To Understand U.S. Jobs Picture, Connect the Dots, and Find the Dots

By LOUIS UCHITELLE

No economic statistic is watched more closely as a gauge of the economic recovery's staying power - or of President Bush's prospects among voters - than the monthly employment numbers. Yet these numbers are failing to explain what is really happening to the nation's workers.

More people are working than have as yet been recorded in the official job count - the one compiled by Bureau of Labor Statistics that gets all the attention. But the official unemployment rate, in turn, greatly understates the number of people who would like to be working.

In December, for example, the nation's employers added 1,000 new jobs, a small number, but the unemployment rate plunged 0.2 percentage points, according to data released by the bureau on Friday. How could there be only 1,000 new jobs yet 300,000 fewer unemployed people, as the December numbers suggest?

The answer, economists say, is that the labor force has changed, and the official data no longer easily capture these changes, particularly the sharp rise in low-wage employment. The disparities in the numbers are giving politicians unusual leeway to make conflicting claims about the employment picture.

The Democratic presidential candidates, for example, heaped scorn on the Bush administration for the almost nonexistent job creation in December. The president, on the other hand, pointed to the drop in the unemployment rate, to 5.7 percent from 5.9 percent in November, as "a positive sign the economy is getting better." And the chairman of the president's Council of Economic Advisers, N. Gregory Mankiw, said in an interview that the official job count showing 1,000 new jobs in December was not accurate by itself.

"I view all economic statistics as imperfect," he said. "They have to be taken with a grain of salt."

In challenging the reliability of the official count, Mr. Mankiw sought to water down its message, which is that 2.3 million jobs have disappeared since President Bush took office in January 2001.

The official count is based on a monthly survey of net job changes at 400,000 companies, called the establishment survey. The Bureau of Labor Statistics also counts monthly job changes through a less sweeping survey, one based on interviews with 60,000 households. The household survey has employment rising by 689,000 jobs in the Bush years.

"I am not going to take a stand as to which survey is more meaningful," Mr. Mankiw said - challenging in effect the Bureau of Labor Statistics and the Congressional Budget Office, which have declared the establishment survey the more reliable one.

What both surveys do is sort people into employed, unemployed or out of the labor force. But, a growing number of people do not fit neatly into these categories, economists say. More often than in the past, for example, people who...
lose a job list themselves as early retirees or self-employed rather than unemployed.

The labor force in America is limited to people who are working or who tell interviewers in the household survey that while they are not working, they are actively seeking work. These are the people classified as employed and unemployed. They totaled 146.9 million in December.

Everyone else was on the sidelines, and those sidelines have become more crowded since the booming economy began to wind down in 2000.

The best measure of this growth on the periphery is labor force participation rate - that is, the percentage of the working-age population listed as either working or unemployed. It has fallen 1.3 percentage points, from a peak of 67.3 percent in the last year of the Clinton administration to 66 percent last month.

Most of these dropouts "would still be in the labor force working or trying to work if the economy were doing better," said Andrew Sharpe, a labor economist who is helping to direct a project financed by the Rockefeller and Ford Foundations to develop a more realistic measure of unemployment. "What we really want to do in this project," he said, "is measure idle labor capacity; that is, the number of additional hours people would work if the jobs were there, the pay were high enough and there was adequate child care."

These additional hours would come not only from people lured back into the labor force, but from people listed by the labor statistics bureau as employed, but only part time and for fewer hours than they would like. The total in that category has risen by nearly 1.5 million people since the start of the recession, although last month there was a drop of 92,000, perhaps in response to the gradually strengthening economy.

Even the bureau recognizes the inadequacy of its official unemployment rate. Buried in its monthly employment release is an alternative unemployment rate, called "labor underutilization." That rate was 9.9 percent in December, down from 10.1 percent in November, but unchanged from the previous December and 4.2 percentage points higher than the official unemployment rate last month.

Trying to measure more realistically the slack in the labor market, the bureau adds to the officially unemployed - that is, those actively seeking work - the part-timers who want more hours as well as those who tell the interviewers in the household survey that while they are not currently job hunting, they would take a job if one came along.

Many early retirees and self-employed consultants would also like to have jobs, but since they tell the interviewers that they are retired or self-employed, they are not counted in calculating the "labor underutilization rate." If even some who fit that description were included, that rate would rise above 10 percent, economists say.

Still, the rise of 1,000 jobs in December, as measured by the payroll survey, is probably understating actual job growth by 30,000 to 60,000. That would not be enough to get to 150,000 new jobs - the improvement that nearly every forecaster had expected for December anticipating that a strengthening economy would finally force employers to step up their hiring - but it would help.

The assumption of a shortfall in the payroll survey is based on the view that the labor statistics bureau has not yet updated its formula for using net job changes at the 400,000 representative companies in its survey to project job changes at the 8.5 million corporations across America.

The expectation is that the recovery, particularly the strong economic growth in the third quarter, has stepped up job creation at existing companies while also creating jobs at new companies not yet counted by the government. As the bureau gradually updates its survey early this year, the 30,000 to 60,000 not-yet-detected jobs presumably will show up in the monthly employment reports.
"We cannot update the projections every month," said Patricia Getz, an economist at the bureau in charge of the group that does the updating.

Absent the update, the payroll survey shows that employment finally turned up in August after two and a half years of almost uninterrupted job losses. But the improvement has been sub-par, averaging only 55,000 new jobs a month, including the December setback.

Apart from the updates, the bureau carries out a detailed annual survey of job changes at all 8.5 million companies. That expanded survey, conducted each March and announced in the early fall, just before the November election, may very well produce an upward revision sufficiently large enough to strengthen President Bush's argument that his policies are reviving employment.

"The reality is that nine months from now, when they have the March 2004 survey fully calculated, that the adjustment will show a lot more job creation," said Lee Price, director for research at the Economic Policy Institute.

In the meantime, administration officials - Mr. Mankiw on Friday and the secretary of labor, Elaine L. Chao, last year - point to the household survey with its more robust job growth, averaging 175,000 new hires a month since August, or three times more than the payroll survey.

Some economists argue that while the household survey may overstate employment growth, as the bureau maintains, it nevertheless reflects, much more than the payroll survey, job growth outside the corporate sector - and that is where much of the job growth has been happening, particularly at low wages.

Illegal aliens, holding many of these jobs, are more likely to show up in the household survey rather than the payroll survey. Their numbers may be exaggerated in the household survey, which is updated less frequently than the payroll numbers, but low-wage work, whoever does it, is an ever more important labor force phenomenon.

Andrew M. Sum, a Northeastern University labor economist and lead author of a recently released study of the two employment measures that underscores the value of the household survey, put it this way in a statement: "At no other point in this nation's last five recovery periods have so many people been employed as independent contractors, as temporarily self-employed, or paid under the table."