

ISSUE BRIEF

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Heritage Employment Report: Slow Recovery Continues in November

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The Bureau of Labor Statistics reported that the recovery continued at a steady pace in November. The unemployment rate fell 0.3 percentage point while employers created 203,000 jobs. Although the numbers are initially impressive, they partly reflect the return of federal employees furloughed during the October government shutdown. Labor force participation fell over the past two months to a level not seen since 1978. The labor market has improved, but much weakness remains. Raising the minimum wage at this time—when employers are already struggling with Obamacare—would make it even harder for workers to enter the labor market.

The November Report. The November employment report contains cause for thanksgiving. Both the household and payroll survey showed an improving labor market. The household survey found unemployment dropping 0.3 percentage point to 7.0 percent—the lowest unemployment rate in five years. However, the end of the government shutdown largely drives these encouraging numbers. The shutdown caused federal employment to fall sharply in October.¹ In November, those workers returned to their jobs. The employment-to-population ratio only returned to its September level of 58.6

percent; it did not increase over the past two months. Unemployment fell since September because labor force participation continued to decline. In November, just 63.0 percent of Americans worked or looked for work—the fewest, excluding October 2013, since April 1978.

The payroll survey report contained more consistently good news. Employers added 203,000 net new jobs in November, slightly above the average for the past 12 months. The gains came across the board. Employment grew most in professional and business services (+35,000), transportation and warehousing (+31,000), health care (+28,000), and manufacturing (+27,000). Government employment (+7,000) reversed its slight October decline in the payroll survey, which did not reflect the furloughed government workers, due to state and local government hiring.

Other measures in the payroll survey were positive as well. The average workweek and hourly wage both ticked up slightly. Wages have grown 2 percent over the past year, exceeding inflation, which has risen about 1 percent.² Revisions added 8,000 jobs to estimated growth in September and October. The government shutdown appears to have done little, if any, damage to the economy.

The two surveys tell different stories about the labor market of the past two months. The household survey shows only 83,000 more people employed in November than September. But the payroll survey shows 403,000 new jobs over the same period. These figures will be reconciled over time, but they indicate substantial uncertainty about the pace of the labor market recovery.

This paper, in its entirety, can be found at
<http://report.heritage.org/ib4103>

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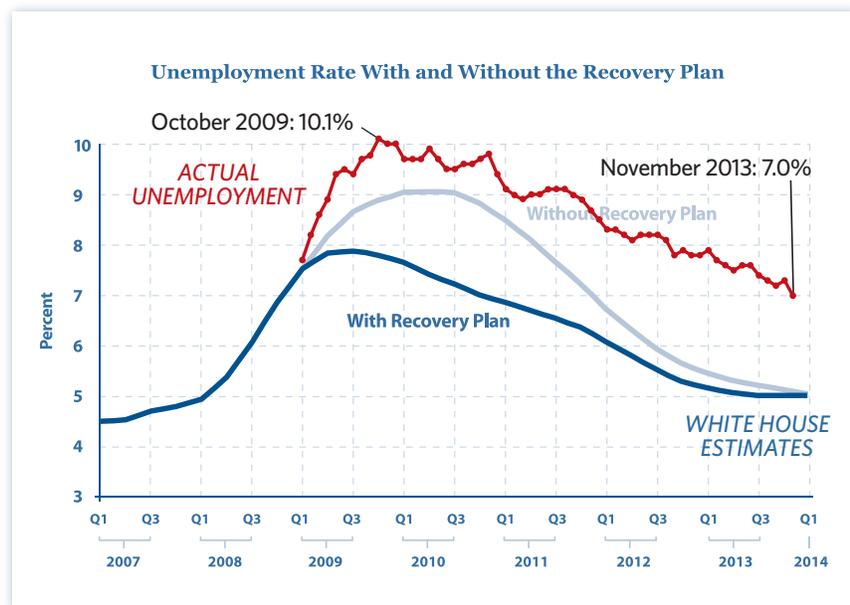
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CHART 1

Unemployment Rate: November 2013

President Obama promised that government spending would “stimulate” the economy and quell rising unemployment by “creating or saving” millions of jobs. In January 2009, Obama’s advisers produced a chart visualizing the positive results of his recovery plan. But actual unemployment (in red) has far exceeded the White House estimates.



Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, “The Job Impact of the American Recovery and Reinvestment Plan,” January 10, 2009.

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No Time for Minimum Wage Hike. The economy remains in no shape for a massive minimum wage hike. President Barack Obama and several senators have proposed raising the minimum wage to \$10.10 an hour in 2016 and indexing it to inflation afterward. If passed, this would be an unprecedented increase in minimum wage rates. In real (inflation-adjusted) terms, the minimum wage has averaged \$6.62 an hour since 1950. It peaked in value at \$8.28 an hour in 1968.³ The proposed legislation would raise the minimum wage one-seventh above its all-time high.

A higher minimum wage would make it more difficult for inexperienced workers to enter the labor market. Most minimum wage jobs are entry-

level positions, largely filled by inexperienced or unskilled young workers.⁴ Minimum wage jobs provide these workers with the skills and experience required to command higher pay. They instill basic workplace disciplines, such as following direction from a supervisor, working consistently at a task, and arriving on time regularly.

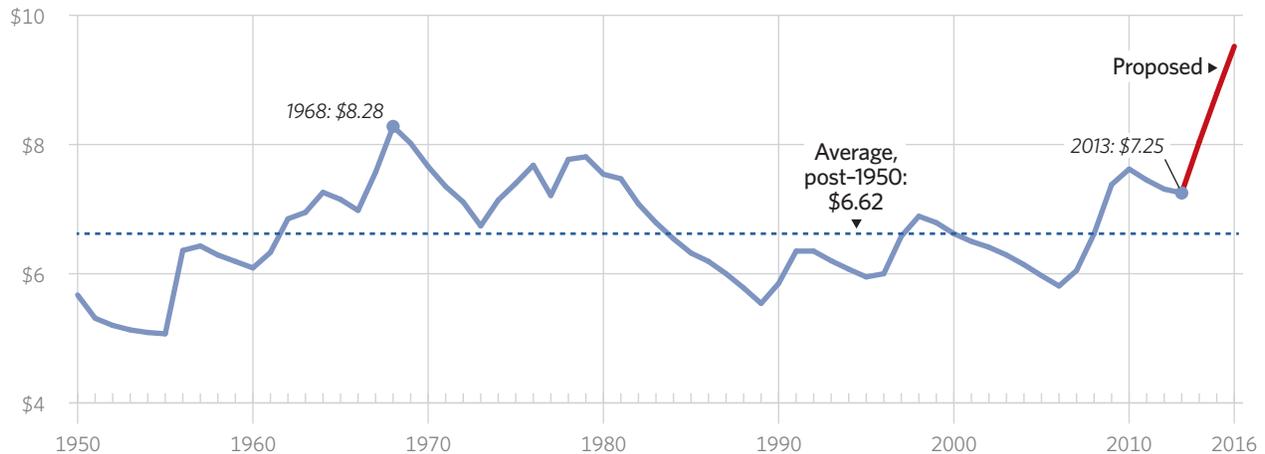
As workers gain these skills, they become more productive and earn more. Two-thirds of minimum wage workers earn a raise within a year.⁵ In fact, a majority of Americans started working in jobs that paid within a dollar of the minimum wage. Few stayed there long.⁶ Minimum wage jobs were and are the first rung on many career ladders.

