WebMemo
Published by The Heritage Foundation

No. 2380
April 3, 2009

March Employment Report: With Grim Jobs Numbers, Not the Time for a Tax and Spend Budget

James Sherk and J. D. Foster, Ph.D.

March continued the string of dismal employment reports from the Bureau of Labor Statistics. The unemployment rate increased by another 0.4 of a percentage point to 8.5 percent. The payroll survey reported that non-farm employment fell by 663,000 jobs, roughly in line with expectations. These discouraging economic figures should prompt Congress to pause before passing a tax-and-spend budget such as the one President Obama proposed. This is precisely the wrong time to burden the economy with higher taxes and additional wasteful government spending.

March Report. Job losses were deep and widespread in March, with every sector besides health care shedding jobs. The unemployment rate climbed to 8.5 percent, the highest level since 1983. The current economic downturn is severe, and its magnitude thus far is similar to the 1981–82 recession. If these similarities hold true, unemployment will continue to climb and even peak months after the recession has ended, as it did in the early 1980s when the unemployment rate reached its high of 10.8 percent after the recession was officially over.

The unemployment rate increased despite 339,000 workers leaving the labor force. The unemployment rate climbed for almost all categories of workers, including of sex, race, and education. Male workers over 20 have an unemployment rate of 8.8 percent, compared to 7.0 percent for women over 20. Teenagers have an unemployment rate of 21.7 percent. The one exception to this almost universal increase was African American workers, whose unemployment rate fell by a statistically insignificant 0.1 of a percentage point.

Job losses hit less-skilled workers particularly hard in March. The unemployment rate for workers with at least some college education rose by 0.2 of a percentage point, while the rate for workers with a high school degree or less increased by 0.7 of a percentage point. Workers with a bachelor's degree or higher continue to have the lowest unemployment rate at 4.3 percent, while high school dropouts have the highest at 13.3 percent.

Job losses in the service industry (–358,000) constituted over half the total amount of job losses. Construction (–126,000) and manufacturing (–161,000) continued to reduce employment. Only health care (14,000) added jobs while professional business services (–133,000) continued its sharp decline. Over half (–72,000) of those professional and business service job losses came from temporary help services.

No Time for Tax and Spend. These discouraging numbers underscore that Congress should not embark on an anti-growth taxing and spending frenzy. Unfortunately President Obama's budget currently before Congress would do just that, increas-

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2380.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

ing spending by more than $1,000,000,000,000—one trillion dollars—over the next decade. Government spending does little to help the economy because, in the budgeting process, political concerns trump economic merit.

For instance, consider this week's announcement of another Detroit automaker bailout: Taxpayers will be spending billions of dollars to give GM and Chrysler another two months to come up with a turnaround plan after the Obama task force rejected their original plans as laughable. Even the Obama team expects GM and Chrysler to go into bankruptcy court, but rather than force them to do so immediately, Obama gave these companies an additional several billion dollars. That money will further weaken the economy by allowing GM and Chrysler to delay taking necessary and inevitable actions, including bankruptcy.

Obama's budget also outlines devastating tax increases that would permanently weaken the economy. Tax increases are wrongheaded under any condition, but to suggest them as the domestic economy is contracting as part of the Global Great Recession signals (at best) an extraordinary indifference to current economic conditions.

In total, over 10 years President Obama proposes $593 billion in tax relief and $1,961 billion in gross tax increases for a net tax increase of $1,368 billion.[1] The budget envisions the enactment of a cap-and-trade policy effective by 2012 to address climate concerns. As portrayed in the budget, this policy raises about $80 billion a year through 2019. However, the footnote to the table indicates that significant additional amounts are expected to be raised as the policy is further defined.[2]

Obama proposes to raise taxes significantly on upper-income families and small businesses by raising income tax rates on ordinary income, increasing tax rates on dividends and capital gains, preserving the death tax at onerous levels, restoring the previous phase-outs of the itemized deduction and personal exemptions, and creating a new cap on the rate at which individuals can deduct itemized deductions.

The Obama budget does include a few beneficial tax provisions among its many harmful proposals. For example, it includes a small but notable proposal to eliminate entirely the capital gains tax on small businesses. This provision would make it easier for prospering small businesses to raise equity capital to hire more workers and reach more markets. The budget also includes an important proposal to adopt automatic enrollment in IRAs and 401(k)s to expand private saving.[3]

Miscellaneous tax increases fill Obama's budget. It reinstates the now-long-lapsed excises on manufacturers to finance the Superfund toxic waste cleanup program. This trust fund already has sufficient resources to finance its operations for many years, so a reinstatement of the tax largely on manufacturing concerns is unnecessary. Repealing an inventory accounting rule known as "last in, first out" would raise taxes on businesses that need to carry significant amounts of inventory. There is no policy justification for this proposal other than as a convenient means of raising taxes on businesses. These are just two of the more notable examples of the many miscellaneous proposed tax hikes in President Obama's budget.

No Time to Threaten Radical Restructuring and Tax Hikes. The U.S. economy slid from a mild recession (December 2007 through August 2008) into the current deep and rapid contraction that threatens to persist through 2009. Asia and Europe

1. These figures are measured against a current policy baseline, which projects revenues over the budget window assuming all current tax policies are continued. Thus, a tax provision like the R&D tax credit, which typically expires each year and is extended each year, is carried in the baseline forecast as though it were permanent. This baseline issue is discussed below.
2. U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (Washington, D.C.: U.S. Government Printing Office, 2009), footnote 5, table S-6, at *http://www.gpoaccess.gov/USbudget/fy10/pdf/fy10-newera.pdf* (April 3, 2009).
3. For a discussion of auto IRAs, see J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security through Universal IRAs," Retirement Security Project, at *http://www.retirementsecurityproject.org/pubs/File/RSPAutoIRALongpaperFINAL7.10.2007.pdf* (April 3, 2009).

have also fallen into deep recessions expected to continue into 2010.

President Obama and the Democratic Congress responded to news of a trillion-dollar-plus budget deficit in 2009 with a massive ill-labeled stimulus bill. In addition, the Treasury and the Federal Reserve are employing a multitude of programs to restore financial markets to normal operations and begin to lay a foundation for economic recovery. This is the economic background against which President Obama has proposed to jack up tax rates on small businesses.

Higher taxes on small businesses, higher taxes on investment capital, and a massive new tax regime to finance a risky new program to drive up energy costs and restructure much of the economy according to federal government designs are all policies that would weaken the economy under any circumstances. It is extraordinarily harmful and ill-advised to propose such policies under the present economic conditions.

A Better Change in Course for Tax Policy. The March employment report shows an economy continuing to slide deeper into recession. In response to these worsening conditions, President Obama is proposing to raise taxes and expand government spending. No people have ever taxed themselves into prosperity. Additional government spending will do little to help the economy because political considerations—not economic merit—will dictate how the money gets spent. The net effect of these proposals would be:

- Much higher levels of taxation;
- A much weaker economy; and
- American families with much less of their own money to spend.

A wiser course would be to jettison the tax hikes, including the jobs-destroying climate change initiative, and focus on policies that strengthen the economy such as cutting spending and cutting tax rates.

—James Sherk is the Bradley Fellow in Labor Policy in the Center for Data Analysis, and J. D. Foster, Ph.D., is the Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies, at The Heritage Foundation.