

# WebMemo



Published by The Heritage Foundation

No. 1245  
November 3, 2006

## A Strong Pre-Election Jobs Report, Thanks to Good Economic Policy

*Rea S. Hederman, Jr., and James Sherk*

Today, the Bureau of Labor Statistics issued its last jobs report before the 2006 elections. It showed that the unemployment rate fell to 4.4 percent, a five-year low, and payroll employment increased by 92,000 jobs. The bigger story, however, is the sharp upwards revisions of employment growth from previous months. By almost any measure, the labor market is very strong, with 2.3 million new jobs created in the last 12 months and wages rising.<sup>1</sup> All this is still more evidence of the impact of the 2003 tax cuts.

### October Jobs

Today's report is another blow to critics who belittle the current economic expansion. The unemployment rate stands at 4.4 percent, an exceptionally low level that almost matches unemployment during the peak of the last expansion in 1999. Outside of the tech bubble, the unemployment rate has not been this low since March 1970. The unemployment rate for both adult men and women is below 4 percent.<sup>2</sup>

The duration and severity of unemployment also declined, and alternative measures of unemployment show declines over the past year. Fewer workers have given up their job searches and left the labor force than one year ago. A version of the unemployment rate that includes these marginally attached workers hit 5.3 percent last month, down from 5.8 percent a year earlier.<sup>3</sup> According to the data, Americans who want a job in this economy are able to find one.

### A 140,000-Job Surprise

A bigger surprise was the major upwards revision of last month's employment report. The number of

new jobs in September almost tripled, from 51,000 to 148,000, and another 42,000 jobs were added to August's numbers, as well. These revisions added 139,000 jobs to the reported payroll numbers. Further, the magnitude of these upward revisions indicates that the numbers for October will probably be revised upwards over the next several months.

### Wages Take Off

Both wages and total compensation are up, according to the latest government measures. The Employment Cost Index, which measures both wages and benefits, rose at a one percent annual rate in the third quarter, its fastest pace since the first quarter of 2005.<sup>4</sup> The median usual weekly earnings of full-time wage and salary workers rose 6.9 percent, after inflation, in the third quarter, a faster pace than at any time since 2001.<sup>5</sup> And average hourly earnings grew at a 4.4 percent annual rate in October and are now 3.9 percent higher than they were a year ago. Even after factoring in inflation, hourly earnings are still 2.4 percent higher than they were a year ago.<sup>6</sup> Americans' incomes have grown in rude disregard of the pundits who bemoan that wages are "stagnant."

This paper, in its entirety, can be found at:  
[www.heritage.org/research/economy/wm1245.cfm](http://www.heritage.org/research/economy/wm1245.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](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

## Another Criticism Disproved

The current economic expansion has had more than its fair share of critics. At first, critics attacked it for being a “jobless recovery.” Yet the economy has added 6.8 million jobs since the passage of President Bush’s pro-growth tax cuts of 2003. As the number of jobs increased, critics shifted their attacks to focus on the quality of the jobs created. Since that criticism was rebuffed with data showing that the jobs are disproportionately in industries that pay above-average wages, such as construction and finance, critics now argue that wages in most other industries are stagnating. Yet compensation figures now show a steady, real increase as the labor market continues to tighten and employers compete to hire increasingly scarce and productive workers.

## Conclusion

In 2003, the Heritage Foundation Center for Data Analysis (CDA) projected that the 2003 tax cuts, which reduced taxes on capital and earnings of

workers, would stimulate economic growth.<sup>7</sup> The economy has been robust in the years since those tax cuts, with almost seven million jobs created. CDA also projected that the unemployment rate would fall to 4.6 percent, very close to the current rate of 4.4 percent. While economic growth has cooled slightly, this recovery is quite robust, as projected.

The next Congress should take action to preserve the economic gains of the 2003 tax cuts by making permanent the marginal tax rate reductions and the dividends and capital gains tax cuts and by permanently repealing the death tax. The October employment report is a treat for the American worker, no matter what tricks its critics might use to belittle it. Locking in the policies most responsible for today’s strong employment report will help ensure that the future brings more good economic news.

*Rea S. Hederman, Jr., is Senior Policy Analyst, and James Sherk is Policy Analyst, in the Center for Data Analysis at The Heritage Foundation.*

1. Department of Labor. Bureau of Labor Statistics. *Employment Situation News Release: October 2006*. Table B-1. at [www.bls.gov/news.release/empstat.toc.htm](http://www.bls.gov/news.release/empstat.toc.htm).
2. *Ibid.* Table A-1.
3. *Ibid.* Table A-12.
4. Source: author’s calculations based on data from Department of Labor, Bureau of Labor Statistics, “Employment Cost Index,” Table 1, Civilian workers. Inflation adjusted using the CPI-U-RS.
5. Source: author’s calculations based on data from the Department of Labor, Bureau of Labor Statistics. *Usual Weekly Earnings of Wage and Salary Workers*. At [www.bls.gov/schedule/archives/wkyeng\\_nr.htm](http://www.bls.gov/schedule/archives/wkyeng_nr.htm) (October 31st, 2006). Inflation adjusted using the CPI-U-RS.
6. Source: author’s calculations based on data from the department of Labor. Bureau of Labor Statistics. *Employment Situation News Release*. Table B-3 at [www.bls.gov/ces/cesbtabs.htm](http://www.bls.gov/ces/cesbtabs.htm).
7. See William W. Beach, Ralph A. Rector, Ph.D., Alfredo Goyburu, and Norbert J. Michel, “The Economic and Fiscal Effects of the President’s Growth Package,” Heritage Foundation Center for Data Analysis Report No. 03-05, April 16, 2003, at [www.heritage.org/Research/Budget/cda0305a.cfm](http://www.heritage.org/Research/Budget/cda0305a.cfm).