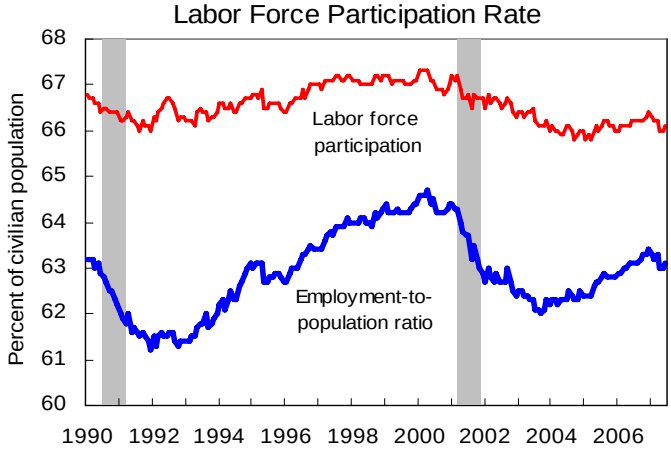
Joint Economic Committee
# WEEKLY ECONOMIC DIGEST
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair
July 9, 2007

## ECONOMIC NEWS

### Solid Employment Report for June

**Payrolls gained in June.** Total payroll employment at nonfarm establishments rose by 132,000 jobs last month, following an unusually large gain of 190,000 jobs in May. Even so, payroll growth has been on a slower pace this year, reflecting the slowing in overall economic growth that began early last year. Over the first half of this year, payroll employment rose at an average monthly rate of 145,000 jobs, below the average of 189,000 jobs per month in 2006.

Civilian Employment-to-Population Ratio and Labor Force Participation Rate




Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

**The unemployment rate was unchanged last month.** The civilian unemployment rate remained at 4.5 percent in June. The percentage of the population with a job rose by 0.1 percentage point to 63.1 percent, while the labor force participation rate (the percentage of the population working or actively looking for work) also rose by 0.1 percentage point to 66.1 percent. However, both measures remain below their levels at the end of last year, and more than a full percentage point below their levels in March 2001 when the recession began (see chart).

**The average workweek lengthened while earnings moderated some in June.** The average number of hours worked by production and nonsupervisory workers on private nonfarm payrolls rose by 0.3 percent to 33.9 hours per week last month. That was the first increase in the average workweek since March. The average hourly earnings of those workers increased by 0.3 percent in June, following a 0.4 percent gain in May. Average hourly earnings rose 3.9 percent over the past 12 months.

## IN FOCUS

### U.S. Needs to Make Investments in High-Quality Early Care and Education

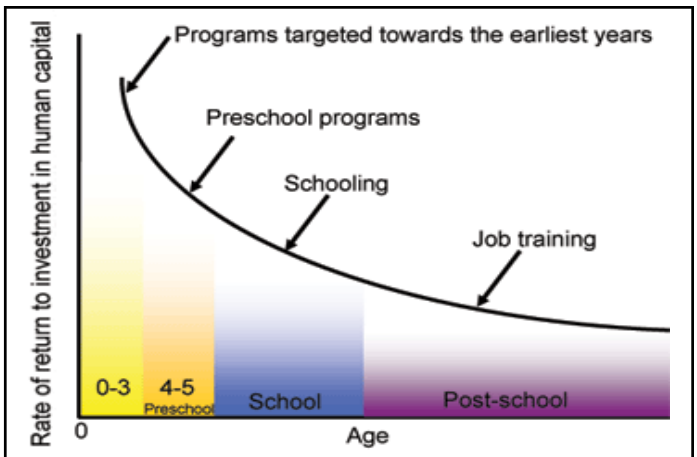
The economy faces significant challenges in the future, among them a substantial slowing in the growth of the labor force as a result of the retirement of the Baby Boom generation. Economic growth is determined by two factors: growth of labor force (the number of people working or actively looking for work) and productivity (the amount of output per hour worked). With the projected slowing of labor force growth in coming decades, the country's economic growth will increasingly depend on maintaining a high pace of productivity. A substantial body of research demonstrates that investments in high-quality early care and education may be the single most effective way to increase future productivity.

