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Heritage Employment Report: Status-Quo September in Sluggish Recovery

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The Bureau of Labor Statistics (BLS) reports that the sluggish recovery continued in September. Private-sector employers added just 126,000 jobs, while the unemployment rate dropped a statistically insignificant 0.1 percentage points. Both the employment-to-population ratio and the labor force participation rate remained at historically low levels. The BLS finds little sign of either a new recession or an accelerating recovery. At this rate, it will take three more years for unemployment to return to historically normal rates.

The implementation of Obamacare will further impede the recovery. Many of the law's provisions discourage employers from hiring and employees from working. Both the Federal Reserve's Beige Book and surveys of business owners find that Obamacare has depressed hiring. If and when the government fully implements Obamacare, it will have long-lasting negative effects on the labor market.

September Employment Report. The BLS September employment report finds the labor market stuck in low gear. The payroll survey found that employers created 148,000 net new jobs, with the government (+22,000) accounting for one-seventh of that total. Retail trade (+23,400), temporary help services (+20,200), construction (+20,000), and wholesale trade (+16,100) all showed modest gains. Most other sectors had negligible employment changes except the leisure and hospitality sector (–13,000). Average weekly hours (34.5) remained flat, and average hourly earnings rose by three cents. Revisions made only minor changes to previous employment estimates.

The household survey painted a similar picture of the labor market. The headline unemployment rate declined a statistically insignificant 0.1 percentage points to 7.2 percent. However, the employment-to-population ratio remained unchanged at 58.6 percent—no higher than in November 2009. The labor force participation rate also remained flat at 63.2 percent. Fewer Americans either work or look for work than at any time since 1978.

Slow Recovery. Employers must add roughly 110,000 jobs a month to keep pace with population growth. Since the start of the year, employers have created an average of 178,000 jobs a month. Federal Reserve Bank of Atlanta estimates show that, at this pace, it would take three more years for unemployment to return to normal levels.[1]

The unemployment rate could drop more quickly if labor force participation rates continue to fall, but such declines would not reflect economic growth. Unless the pace of job creation improves, unemployment will not recover until seven years after the end of the Great Recession—longer than the entire 2001–2007 expansion.

Obamacare's Effect on the Labor Market. The implementation of the President's health care law, popularly known as Obamacare, has hindered the recovery and will continue to do so. Many provisions

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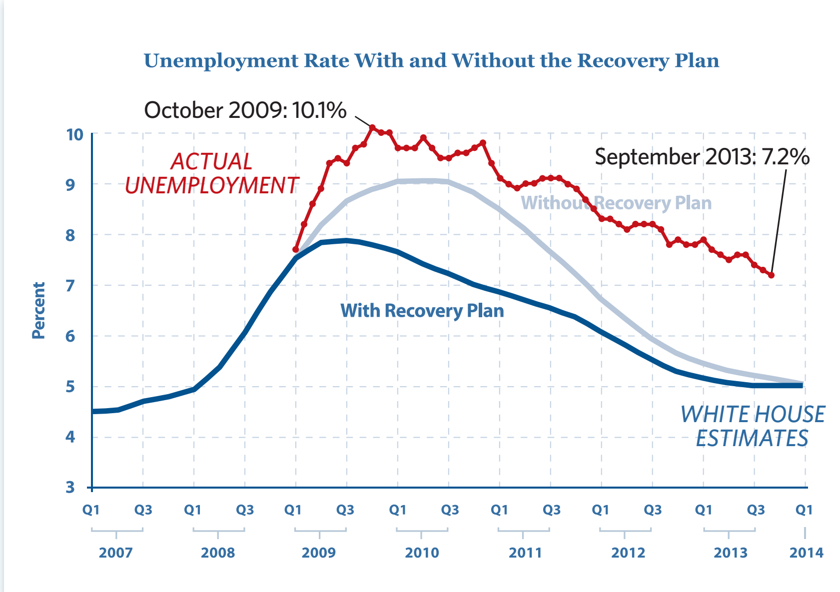
CHART 1

Unemployment Rate: September 2013

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 visualizing the positive results of his recovery plan. But actual unemployment (in red) 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.

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in the law discourage employers from hiring and discourage employees from looking for work.

Starting in January 2015, the law fines employers who do not provide qualifying health benefits. The fine is $2,000 per employee. This fine comes out of after-tax earnings, so from an employer's perspective, it equates to raising pay by $3,046.[2] This raises by one-tenth the cost of employing a worker making $30,000 a year.[3]

However, the penalty applies only to employees working 30 or more hours per week. This will give employers strong incentives to cut their employees' hours below that threshold to avoid the fines. A year from now, moderately skilled workers will have much greater difficulty finding full-time work.

The law also discourages many workers from taking full-time jobs. Employees primarily work full time to increase their earnings and receive health benefits. Obamacare greatly reduces these incentives.

