United States Senate

Republican Policy Committee

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New Jobs Data Stymies Pessimists' "McJobs" Rhetoric

Executive Summary

- The steady stream of strong employment data over the past year reflects a U.S. economy that is growing and producing valuable jobs for American workers.
- Having lost their argument that the economy is failing to produce enough jobs, the pessimists now contend that the new jobs simply are not good ones.
- A look at the recently released June employment figures disproves this "McJobs" contention – the *quality* of new jobs is rising:
    - ➢ Nearly 80 percent of the new jobs created in June were in industry categories that pay an average hourly rate in excess of the overall average hourly rate in the private sector.
    - ➢ Inflation-adjusted average hourly earnings have increased 2.24 percent during the first three and a half years of the Bush Administration, compared with only a 0.13-percent increase during the same period of the first Clinton Administration.
    - ➢ Per capita after-tax disposable income, adjusted for inflation, has increased 7.1 percent since President Bush took office – well above the 5.2-percent increase during the same period of the first Clinton Administration.
    - ➢ Since the start of the Bush Administration, full-time employment has averaged 82.56 percent, nearly a full percentage point higher than full-time employment during the same period of the first Clinton Administration.
    - ➢ In the past year, the number of full-time positions has increased by nearly 1.3 million.
    - ➢ More than 81 percent of part-time workers in June indicate that they have chosen part-time employment for non-economic reasons.
    - ➢ Temporary jobs in June were only 2.25 percent of all payroll jobs in the private sector.
- Improving the quantity and quality of jobs remains a top priority for Republicans. In the words of President Bush,"We won't rest until everybody who wants to work can find a job."

Introduction

The employment data released by the Bureau of Labor Statistics (BLS) earlier this month continued to demonstrate strong job growth across the United States. In June, non-farm payroll employment increased by 112,000 net new jobs.[1] So far this year, nearly 1.3 million net new payroll jobs have been created, and over 1.5 million new payroll jobs have been created since last August. According to BLS' Current Population Survey (i.e., household survey), the unemployment rate remained steady at 5.6 percent, well below its peak of 6.3 percent in June 2003. Today, more Americans are working than at any time in this country's history – 139 million individuals.

Nevertheless, the pessimists persist in their efforts to paint a dire employment picture in this country. A recent *Wall Street Journal* commentary aptly describes the current situation:

> Here's a quick primer on how to track an economic recovery: When the media fret that the U.S. is heading for a decade of stagnation like Japan, that means profits and investment are picking up. When you hear that profits have risen but we're stuck in a "jobless recovery," businesses have started hiring. And finally when the cry goes up that American workers can find only low-paying menial jobs, that's the tip-off that the economy is booming.
>
> Congratulations, America, the return of "McJobs" rhetoric signifies that an expansion is in full swing.[2]

By focusing on the *quality* of the jobs being created, the pessimists are once again counting on the public to overlook the facts. In this case, the facts demonstrate that the U.S. economy is not only producing a steady stream of jobs, but also new positions in well-paying industries. In short, whether it is quantity or quality, the jobs situation in the United States is looking better every month.

Well-Paying Jobs are on the Rise

The core of the pessimists' argument is that the economy is only producing entry-level or low-paying jobs for unemployed Americans who seek quality positions. The BLS employment figures for June, however, provide a more optimistic view. As the following chart illustrates, in June nearly 80 percent of the new jobs were created in major-industry categories that pay an average hourly rate in excess of the overall average hourly wage in the private sector of $15.65.[3]

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[1]BLS, "Employment Situation: June 2004," USDL 04-1170, July 2, 2004 – http://www.bls.gov/news.release/empsit.nr0.htm.

[2]*Wall Street Journal*, "Gloom and Doom," June 14, 2004.

[3]BLS, "The Employment Situation: June 2004," Tables B-1 and B-4.

Chart 1
Higher-Paying Industries Create More Jobs in June

New Higher-Paying Jobs in the Private Sector	June Job Increase (thousands)	June Average Hourly Earnings by Industry	**New Lower-Paying Jobs in the Private Sector**	June Job Increase (thousands)	June Average Hourly Earnings by Industry
Utilities	-0.1	$25.52	Manufacturing -- nondurable	-14	$15.06
Information	1	21.34	Other services	12	13.85
Construction	0	19.21	Retail trade	6.7	12.04
Natural resources and mining	1	18.24	Leisure and hospitality	8	8.86
Wholesale trade	-2.3	17.67	Total New Jobs Created	26.7	
Financial activities	6	17.58			
Professional & business services	39	17.38			
Transportation & warehousing	19.2	16.80			
Manufacturing -- durable	3	16.79			
Education and health services	37	16.10			
Total New Jobs Created	106.2				
Percentage of Higher-Paying Jobs	79.9%		**Percentage of Lower-Paying Jobs**	20.1%	

Source: BLS (Household Survey), seasonally adjusted.
Note: The overall private-sector average hourly wage in June was $15.65. Average hourly earnings reflect the overall earnings for private non-agricultural production or non-supervisory workers by industry sector. Totals reflect net increases in private-sector employment.
In June, BLS reported a reduction of 5,000 government jobs.

