



June 24, 2004

A Dose of Reality for the Pessimists' "McJobs" Outlook

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 facts disproves this "McJobs" contention – the *quality* of new jobs is rising:
 - Three quarters of the new jobs created in May 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 2.37 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 82.57 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 part-time employees has declined by 240,000, while full-time positions have increased by more than one million.
 - More than 80 percent of part-time workers in May indicate that they have chosen part-time employment for non-economic reasons.
 - Temporary jobs in May were only 2.24 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 May, non-farm payroll employment increased by 248,000 net new jobs, and the BLS made an upward revision to the employment figures for March and April, adding an additional 74,000 jobs to the original estimates.¹ That means that over 1.1 million net new jobs have been created so far this year, including 91,000 positions in the manufacturing sector of the economy.

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 producing not only an impressive number 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 May, however, provides a more optimistic view. As the following chart illustrates, in May more than 76 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 \$15.64.³

¹Bureau of Labor Statistics (BLS), "The Employment Situation: May 2004," USDL 04-996, June 4, 2004, Tables A – <http://www.bls.gov/news.release/empsit.nr0.htm>. BLS currently does not publish data that would allow an analysis of the subcategories of jobs within a major industry sector and their average hourly wage rates on a seasonally adjusted basis.

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

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

Chart 1
Higher-Paying Industries Create More Jobs in May

	May			May	
	Job Increase (thousands)	Average Hourly Earnings by Industry		Job Increase (thousands)	Average Hourly Earnings by Industry
New Higher-Paying Jobs in the Private Sector			New Lower-Paying Jobs in the Private Sector		
Utilities	1	\$25.47	Manufacturing -- nondurable	6	\$15.02
Information	3	21.40	Other services	(1)	13.89
Construction	37	19.21	Retail trade	19	12.05
Natural resources and mining	3	18.06	Leisure and hospitality	40	8.88
Wholesale trade	3	17.60	Total New Jobs Created	65	
Financial activities	15	17.52			
Professional & business services	64	17.37			
Transportation & warehousing	15	16.77			
Manufacturing -- durable	26	16.72			
Education and health services	44	16.07			
Total New Jobs Created	211				
Percentage of Higher-Paying Jobs	76.4%		Percentage of Lower-Paying Jobs	23.6%	

Source: BLS (Household Survey), seasonally adjusted.
 Note: The overall private-sector average hourly wage in May was \$15.64. 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 May, BLS reported a reduction of 27,000 government jobs.

The chart shows that in May, 37,000 new construction jobs were created in an industry with an average wage of \$19.21 per hour – 23 percent more than the overall hourly wage average; 15,000 new financial-sector jobs were created in an industry with an average wage of \$17.52 – 12 percent above the overall average.⁴ In contrast, the leisure and hospitality industry, which has an average wage of \$8.88, accounted for only 15 percent of the new jobs created. More broadly, the employment figures in May 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 May, average hourly earnings of production or non-supervisory workers increased at an annualized rate of more than 3.6 percent, the fifth

⁴While the professional- and business-services industry registered the largest job gains in May, a significant portion of those jobs fell into the category of temporary-help services. As noted on page 5, however, temporary jobs are a leading indicator of future job growth in the professional sector and other industries utilizing such positions.

consecutive monthly increase.⁵ Importantly, the growth in hourly earnings was broad-based, with wages increasing in 12 out of the 14 major industry sectors in May (see Chart 1).

Since the beginning of the Bush Administration, real (i.e., adjusted for inflation) average hourly earnings have increased 2.37 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 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	<u>18.98%</u>	<u>6.33%</u>	<u>9.05%</u>	<u>3.02%</u>
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.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.

⁵BLS, “The Employment Situation: May 2004,” Table B-4.

⁶BLS, average hourly earnings historical data.

⁷BLS, Employment Cost Index, Seasonally Adjusted, 2001-present.

⁸BLS, 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 12.45 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 138.77 million Americans working in May – 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 82.57 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 part-time employees has declined by 240,000, while full-time positions have increased by more than one million.¹⁴

Moreover, of those individuals not working full time in May, more than 80 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 2.24 percent of all payroll jobs in the private sector were temporary jobs in May.

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 business activity; the increase ultimately foreshadows permanent positions once the recovery

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

¹⁰Economic 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.

¹¹BEA, National Income and Product Accounts Tables.

¹²BLS, “The Employment Situation: May 2004,” Table A-6.

¹³BLS, Current Population Survey historic data.

¹⁴BLS, “The Employment Situation: May 2004,” Table A-6.

¹⁵BLS, “The Employment Situation: May 2004,” Table A-5.

¹⁶BLS, “The Employment Situation: May 2004,” Table A-5, and historic data.

takes hold. Accordingly, temporary positions tend to be a leading indicator of the economy's direction.¹⁷

Figure 2



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

¹⁷Steven 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>.

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