Under the law, part-time employees without health benefits can receive taxpayer-subsidized health insurance on the exchanges (assuming the exchanges become functional). The value of the exchange subsidies is such that many workers will be better off working part time and collecting subsidies than full time without them. University of Chicago economist Casey Mulligan estimates that an employee who costs his employer $28 per hour ($56,000 a year) would make just as much working part time without health benefits and collecting exchange subsidies as working full time with employer-provided health benefits coming out of his compensation.[4] Obamacare will substantially reduce the prevalence of full-time jobs.

1. Normal levels defined at 5.5 percent. Federal Reserve Bank of Atlanta, Center for Human Capital Studies, "Jobs Calculator," http://www.frbatlanta.org/chcs/calculator/ (accessed October 22, 2013).
2. Note that employers deduct wages from their business earnings and thus business taxes (although employees, of course, pay taxes on their pay), so raising wages partly lowers their tax bills. See Casey Mulligan, "Why a $2,000 Employer Penalty Is Really $3,046," Supply and Demand (in That Order), March 13, 2013, http://caseymulligan.blogspot.com/2013/03/why-2000-employer-penalty-is-really-3046.html (accessed October 22, 2013).
3. Note that because of the 7.6 percent employer payroll tax, it costs a business $32,300 (plus applicable unemployment insurance taxes) to pay a worker $30,000 a year.
4. See Casey Mulligan, "The New Economics of Part-Time Employment," Supply and Demand (in That Order), July 3, 2013, http://caseymulligan.blogspot.com/2013/07/the-new-economics-of-part-time.html (accessed October 22, 2013).

It will also reduce total employment. The Congressional Budget Office estimates that Obamacare will cause 800,000 workers to drop out of the labor market entirely.[5] Many employees have enough non-labor income to support themselves but work for the purpose of keeping their health benefits. Once the government provides that coverage—at taxpayer expense—they will exit the labor force.

Reducing Job Creation. For the next several years, Obamacare will also make it harder for workers who want jobs to find them. The law extensively regulates "qualifying" health plans that comply with the employer and individual mandates. These regulations, such as requiring plans to cover children until they turn 26, substantially increase the cost of health benefits.

In the long term, employers will pass these costs on to workers in the form of reduced wages. In the short term, they will have difficulty doing this—employees respond very negatively to large pay cuts. Consequently, many businesses will face sharp increases in labor costs over the next few years. Many economists expect that this will reduce job creation.[6]

The Federal Reserve finds exactly this happening. The Beige Book summarizes economic conditions in the Federal Reserve districts. In the most recent Beige Book, the many districts find Obamacare hurting the labor market[7]:

- **Richmond.** "Many contacts also commented on reluctance to expand due to uncertainty surrounding the Affordable Care Act; some employers cut hours or employees."
- **Cleveland.** "Many of our contacts are concerned about the implementation of the Affordable Care Act and the effect it will have on their total labor cost."
- **Atlanta.** "Employers continued to report hiring hesitancy related to changes in healthcare regulation and fiscal policy uncertainty."
- **Chicago.** "A number of contacts voiced concern about the uncertainty surrounding future employer and employee healthcare costs."
- **Philadelphia.** "Some contacts reported high-cost increases for employees' health insurance coverage."
- **Dallas.** "One contact saw a few signed contracts designed to circumvent the Affordable Care Act (ACA) by utilizing a temporary employee full time, then hiring that person on a permanent but part-time basis when the ACA goes into effect."

These findings accord with surveys of business owners. A recent Gallup survey found that one-fifth of small business owners had laid off workers because of Obamacare, while two-fifths had frozen hiring.[8] A different survey conducted by the National Federation of Independent Businesses found one-quarter of small business owners citing "government regulation and red tape" as their single greatest problem.[9] Obamacare has hurt jobs.

Policy Impedes Recovery. Four years after the Great Recession officially ended, the labor market has barely recovered. The proportion of Americans with jobs has not improved since late 2009. The September employment shows no signs of a labor market switching into higher gear. At current pace, it will take three more years for unemployment to return to pre-recession levels.

Both the Federal Reserve and surveys of employers find that Obamacare has contributed to this sluggishness. The law has raised health care costs and discourages businesses from hiring. Going

5. Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2010, http://www.cbo.gov/publication/21670 (accessed October 22, 2013).
6. Patrick Anderson, "Policy Uncertainty and Persistent Unemployment," Anderson Economic Group, September 2013, http://www.andersoneconomicgroup.com/Portals/0/Policy%20Uncertainty%20Handout.pdf (accessed October 22, 2013).
7. Federal Reserve System Board of Governors, "Beige Book—October 16, 2013," http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201310.htm (accessed October 22, 2013).
8. Gallup, "Half of U.S. Small Businesses Think Health Law Bad for Them," May 10, 2013, http://www.gallup.com/poll/162386/half-small-businesses-think-health-law-bad.aspx (accessed October 22, 2013).
9. William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends Survey," National Federation of Independent Business, October 2013, p. 18, http://www.nfib.com/Portals/0/PDF/sbet/sbet201310.pdf (accessed October 22, 2013).

forward, it will lead workers to drop out of the labor market or work part time. Policy mistakes have impeded the recovery.

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