The Daily Dish

Eakinomics: August Jobs

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 7, 2021

This past Friday, the Department of Labor released the employment report for August. There were two main storylines. The first was that the report was a disaster. The CNBC headline was typical: "Jobs report disappoints — only 235,000 positions added vs. expectations of 720,000." The second was that more fiscal policy was the right antidote. Per the *New York Post*, "Biden uses slow jobs report to urge Congress to pass $4.7T in spending**."**

Neither story stands up under close scrutiny.

First, consider the report itself. Yes, the 235,000 new jobs was well below expectations. But that should not have been shocking. As has become familiar, the labor market is following the path of the coronavirus, the Delta variant in particular. We saw this in the spring of 2020, across regions during the late spring and summer, and nationwide in late fall and early winter.

As is also familiar, the impacts are quite uneven across the economy. The major impact of the virus was to bring hiring to halt in the leisure and hospitality sector – literally 0 new jobs. Since it had created 415,000 jobs the month before, this accounts for a lot of the miss relative to expectations.

Elsewhere the labor market was hot, hot, hot. The household survey showed 509,000 new jobs and an unemployment rate down 0.2 percentage points to 5.2 percent. Wages (average hourly earnings) rose at annualized rate of 6.8 percent. Hours worked also rose, leading payrolls (employees times hours times wages) to rise at an annual rate of 9.4 percent. That is a tight labor market.

Finally, as has become familiar, the reason the labor market is so tight is the supply side. Labor force participation remains well below the February 2020 level at 61.7 percent. BLS reports that 1.5 million people were prevented from looking for work by the virus. If that was restored, participation would be 62.3 percent – still well below 63.3 percent prior to the pandemic.

So, the policy lesson is to focus on the public health mission and, if possible, improve the incentives to participate in the labor market. Instead, the president chose to focus on more spending, combined with damaging tax policy. "The second thing that has to happen in September is for the Congress — the House and Senate — to finish the job of passing my economic agenda so that we can keep up the historic momentum we've been building these last seven months. It's about investing in America's future, not about short-term stimulus; that's not what we're talking about. "

Not quite. It is true that the Senate-passed infrastructure bill is about long-run productivityand poses little i nflation risk. But the centerpiece of the American Family Plan (aka “the reconciliation bill”) is misleadingly labelled child tax credit (CTC). There used to be a child tax credit; a credit against taxes owed for parents. This CTC is monthly checks to 90 percent of parents, with no restrictions on the use of the money, no criteria to qualify, nothing. It is simply checks on steroids, which is exactly what this administration has proposed when it wanted stimulus. As for the remainder, the notion that it will increase labor force participation looks like a risky bet at best.

Friday’s jobs report is neither evidence that the recovery is stalling nor a justification for the administration’s fall economic agenda.