectedly in August, and these increases return them to their July levels. Similarly, labor force participation has merely returned to January–May 2011 levels. The September jobs report showed many signs of stagnation and few indications of a turnaround.

Third Stimulus. President Obama has responded to this weak labor market with another stimulus package. His roughly \$450 billion proposal increases government transportation spending, maintains unemployment benefits at 99 weeks, transfers billions to state governments, temporarily reduces the payroll tax rate, and offers employers temporary tax credits for hiring the long-term unemployed. Obama plans to pay for this with hefty tax increases on financially successful entrepreneurs.

The American Jobs Act is a scaled-down version of the 2009 stimulus bill Obama signed when he first took office. If Congress passed the bill, it would also fail to reduce unemployment. Research shows that businesses and consumers responded rationally to the previous stimulus packages: Businesses hired few new workers for projects they knew were short-term. Households and governments used their savings to pay down debt. Knowing the stimulus was temporary, few people changed their long-term behavior.²

Worse, the stimulus package misdirected resources toward politically popular but economically useless projects. Solyndra needed government financing because it could not persuade enough private investors that it had a viable product—as it did not. But because “green” jobs were a political priority, Solyndra received approximately \$535 million from taxpayers. Recent Inspector General audits find that few workers who have completed

green job training programs have found jobs.³ The training programs do little to prepare workers but have cost taxpayers heavily.

The resources that went into these programs would have been put to far better use in the private sector. Instead, the government wasted billions of dollars on projects that did no economic good. While there may be humanitarian justifications for some of the proposed spending, such as the extended unemployment benefits, believing that they will help the economy is wishful thinking.⁴

Foster Entrepreneurship. The labor market remains weak because businesses have retrenched. The rate of business expansions and startups remains well below its level at the start of the recession. To reduce unemployment, America needs more entrepreneurs like Steve Jobs, who started Apple in his garage. Today Apple employs 49,000 workers. The government cannot centrally plan such entrepreneurial innovation. It can, however, encourage it.

Many government policies make businesses less likely to succeed. President Obama’s health care regulations raise the cost of hiring workers. Pending Environmental Protection Agency regulations will substantially raise the cost of energy. The prospects of confiscatory tax hikes loom over successful entrepreneurs. Polls reveal that 37 percent of small-business owners report taxes or government regulations as their single greatest problem. Only 25 percent report poor sales.⁵ The government directly controls the tax and regulatory barriers it imposes on businesses, and Congress should act quickly to alleviate them.

Resist the Urge for Empty Action. The labor market remains weak. There are few signs that a

1. Note that this figure includes the reported 42,000 net private jobs created and 45,000 striking Verizon workers in August.
2. John Taylor, “An Empirical Analysis of the Revival of Fiscal Activism in the 2000s,” *Journal of Economic Literature*, No. 49, Vol. 3 (September 2011), pp. 686-702.
3. “Recovery Act: Slow Pace Placing Workers into Jobs Jeopardizes Employment Goals of the Green Jobs Program,” U.S. Department of Labor, Office of the Inspector General, Report Number: 18-11-004-03-390, September 30, 2011, at http://www.eenews.net/assets/2011/10/04/document_gw_03.pdf (October 7, 2011).
4. James Sherk, “Extended UI Payments Do Not Benefit the Economy,” Heritage Foundation *WebMemo* No. 3356, September 8, 2011, at <http://www.heritage.org/Research/Reports/2011/09/Extended-UI-Payments-Do-Not-Benefit-the-Economy>.
5. William C. Dunkelberg and Holly Wade, “Small Business Economic Trends,” September 2011, National Federation of Independent Business, p. 18, at <http://www.nfib.com/Portals/0/PDF/sbet/sbet201109.pdf> (October 7, 2011).

turnaround is imminent. Unemployment remains above 9 percent, and private-sector payroll growth did not increase. Congress should resist the urge to “do something” about the economy and should instead ensure that what it does is constructive. Passing a third stimulus bill would increase the debt burden and fail as completely as the past two stimu-

lus packages did. Congress should instead work to improve the business climate and remove barriers to business success.

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