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Heritage Employment Report: March Jobs Spring Forward

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The labor market recovery continued in March as the Bureau of Labor Statistics reported that the unemployment rate fell to 8.8 percent and nonfarm payroll employment increased by 216,000. With the unemployment rate falling for four straight months, the unemployment rate for March was the lowest since April of 2009. Job gains were widespread with growth in every sector except for construction (–1,000), the information sector (–5,000), and government (–14,000). The report was mostly positive, with the main concern being the lack of wage growth in March.

While this report is mostly good news, the rate of job creation is still too slow. It will take many years to recover to full employment if job creation is just over 200,000 new jobs per month. One way that the rate of job creation could be sped up is a reduction in the corporate tax rate.

The March Employment Report. The household survey reported that the unemployment rate fell by 0.1 percent, from 8.9 percent to 8.8 percent. The labor force participation rate remained at 64.2 percent for the third consecutive month. The participation rate is expected to climb sharply in the next few months as discouraged workers return to the job market to find employment. The Congressional Budget Office estimates that the participation rate will climb to 64.7 percent as the recovery strengthens before the participation rate slowly declines due to the increase in the number of retired Americans.[1] When the participation rate increases, the job creation rate must also rise to prevent the unemployment rate from climbing.

Adult women saw a sharp drop in their unemployment rate (–0.3), while the rate for adult men was essentially flat (–0.1). The unemployment rate also dropped for those without a high school degree (–0.2) and those with some higher education experience (–0.4). While college graduates did experience a slight increase (0.1), they still have an unemployment rate of 4.4 percent, which is less than half the rate for high school graduates and one-third of those without a high school education.

With 230,000 private jobs created, the economy generated the first two consecutive months of 200,000 new jobs or more since 2006. Job creation was widespread, with manufacturing (17,000) and mining (15,000) gaining jobs in the goods-producing sector. The service sector (199,000) was sparked by strong growth in professional and business services (78,000), one-third of which was temporary help (28,800). Professional and technical services (34,700) had a strong month led by accounting and bookkeeping (20,200). Health care (44,500) and leisure and hospitality (37,000) were also strong on the hiring front. Total government jobs fell by 14,000 as local government (–15,000) offset a small increase in federal jobs (1,000).

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One key factor of the payroll survey tempered some of the optimism of this report: Average hourly earnings actually fell for production and non-supervisory employees. Real wages for some employees fell over the past month, while food and gas costs continued to rise. However, a different factor showed that the average hours of work per week increased to 33.6. This is the highest level of hours worked per week since 2008. This indicates a slight tightening of the labor market, which should translate into wage gains in the upcoming months.

Corporate Tax Rate. With Japan scheduled to reduce its corporate tax rate, the United States will have the highest corporate tax rate in the developed world. The United States has stood alone while the rest of the developed world has moved forward with a pro-growth strategy of slashing corporate tax rates. The Organization of Economic Cooperation and Development (OECD) reports that its 30-nation membership cut corporate tax rates an average of 7.1 percentage points in the past decade, and the United States will have a federal corporate tax rate one-third higher than the OECD average of 25.7 percent.[2] When Japan's corporate tax rate is lowered, the United States is one of three nations that will not have reduced the rate.

Corporate taxes are considered the most inefficient of all tax systems. They increase the cost of capital and slow economic growth. Nearly every economist believes that that tax burden falls on individuals, namely the workers and shareholders of the company. A more efficient corporate tax system would increase economic growth and boost the labor market.[3]

Boosting Momentum. As government spending decreases, the labor market is finally increasing. The unemployment rate has steadily fallen as the private sector has boosted its hiring. Unfortunately, the rate of job creation is still too slow for this recovery. Congress should take its lead from the rest of the world in moving forward to reform the corporate tax system. Instead of a reliance on the failed approach of more government spending, a lower and more efficient corporate tax rate would make American businesses more competitive and increase hiring far faster than central planning ever could.

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1. Congressional Budget Office, "CBO's Labor Force Participation Rate through 2021," March 2011, at *http://cbo.gov/ftpdocs/120xx/doc12052/03-22-LaborForceProjections.pdf* (April 1, 2011).
2. OECD Centre for Tax Policy and Administration, "Tax Reform Trends in OECD Countries," February 17, 2011.
3. Karen Campbell and John Ligon, "The Economic Impact of a Twenty-Five Percent Corporate Income Tax Rate," Heritage Foundation *WebMemo* No. 3070, December 2, 2010, at *http://www.heritage.org/Research/Reports/2010/12/The-Economic-Impact-of-a-25-Percent-Corporate-Income-Tax-Rate*