American Enterprise Institute for Public Policy Research

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On the Issues

November 2003

A Jobless Recovery?

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While Alan Greenspan and most analysts continue to discuss the loss of millions of manufacturing jobs since the Bush administration took office, the Labor Department Household Survey shows such claims to be either wrong or greatly exaggerated.

Has Alan Greenspan misread the employment data? So it seems. At a late September meeting, Mr. Greenspan and his Federal Reserve colleagues referred to the "weakening" labor market. It isn't so. And it is not just the Federal Reserve that repeats this mistake. Most professional articulators deplored the loss of jobs and the weaker labor market after the last employment report appeared a few weeks ago.

Don't believe these reports or the recently announced 6.8 percent productivity growth rate. And don't believe the widely reported loss of millions of manufacturing jobs since the Bush administration took office. All these alleged facts are either wrong or greatly exaggerated, based on the same faulty source.

Reducing the Work Force?

Employment growth is not robust, and some manufacturing firms are under great pressure. But overall employment growth is positive. I smile in disbelief and scratch my head, and I hope you scratch yours, when frequent announcements tell us that a company reduced its work force by 1,000 or 3,000 employees or perhaps one-third of its workforce. How could a private, profit-seeking firm continue to survive through the recent hard times with so many redundant employees?

The answer is: It couldn't and it didn't really happen. What many companies have done is outsource some services previously performed in house. For example, cafeterias become independent enterprises. Often the same people report to work at the same places, but they now work for a different employer, perhaps a start-up. They may receive fewer benefits and perhaps lower wages. The company is able to reduce costs without reducing services. It now has fewer employees and the same output of manufactured goods, so it reports that labor productivity—output per person employed—has increased, in some cases dramatically. The official statistics record the change.

Workers in the cafeteria used to be part of the manufacturing sector because they worked for a manufacturing company. Now they are service sector workers, so they are part of the massive reported loss of manufacturing jobs. Unions may have lost members, so they have reason to be unhappy if the cafeteria workers do not unionize. But no one mentions the increase in service sector jobs or points out that, in fact, no substantive change occurred.

There are two sources of labor market statistics, the Establishment Survey and the Household Survey—both conducted by the Labor Department. The first asks manufacturing and service sector companies how many employees they have. The second asks a sample of people whether they

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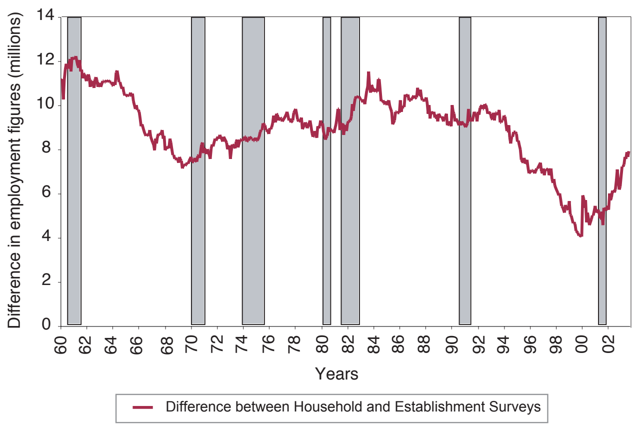
Difference in employment figures, Establishment Survey vs. Household Survey, January 1960 to August 2003 (recessions in gray) in millions



Source: U.S. Department of Labor

have jobs. The two give different answers and, important right now, the difference changes systematically over time. The reason is that the number of companies does not remain fixed. In our dynamic economy, old firms die and new ones are born. The Labor Department learns about the deaths quickly, but it takes longer to learn about the births.

When the cafeteria workers are asked about their employment, they report that they are working. If they work for a new firm, the establishment survey misses them for a time. But their former employer reports that the number employed at the firm declined this month. Both reports are true, but the second is misleading when taken to the aggregate level.

There is nothing new about the difference between the two surveys. They normally differ, and the difference is not constant. After every recession, the difference increases because many new firms start. It takes awhile for the Labor Department to catch up, so the number of jobs reported by households drifts further away from employment reported by firms. The difference narrows in long expansions such as the 1960s and the 1990s as the Labor Department learns about the new firms.

The chart shows how the difference between the two series on employment has fluctuated over the past forty years. Recently, the difference has grown rapidly, more rapidly than in other recoveries. In August, the difference was nearly eight million jobs. That's one reason why productivity growth has been so strong. Productivity has increased, but so has employment.

Job Loss Facts and Fiction

For the year ending in August, the Establishment Survey shows a loss of 463,000 jobs. The Household Survey shows that the economy added 313,000 new jobs in the same period. The establishment survey also shows the much-discussed job loss since the Bush administration took office—2.7 million jobs. The household survey reduces the loss to 220,000, not good but far more typical of a period with recession and slow recovery. As the speed of recovery picks up, the latter loss will disappear by early next year.

One of the enduring half-truths about the economy is that small firms create most new jobs. Downsizing large firms in the interest of greater efficiency is a big source of the new, small firms. It's good to get the efficiency gain, but many of the new jobs are the same old jobs repackaged. All this has been known for some time. Why does the Greenspan Fed ignore it?