The chart shows that in June, 39,000 new professional and business-services jobs were created in an industry with an average wage of $17.38 per hour – 11 percent more than the overall hourly wage average;[4] 19,200 new transportation and warehousing jobs were created in an industry with an average wage of $16.80 – 7 percent above the overall average. In contrast, the leisure and hospitality industry, which has an average wage of $8.86, accounted for only 6 percent of the new jobs created. More broadly, the employment figures in June are consistent with the upward trend of well-paying industries creating valuable jobs, which has been occurring for more than a year.

Employee Earnings and Benefits are Growing

Overall employee earnings have continued to rise, as would be expected with the growth in well-paying jobs described above. In June, average hourly earnings of production or non-supervisory workers increased at an annualized rate of 1.2 percent, the sixth consecutive monthly

[4]While approximately one-third of the new jobs in the professional- and business-services industry fell into the category of temporary-help services, as noted on page 5, temporary jobs are a leading indicator of future job growth in the professional sector and other industries utilizing such positions.

increase.[5] Importantly, the growth in hourly earnings was broad-based, with wages increasing in 9 out of the 14 major industry sectors and unchanged in 3 sectors in June (see Chart 1).

Since the beginning of the Bush Administration, real (i.e., adjusted for inflation) average hourly earnings have increased 2.24 percent.[6] During the same period of the first Clinton Administration, real average hourly earnings grew by only 0.13 percent. Moreover, in the two and a half years following the 1990-1991 recession, real average hourly earnings *fell* 0.66 percent. The current increase demonstrates that earnings are outpacing inflation to the benefit of American workers and their families – in sharp contrast to the corresponding Clinton years.

Using the broader measure of "compensation," which includes both wages and benefits, the earnings picture improves even more. Between the first quarter of 2001 and the first quarter of this year, compensation paid to workers in private industry has increased a total of 12.18 percent.[7] Specifically, wages have grown by 9.44 percent and employee benefits, including health care and pension benefits, have increased by a total of 18.98 percent.

Chart 2
Growth in Compensation

	Bush Administration		Clinton Administration	
	1st Quarter 2001 - 1st Quarter 2004	Annual Average	1st Quarter 1993 - 1st Quarter 1996	Annual Average
Wages	9.44%	3.15%	9.22%	3.07%
Pension and Health-care Benefits	18.98%	6.33%	9.05%	3.02%
Total Compensation	12.18%	4.06%	9.41%	3.14%

Source: BLS Employment Cost Index (1993 - 2004)

Although the pessimists could argue that the increase in benefits costs is attributable to the rising cost of health care, wages alone have grown faster in the first 12 quarters of the Bush Administration than total compensation – wages *and* benefits – grew during the same period of the first Clinton Administration (see Chart 2).[8] Because it is not possible to disaggregate pension and health-insurance costs in the BLS data, the degree to which the expansion of health-care benefits is attributable to increased insurance costs or greater employer participation cannot be determined. The fact that employer contributions for these benefits continue to rise, however, suggests that increases in health-insurance costs are not resulting in a whole-scale elimination of these important benefits by employers.

[5]BLS, "The Employment Situation: June 2004," Table B-4.
[6]BLS, average hourly earnings historical data.
[7]BLS, Employment Cost Index, Seasonally Adjusted, 2001-present.
[8]BLS, Employment Cost Index.

