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Heritage Employment Report: March Jobs Report Springs Forward

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In March, employers added 162,000 jobs while the unemployment rate remained constant at 9.7 percent. The report contains some good news for the labor market, as hiring kept pace with an increase in the overall labor force. Hours of work were also up, indicating that the labor market has bottomed out and is beginning to expand again. The labor market in January and February was revised upwards, with January showing positive employment growth while job losses in February were pared down.

Census Hiring. For the next few months, the federal government's hiring for the decennial census will increase employment. Historically, federal census employment peaks in the spring between March and May, with additional hirings for follow-up interviews in April to July. Hiring by the federal government peaks in May and then rapidly declines as the census is completed.

The Bureau of Labor Statistics (BLS) is given a number of workers actually hired by the Census Bureau to control for this temporary spike in employment. The BLS then subtracts out the census hires before making seasonal adjustments to the data. In March, 48,000 temporary workers were hired to conduct the census.

The March Report. The unemployment rate remained at 9.7 percent for the third consecutive month. The unemployment rate is remaining flat even as the labor force participation rate has increased over the last few months. This indicates that the economy is growing enough to find jobs as individuals return to the labor force. However, the economy is not yet growing fast enough to lower the unemployment rate.

Teenagers were the main reason for the increase in the labor force, as they accounted for over a third of the growth in the labor force. Their unemployment rate shot up to 26.1 percent. Teenagers are the most volatile demographic graph of the labor force and have the highest unemployment rate, as they are the group most affected by policies that set a wage floor, such as the minimum wage. The adult male and female unemployment rates remained constant at 10.0 and 8.0, respectively.

The employment survey showed that employers added 162,000 jobs in March. Both construction (15,000) and manufacturing (17,000) added jobs. This was the second consecutive month of job growth for manufacturing and the first month since 2007 for construction.

The service sector added 82,000 jobs, with over half (45,000) from education and health. Financial services (–21,000) and information (–12,000), which includes telecommunications and publishing, were the big losers. Temporary help (40,200) increased for the sixth straight month.

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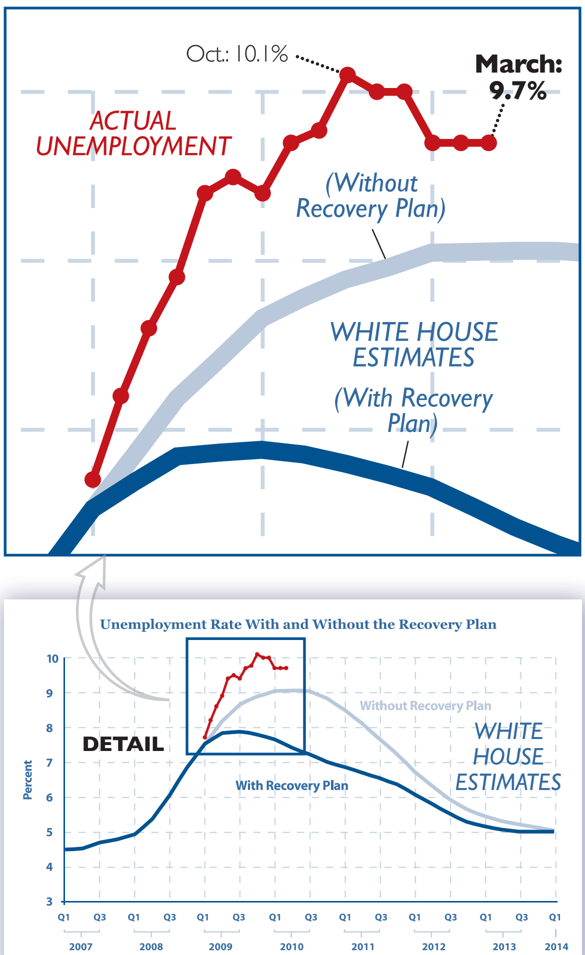
Hours of work crept up to 33.3 from 33.1 for production and non-supervisory employees. This is the same level that was reached in January 2010 and is higher than in March 2009. While average hourly earnings fell slightly, the increase in hours ensured that average weekly earnings were up.