The effects of high-quality preschool for disadvantaged children have been studied extensively. The programs improve student outcomes, increasing their educational attainment, decreasing their criminal activity, and improving their employment and earnings as adults. These changes in behavior reduce the burden on public resources by decreasing spending on special education, incarcerations and public assistance and by increasing future tax revenue.

These changes produce a substantial return on investment. Studies have estimated that these programs produce as much as $17 in social benefits for every dollar invested,

*Continued on reverse...*

## SNAPSHOT




Source: James J. Heckman and Dimitriy V. Masterov, "The Productivity Argument for Investing in Young Children." Forthcoming 2007, *Review of Agricultural Economics* (http://jenni.uchicago.edu/papers/Heckman_final_all_wp_2007-03-22c_jsb.pdf).

## THE WEEK AHEAD

| DAY | RELEASE |
|---|---|
| Tuesday 10 | Monthly Wholesale Trade: Sales and Inventories (May 2007) |
| Thursday 12 | U.S. International Trade in Goods and Services (May 2007)<br>Monthly Treasury Statement of Receipts and Outlays of the United States Government (June 2007) |
| Friday 13 | US. Import and Export Price Indexes (June 2007)<br>Advance Monthly Sales for Retail and Food Services (June 2007)<br>Manufacturing and Trade Inventories and Sales (May 2007) |

*Friday, July 13th: Advance report on retail sales for June*

## THE ECONOMY AT A GLANCE

| KEY INDICATORS | MONTH | | | QUARTER | | | YEAR | |
|---|---|---|---|---|---|---|---|---|
| | Jun | May | Apr | 2007 Q2 | 2007 Q1 | 2006 Q4 | 2006 | 2005 |
| Real GDP Growth (%) | — | — | — | n.a. | 0.7 | 2.5 | 3.3 | 3.2 |
| Unemployment (% of labor force) | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.6 | 5.1 |
| Labor Productivity Growth (%) | — | — | — | n.a | 1.0 | 2.1 | 1.6 | 2.1 |
| Labor Compensation Growth (%) | — | — | — | n.a. | 3.2 | 3.6 | 3.1 | 3.3 |
| CPI-U Inflation (%) | n.a | 8.7 | 4.9 | n.a. | 3.8 | -2.1 | 3.2 | 3.4 |
| Core CPI-U Inflation (%) | n.a. | 1.2 | 2.4 | n.a. | 2.3 | 1.9 | 2.5 | 2.2 |

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

## IN FOCUS (Continued)

with 80 percent of the benefits accruing to the public. (Returns on broader programs would be smaller but still substantial.) The return on investment is much larger for programs that target young children than for programs that target older children or adults (see Snapshot).

Dr. James Heckman, a Nobel prize-winning economist from the University of Chicago, argues that the success of high-quality early care and education programs derives from the non-cognitive skills acquired by children in these programs—skills such as perseverance, self-control and motivation. These non-cognitive skills enhance lifelong ability to learn.

Eventually, high-quality preschool yields more skilled workers whose productivity is enhanced by their ability to perform complex tasks, learn new skills and adapt to changes quickly. Businesses become more profitable as a result of higher productivity, and can use these profits to increase workers' wages and to increase investment, which can translate into more jobs. Greater productivity also translates directly into a higher gross domestic product (GDP). In the long term, investing in high-quality preschool available to all children has been estimated to increase GDP by as much as 3.5 percent.

The current level of public investment in early care and education is inadequate, particularly given the substantial public good that comes from having a well-educated population. In addition to the benefits already described, investments in early care and education have the potential to reverse the trend toward rising income inequality.

Federal Reserve Chairman Ben Bernanke has repeatedly emphasized that income inequality in the United States derives largely from the increasing demand for highly skilled workers and that the most effective way to address inequality is to help people acquire the skills necessary to earn higher wages. Government can facilitate this skill acquisition by helping to close the gap between what high-quality early care and education programs cost and what parents can afford to pay.