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A Strong Jobs Report Points the Way to Better Policy

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Surveys show that many Americans feel anxious about their economic prospects. Often they hear stories about weak job growth or stagnant earnings that seem to confirm their fears. And many think that proposals to raise the minimum wage would help low income workers get ahead in these difficult times. But the evidence shows that that raising the minimum wage would not help.

And today's employment numbers from the Department of Labor show that America's economy is growing steadily. Employers added 121,000 new jobs in June, and employment growth in May was revised upwards by over 15,000 jobs. Over the last twelve months, the economy has created 1.85 million new jobs, including 854,000 new jobs since January. The unemployment rate is only 4.6 percent, far below the averages of the 1970s, 1980s, and 1990s.[1]

Some critics say that the low unemployment rate is due to the increasing number of Americans who have chosen to opt out of the workforce and that the job market is therefore not as strong as it seems. However, surveys show that the Americans who have stopped looking for work do not want to work right now. Instead they want to do things like enjoy their retirement or return to school.[2] The better measure of the strength of the job market is this: Americans looking for work in today's economy have relatively little difficulty finding it.

Long-Term Unemployment Drops

In June, the number of long-term unemployed (those unemployed for longer than 27 weeks) fell by 217,000 to 1.1 million workers. The median number of weeks the unemployed stay out of work has fallen over the past year from 9.1 weeks to 7.5 weeks. This is evidence that the unemployed are having an easier time finding new work.

Moreover, the past year has seen every alternative measure of unemployment decline. For example, the unemployment rate that includes discouraged workers (workers who have given up looking for a job due to discouragement over their job prospects) fell from 5.3 percent in June 2005 to 4.9 percent in June 2006.

Increased Earnings

Average hourly earnings increased by $0.08 last month, and over the last year, wages have gone up by 3.9 percent. This is the largest increase in earnings since 2001 and is keeping pace with inflation.

Some Americans are concerned that wages are not increasing fast enough, especially for low-wage workers. If the market won't raise wages to help

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low income Americans get ahead, they argue, perhaps the government can by increasing the minimum wage.

It is an appealing idea, but one that does not work in practice. The vast majority of minimum wage workers do not live in poor households. Over half are under 25,[3] and the average family income of a minimum wage worker exceeds $40,000 a year.[4] Unsurprisingly, research shows that raising the minimum wage does not reduce poverty rates.[5]

While it does little to help the poor, the minimum wage has at least one unintended side effect: It reduces workers' long-term earnings. Research shows that increases in the minimum wage reduce the earnings and employment prospects of workers who were exposed to those increases over a decade later.[6] Higher minimum wages reduce job training investment, encourage students to drop out of school, and destroy entry-level job opportunities that can provide experience and skills. All of these hurt workers over the long term. Higher minimum wages hurt the very people they intend to help.

Conclusion

The June jobs report shows an economy that is successful at putting Americans to work. More Americans are working now than ever before, and periods of unemployment are milder than they were in the past. Earnings rose sharply last month and have increased over the past year.

Congress should resist the urge to try to 'fix' the economy by increasing the minimum wage. If Congress wants to improve the economy, it should focus on reducing counterproductive labor-market regulation, especially the many rules that make it expensive for employers to create jobs and hire employees. Proposals to allow interstate competition in health insurance markets, for example, could lower employers' expenses and lead directly to job creation and increased earnings. This would do far more for American workers than raising the minimum wage.

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1. Unemployment averaged 6.2 percent in the 1970s, 7.3 percent in the 1980s, and 5.8 percent in the 1990s. Source: Authors calculations based on data provided by the Bureau of Labor Statistics, Department of Labor.
2. For more information on why the unemployment rate is a good indicator of the strength of the labor market see James Sherk, "Hard at Work: Why the Unemployment Rate Accurately Reflects the Strength of the Labor Market," Heritage Foundation *Backgrounder* No. 1942, June 15, 2006, at *http://www.heritage.org/Research/Labor/bg1942.cfm*.
3. Testimony of Paul Kersey, Bradley Visiting Fellow at the Heritage Foundation, Before the House of Representatives; Small Business Committee; Subcommittee on Workforce, Empowerment, and Government Programs, Regarding The Economic Effects of the Minimum Wage. May 3, 2004. Online at: *http://www.heritage.org/Research/Labor/tst042904a.cfm.*
4. Characteristics of Minimum Wage Workers: 2005. Department of Labor, Bureau of Labor Statistics, at *http://www.bls.gov.cps/minwage2005tbls.htm.*
5. Neumark, David and William Wascher. "Do Minimum Wages Fight Poverty?," Economic Inquiry, 2002, v40(3,Jul).
6. Neumark, David and Nizalova, Olena, "Minimum Wage Effects in the Longer Run" (July 2004), NBER Working Paper Series, Vol. w10656.