

# WebMemo



Published by The Heritage Foundation

No. 1189  
August 4, 2006

## July Jobs Report Isn't as Hot as the Weather

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

For the fifth month in a row, July's Bureau of Labor Statistics jobs report, released today, falls short on job growth. Even worse, it reports the first increase in the unemployment rate since November 2005. July's tepid jobs numbers provide new evidence that the economy has cooled from the rapid growth of the first quarter. However, the July report also shows solid employment and economic growth over the past year. The American economy is strong despite this lackluster news on employment. Now is the time for Congress to take concrete steps to encourage growth by liberalizing energy policies and to reject burdening the economy with a higher minimum wage.

### Employment Remains Solid

In July, private companies increased employment by 113,000 people, which was slightly below expectations. New jobs did not keep up with labor force growth, and this caused the unemployment rate to creep up from 4.6 to 4.8 percent. Last month, employees worked the same number of hours, 33.9 a week, as they did in June.

While the July jobs report was not as strong as anticipated, the economy and the employment situation are still in good shape. The unemployment rate has fallen over the course of the past year from 5.0 percent in July 2005 to 4.8 percent in July 2006. With 2006 halfway through, the average employment rate for the year could be the lowest since 2000. Payroll growth has averaged 140,000 jobs per month for 2006, an impressive performance.

Moreover, earnings have kept up with inflation. Average hourly earnings rose 0.4 percent in July, after a gain of 2.1 percent in the first two quarters of the year, while the consumer price index rose 2.3 percent in the first two quarters. The growth of benefits paid to employees has slowed, however. Benefits rose only 1.3 percent in the first two quarters.

### Time for a Better Energy Policy

Given indications of economic cooling, Congress should pass legislation that supports economic growth and avoid policies that would weaken the economy.

The nation's energy policy is one area of opportunity. Energy prices have increased steadily over the past several years, with oil prices almost tripling. Higher energy prices raise businesses' costs and can slow business expansion. Consumers feel the impact not just at the gas pump but also when they purchase goods that cost more due to higher energy costs.

With growing instability in many oil-producing regions around the globe, it is more important than ever before that the U.S. have stable and affordable long-term energy supplies. Congress can take action

This paper, in its entirety, can be found at:  
[www.heritage.org/research/economy/wm1189.cfm](http://www.heritage.org/research/economy/wm1189.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.

to reduce energy costs by encouraging the development of new oil refineries and the development of America's own oil and natural gas reserves. If Congress had acted with greater foresight in opening the country's reserves, the economy would not be so vulnerable to price shocks in global energy markets today.

Over the next several years, energy demand is expected to increase by 1 percent annually. Opening America's oil and gas reserves would help to meet this increased demand. To that end, the Deep Oceans Energy Resource Act of 2006 (DOER) would help to fulfill the nation's long-term energy needs. DOER would let states to decide whether to allow drilling off their coasts or not. With higher energy prices slowing the economy, Congress should take common-sense steps to increase America's energy supply<sup>1</sup>.

### Minimum Wage Threat

While Congress should improve the country's energy policy, there are areas where inaction remains the prudent course. Now is not the time for Congress to adopt legislation that would slow down the economy and job growth. Unfortunately, Members of the House of Representatives did not consider this when they voted to raise the minimum wage by over 40 percent. Higher minimum wages may seem like an effective way to raise the earnings of low-income Americans, but in fact they damage unskilled worker's long-term job prospects.

Most minimum wage jobs are entry-level positions filled by low-skilled workers with limited job

experience. These workers earn low wages because they are not very productive. With time on the job they gain experience and learn skills that improve productivity, and this higher productivity allows them to command higher wages. Two-thirds of all minimum wage workers earn a raise within a year.<sup>2</sup>

When the minimum wage rises, however, many firms find that hiring low-skilled workers makes little sense. Why hire a worker with no experience for \$7.25 per hour if a worker with more experience will take the job for the same wage? And no firm will ever hire a worker for \$7.25 per hour if that worker adds only \$6.00 per hour to the business's income. Raising the minimum wage raises the bottom rung of the career ladder out of reach of many low-skilled workers.

### Conclusion

While the economy has cooled slightly in the second quarter, it remains robust and growing. GDP grew by 4 percent in the first six months of the year, well above the average growth rate of the last 30 years. Congress should be wary of tinkering with the economy by raising the minimum wage. On the other hand, Congress should take steps to liberalize energy policy and thus encourage economic growth and job creation.

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

1. For more information on DOER, see Ben Lieberman, "The Deep Oceans Resource Act of 2006: State Control, Increased Supply, and Lower Prices," Heritage Foundation WebMemo No. 1140, at <http://www.heritage.org/Research/EnergyandEnvironment/wm1140.cfm>.
2. David Macpherson and William Evan, "Wage Growth Among Minimum Wage Workers," The Employment Policies Institute, June 2004, at [http://www.epionline.org/studies/macpherson\\_06-2004.pdf](http://www.epionline.org/studies/macpherson_06-2004.pdf).