While the foregoing statistics demonstrate healthy growth in compensation, the real issue for American workers is disposable income – the dollars left after taxes that are available for living expenses, a child's education, family vacations, and retirement savings. In the first 12 quarters of the Bush Administration, per capita after-tax income increased by 12.5 percent,[9] in large measure as a result of the individual tax-rate reductions enacted in 2001 and 2003.[10] Nevertheless, the pessimists argue that inflation is eating away these wage gains. In fact, the per capita after-tax disposable income in real (*i.e., inflation-adjusted*) terms has increased 7.1 percent since President Bush took office – a significant improvement over the 5.2-percent increase during the same period of the first Clinton Administration.[11]

Full-Time, Permanent Jobs are Still the Norm

The pessimists also portray the new jobs as being only part-time or temporary positions. Once again, after looking at the facts, it is hard to take this argument seriously. Of the more than 139 million Americans working in June – a record high for this country – more than 82 percent were employed in full-time positions.[12] Since the start of the Bush Administration, full-time employment has averaged 82.56 percent, nearly a full percentage point higher than full-time employment during the same period of the first Clinton Administration.[13] In addition, in the past year, the number of full-time positions has increased by nearly 1.3 million.[14]

Moreover, of those individuals not working full time in June, more than 81 percent indicate they have chosen part-time employment for non-economic reasons, such as family or personal obligations or working part time while in school.[15] As a result, only about 4 percent of workers are currently employed in part-time positions because they could not find full-time jobs – below the 5-percent average during the first Clinton administration.[16]

Likewise, there is no merit to the argument that the economy is only producing temporary positions for Americans looking for work. In fact, only 2.25 percent of all payroll jobs in the private sector in June were temporary jobs.

The growth of temporary positions, however, tells another story. As the economy recovers from a recession, temporary jobs tend to increase as employers gradually increase their

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[9]Bureau of Economic Analysis, National Income and Product Accounts Tables, Table 2.1, June 30, 2004 – http://www.bea.gov/bea/dn/nipaweb/index.asp.

[10]Economic Growth and Tax Relief Reconciliation Act of 2001, H.R. 1836, 107th Congress, 1st Session, Public Law 107-16, June 7, 2001; Jobs and Growth Tax Relief Reconciliation Act of 2003, H.R. 2, 108th Congress, 2d Session, Public Law 108-27, May 28, 2003.

[11]BEA, National Income and Product Accounts Tables.

[12]BLS, "The Employment Situation: June 2004," Table A-6.

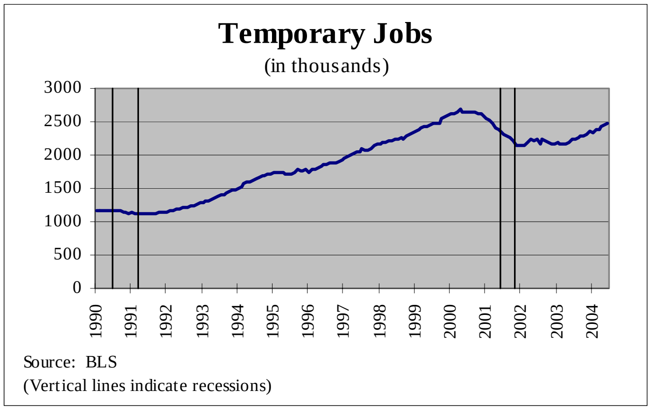
[13]BLS, Current Population Survey historic data.

[14]BLS, "The Employment Situation: June 2004," Table A-6.

[15]BLS, "The Employment Situation: June 2004," Table A-5.

[16]BLS, "The Employment Situation: June 2004," Table A-5, and historic data.

business activity; the increase ultimately foreshadows permanent positions once the recovery takes hold. Accordingly, temporary positions tend to be a leading indicator of the economy's direction.[17]



While the percentage of temporary positions is low in relation to total payroll jobs, the figure above illustrates that the growth in these jobs parallels the strong growth in the economy over the past year, just as temporary positions grew following the end of the 1990-1991 recession.

Conclusion

The steady stream of strong employment data over the past year makes it difficult for the pessimists to persist with the argument that only poor-quality jobs are being created. Nevertheless, Republicans must highlight the fallacy of their claims. It is important to remember that despite a series of significant economic shocks – the terrorist attacks of September 11, 2001, the 2001 recession, corporate-management scandals, and the continuing war on terror, with major commitments in Afghanistan and Iraq – the U.S. economy is strong and growing. At the same time, Republicans would not want to imply that the significant improvements in employment are sufficient: In the words of President Bush, "We won't rest until everybody who wants to work can find a job."[18]

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[17]Steven P. Berchem, "The Bright Spot: American Staffing Association's Annual Economic Analysis of the Staffing Industry," American Staffing Association, May-June 2004, pp. 5-6 – http://www.staffingtoday.net/staffstats/annualanalysis04.pdf.

[18]President George W. Bush in remarks made in Winston-Salem, North Carolina on November 7, 2003, as reported in the *Charlotte Observer*, November 8, 2003.