1. This happened in the household survey. The payroll survey counted furloughed federal workers as employed, even though they were not at work that week.
2. Federal Reserve Bank of Dallas, “Trimmed Mean PCE Inflation Rate,” <http://www.dallasfed.org/research/pce/> (accessed December 6, 2013).
3. James Sherk and John L. Ligon, “Unprecedented Minimum-Wage Hike Would Hurt Jobs and the Economy,” Heritage Foundation *Issue Brief* No. 4102, December 5, 2013, <http://report.heritage.org/ib4102>.
4. A majority of minimum wage workers are between the ages of 16 and 24, while two-thirds work part time. Most are secondary earners in their families, which is why the average family income of minimum wage workers exceeds \$50,000 a year. See James Sherk, “Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents,” Heritage Foundation *Issue Brief* No. 3866, March 1, 2013, <http://report.heritage.org/ib3866>.
5. William E. Evan and David A. Macpherson, “Wage Growth Among Minimum Wage Workers,” Employment Policies Institute, June 2004, http://www.epionline.org/studies/macpherson_06-2004.pdf (accessed December 6, 2013).
6. William Carrington and Bruce Fallick, “Do Some Workers Have Minimum Wage Careers?” *Monthly Labor Review*, May 2001, p. 21, Table 2, <http://www.bls.gov/opub/mlr/2001/05/art2full.pdf> (accessed December 6, 2013).

CHART 2

Proposed Minimum Wage Increase Well Above Historical Rates

INFLATION-ADJUSTED FEDERAL MINIMUM WAGE (DOLLARS PER HOUR)



Note: The proposed increases are expressed in 2013 dollars, not current dollars, and are thus lower than the proposed nominal statutory rates of \$8.20, \$9.15, and \$10.10 per hour.

Source: Heritage Foundation calculations using data on historical minimum wage rates and the Personal Consumption Expenditure (PCE) deflator. Future years are projected assuming a 2.0 percent increase in the PCE deflator.

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A massive hike in the minimum wage would saw off this bottom rung. Employers respond to higher minimum wages by economizing on labor.⁷ In the short term, they reduce hiring. In the long term, they find new ways to replace human labor with capital. For example, Applebee's has announced plans to replace waiters with computer tablets through which customers will place their orders.⁸ The result would be fewer entry-level jobs, making it harder for workers to gain the skills necessary to get ahead.

Increasing the minimum wage would cause especially great harm now as employers struggle to deal with the costs of Obamacare, particularly with the employer mandate taking effect in 2015. The mandate combined with existing minimum wages rates, unemployment insurance, and payroll taxes will raise the minimum cost of hiring a full-time worker to \$10.30 an hour. From the employer's perspective, Congress has in effect already announced a \$10-per-hour min-

imum wage. Adding this increase to the employer mandate would raise the minimum cost of hiring a full-time worker to \$12.71 an hour in 2016.⁹ Congress cannot help unskilled or inexperienced workers by discouraging companies from hiring them.

Conclusion. The labor market continued its steady but slow growth in November, although the return of furloughed federal workers artificially inflated the improvements. Wage growth over the past year has exceeded inflation. Nonetheless, several key economic indicators remain anemic. The employment-to-population ratio has not improved since September, and the drop in measured unemployment occurred solely because of falling labor force participation. The labor market will need to grow faster than this to raise employment rates. Congress should not make it even more difficult for inexperienced or unskilled workers to enter the labor market by raising the minimum wage.

7. David Neumark and William L. Wascher, *Minimum Wages* (Cambridge, MA: The MIT Press, 2008).

8. Bruce Horowitz, "Applebee's to Serve Tablets at Every Table," *USA Today*, December 2, 2013, <http://www.usatoday.com/story/money/business/2013/12/02/applebees-tablets-table-top-devices-restaurant-technology/3698561/> (accessed December 6, 2013).

9. James Sherk and Patrick Tyrrell, "Obamacare and a Minimum Wage Hike Pricing Many Unskilled Workers out of Their Jobs," Heritage Foundation *Issue Brief* No. 4095, November 22, 2013, <http://report.heritage.org/ib4095>.

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