Unemployment Rate: March 2010

President Obama promised that government spending would "stimulate" the economy and quell rising unemployment by "creating or saving" millions of jobs. In January 2009, Obama's advisers produced a chart (bottom) visualizing the positive results of his recovery plan. But actual unemployment (below, detail from box at bottom) has far exceeded the White House estimates.



Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 10, 2009.

Chart 1 • WM 2854 heritage.org

Alternative measures of unemployment differed, with U-4 (the official unemployment rate with discouraged workers) falling from 10.4 to 10.3 percent but U-6 (the broadest definition of unemployment that includes marginally attached workers) increasing from 16.8 to 16.9 percent. While some of the discouraged workers may have become marginally attached, it is also likely that some re-entered the labor force and began job searching again. The number of labor market re-entrants increased by almost 100,000 in the last month. Overall, the labor force participation rate has shrunk in the last year as many individuals have chosen not to seek employment.

The Labor Market Crunch. The March jobs report shows that, even with a recovery, it will take a long time for the economy to create enough new jobs to make a serious dent in the unemployment rate. Why? Business investment has fallen roughly 20 percent during the recession. Potential employers are starting fewer projects, so they need to hire fewer workers.

Investment has fallen for two main reasons:

1. Employers have more difficulty obtaining credit, and
2. Investors are less confident of their ability to earn a return on their investments.

It usually takes economies several years to recover from financial crises, and no matter what Congress does, investment will not recover overnight. However, Congress can take steps to improve both factors holding investment back.

Credit Crunch. Business projects cannot get off the ground or pay workers without funding. However, in the aftermath of the financial crisis and the burst of the housing bubble, lenders have sharply curtailed credit. Banks want to restore their balance sheets and avoid potentially risky loans as they struggle to return to viability.

A recent survey of chief financial officers suggests that many businesses are now having difficulty financing operations: 59 percent of small firms and 51 percent of large firms reported that credit constraints had affected their operations.[1] Over half of those constrained firms had difficulty obtaining or renewing a credit line. And this affects their business choices. Fully 86 percent of credit-constrained firms reported passing up promising investment opportunities because of concerns about raising the needed capital from outside their business.

Less investment funding means that fewer projects go forward and employers hire fewer workers. The credit crunch holds back job growth. Congress cannot directly address this problem—forcing banks to make risky loans would do more harm than good. But Congress can take steps to make funds more available to businesses.

The Congressional Response:

Repeal Parts of the Health Care Bill. The health care bill significantly raises employer costs for providing health coverage for their workers. The stream of companies restating their earnings because of the health care bill is just the tip of the iceberg. The health care bill will raise business costs by tens of billions of dollars—funds that cannot be invested elsewhere.

Congress should repeal measures in recently passed legislation that raise business costs while committing to not passing new expensive taxes or regulations in the future.

Free Up New Sources of Corporate Financing. Multinational companies earning money in foreign countries must pay U.S. taxes on those earnings if they bring them into the U.S. As a result, many firms leave profits overseas rather than repatriating them to America. Estimates suggest that this tax barrier has caused employers to leave over $550 billion overseas instead of returning it to the United States.[2]

Congress should allow multinational corporations to bring their earnings to the U.S. without levying prohibitive tax rates. Freed of this distorting tax, those firms would be able to pursue efficiencies otherwise unavailable to them, or they would pay those earnings out to their shareholders to invest elsewhere in the economy.

Stop Making Matters Worse. The labor market has begun to recover. But the recovery will be slow and arduous, and Congress's pushing of higher taxes and regulation on business will make it even slower. The economy is continuing to struggle as employers are still reluctant to hire. Policies that raise investment costs through higher taxes will only delay the labor market recovery.

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1. Murillo Campello, John Graham, and Campbell R. Harvey, "The Real Effects of Financial Constraints: Evidence from a Financial Crisis," National Bureau of Economic Research *Working Paper* No. 15552, December 2009.
2. Allen Sinai, "Macroeconomic Effects of Reducing the Effective Tax Rate on Repatriated Foreign Subsidiary Earnings in a Credit- and Liquidity-Constrained Environment," Decision Economics, revised December 7, 2008.