

# WebMemo



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## Fireworks for the June Jobs Report

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

On July 6, the Bureau of Labor Statistics released its jobs report for June, showing that the economy added 132,000 new workers and the unemployment rate remained at the low rate of 4.5 percent. Workers' earnings increased by 0.3 percent, bringing the growth for the year to 3.9 percent. More than 2 million jobs have been created in the last 12 months, which has led to a slight decline in the unemployment rate. Congress should make permanent the pro-growth elements of the Bush tax cuts that reduced the taxes on capital gains and established lower marginal income tax rates.

**June Jobs.** The 132,000 new jobs surpassed the consensus forecast of 125,000. Even better news were the upward revisions for April and May that totaled 75,000 additional jobs. The revision for April was especially significant since it was originally reported that fewer jobs were created during April than during any month in the past two years.

The majority of new jobs were created by businesses in education, health, and leisure and hospitality. State and local governments added 40,000 new workers to the government payroll. Manufacturing was down by 18,000 jobs, but construction was up by 12,000 jobs. Construction employment has declined over the past 10 months as the housing market has softened.

Another striking feature of the economy is the consistently low level of unemployment. The unemployment rate remained at 4.5 percent in June, and has fluctuated between 4.4 percent and 4.6 percent for the past 10 months.<sup>1</sup> This is quite low, histori-

cally. Outside the tech bubble of the late 1990s, unemployment has not fallen below this rate since the early 1970s. For adults this rate is an even lower 4.0 percent. Very few workers who want jobs cannot find them.

**Minimum Wage and Teenagers.** However, teenagers have a much more difficult time finding work. 15.8 percent of teenagers and 31.2 percent of African-American teenagers who want a job cannot find one.<sup>2</sup> The minimum wage helps explain why many teenagers, especially young minorities, are out of work when most employers are eager to hire new workers.

Minimum-wage jobs are entry level positions held by workers with few job skills. Typically, these workers are teenagers and young adults who have little labor market experience.<sup>3</sup> Through experience on the job, they gain skills such as following directions from their bosses and interacting with co-workers and customers. Experience makes them more productive and causes their earnings to rise. Two-thirds of minimum-wage earners get a raise within a year.<sup>4</sup> Minimum-wage jobs provide teenagers with on-the-job training that enables them to move up their career ladder later in life.

This paper, in its entirety, can be found at:  
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214 Massachusetts Avenue, NE  
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(202) 546-4400 • [heritage.org](http://heritage.org)

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A high minimum wage discourages companies from providing teenagers with this training. Employers hire unskilled workers because they will work for less than workers who are more skilled. However, if an employer must pay \$7.25 an hour to both a skilled and an unskilled job applicant, he will always hire the more productive worker. Research shows that employers change who they employ when the minimum wage rises: They hire more skilled workers and fewer unskilled and disadvantaged workers.<sup>5</sup> Minority teenagers are particularly likely to lose out.<sup>6</sup>

Congress intended the minimum wage to help low-income families get ahead. Instead it has handicapped them, denying many young workers access to entry level jobs and the training and experience that would help them get ahead later in life. Workers suffer from that lost experience over the long-term. Research shows that such workers have reduced wages and less chance of holding a job after more than a decade.<sup>7</sup> With the minimum wage set to rise on July 24, more disadvantaged teenagers will be denied jobs that would have provided them with vital training for their future careers.

**Good News for American Workers.** Overall, this job report is good news for American workers. A low unemployment rate and solid job creation rate have increased income for workers. Wages have risen 3.9 percent over the past 12 months, while inflation has

risen by only 2.6 percent. Raises and promotions are moving many workers up the career ladder.

Alternative measures of unemployment echo the good news. The unemployment rate among discouraged workers is down to 5.4 percent from 5.6 in June 2006. Discouraged workers are individuals in the labor force who have given up looking for work because they do not believe they can find a job.

**What Congress Should (and Should Not) Do.** Congress should help keep the economy growing by making permanent the Bush tax cuts and not interfering in the labor market. The pro-growth elements of the Bush tax cuts lower the cost of capital and make work more rewarding because workers keep more of what they earned. The tax cuts clearly helped boost the economy, as employment has grown every month since August 2003, shortly after these tax cuts were made law.

Also, Congress should not meddle in the labor market with laws that artificially boost wages. The minimum wage partially explains why the unemployment rate of teenagers is so high and why teenagers are dropping out of the job market. The recent increase in the minimum wage will only reinforce that trend. Additional interference will hurt the youngest—and often the least skilled—workers.

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

1. Bureau of Labor Statistics, "Employment Situation News Release," Table A-1, July 6, 2007, at [www.bls.gov/news.release/empsit.t01.htm](http://www.bls.gov/news.release/empsit.t01.htm).
2. *Ibid.*, Tables A-1 and A-2.
3. James Sherk and Rea S. Hederman, Jr., "Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents" Heritage Foundation *WebMemo* No. 1320, January 23, 2007, at [www.heritage.org/Research/Economy/wm1320.cfm](http://www.heritage.org/Research/Economy/wm1320.cfm).
4. James Sherk, "Minimum Wage Workers' Incomes Rise When the Minimum Wage Does Not," Heritage Foundation *WebMemo* No. 1181, July 28, 2007, at [www.heritage.org/Research/Economy/wm1181.cfm](http://www.heritage.org/Research/Economy/wm1181.cfm).
5. James Sherk, "Minimum Wage Hikes Hurt Unskilled and Disadvantaged Workers' Job Prospects," Heritage Foundation *WebMemo* No. 1294, January 2, 2007, at [www.heritage.org/Research/Labor/wm1294.cfm](http://www.heritage.org/Research/Labor/wm1294.cfm).
6. David Neumark and William Wascher, "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," Tables 9 and 10, in Solomon Polchek, ed., *Research in Labor Economics*, Vol. 15, (Greenwich, Conn.: JAI Press, 1996).
7. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," National Bureau of Economic Research *Working Paper* No. w10656, June 2004.