Joint Economic Committee Republicans
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Faulty Wage Data from the Labor Department

Introduction

On June 23, the *New York Times* reported new Labor Department compensation data purporting to show that "Americans' Real Wages Fell 2.3% in 12 Month Period." After political appointees in the Labor Department had processed the Bureau of Labor Statistics (BLS) data, Secretary Reich used the release of the data to attack the Republican budget, providing a class warfare spin for the *New York Times*. Reich also took the opportunity to contrast the apparent sharp wage decline with "near record corporate profits," suggesting that the new data reflected a shift from wage to capital income.

Reich's Reign of Error

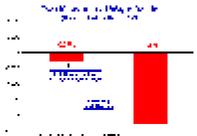
However, a review of the facts shows this to be only the latest of a series of attempts by Secretary Reich to politicize the Labor Department and its data. Apparently, Reich's political appointees in the chief economist's office took the BLS data and inflation-adjusted it using the CPI to show a 2.3 percent decline in real wages between March of 1994 and March of 1995.

The way this was done is disturbing because of the questions it raises about Secretary Reich and his continued efforts to politically misuse numbers produced by the BLS (Bureau of Labor Statistics). According to BLS, the statistical release at issue is intended mainly as a snapshot of the allocation of total compensation between wages and salaries on the one hand, and fringe benefits on the other. A BLS official has pointed out that year-to-year comparisons of the dollar measures of wages and benefits from this survey data are "misleading because the mix of occupations and industries changes annually," according to an account in the Daily Labor Report. Yet this fundamentally "misleading" comparison is the whole basis of the Secretary's arguments, including his attack on components of the Contract with America.[1]

In other words, a BLS survey intended primarily for one purpose--measuring the relative proportions of wages and benefits in compensation at a particular point in time--was used by Reich's political appointees for a completely different purpose a BLS official regards as "misleading." This is a very appropriate word since Reich's watch has been marked by a series of incidents that have severely damaged his credibility in Congress and elsewhere. There is no necessity for a detailed rebuttal of data the nonpolitical and professional BLS staff closest to the view as being used in an inappropriate way, however, the use of the data does suggest certain questions.

Not only are year-to-year comparisons "misleading," so is the argument in the *New York Times'* story that the explanation for a 2.3 percent drop in real wages is "in large part because the department revised upward its estimate of the number of people working in occupations with falling wages." However, according to BLS, the source of the data, there is no evidence to substantiate this assertion. Was this unsubstantiated assertion provided by Reich's chief economist's office?

Furthermore, it is true that other wage and income data, properly used, show deterioration under the Clinton Administration. For example, BLS data show that real hourly earnings, a measure favored by Democrats during Republican Administrations, fell from $7.40 in March 1994 to $7.38 in March 1995, a decline of 0.27 percent; in contrast, the Reich decline is 8.5 times larger. The graph below illustrates the difference between the two depictions of real wage decline.


Click here to see Figure 1.

The fact that Clinton policies have not benefited the middle class to date is not a valid argument for more Clinton policies, or for accepting Clinton Administration criticisms of Congressional policies. Reich's political staff has chosen to exaggerate the deterioration in real wages in an apparent attempt to artificially amplify differences in the growth of different kinds of income in an effort to foment class warfare. It remains to be seen whether and how overstating average wage decline under President Clinton would provide a partisan boost for the Administration in the eyes of the average American. However, while it may be tempting to let the Administration undermine itself with unduly pessimistic data on real wages, the casual disregard for accuracy and the attempt to manipulate BLS data to fabricate a political issue is disturbing, and fits into a larger pattern discussed later.

Reich has tried to associate the slippage in wages with the recent increase in corporate profits. However, the actual slippage in BLS real average hourly earnings has been quite small (2 cents) in the 12 month period in question. Meanwhile, corporate profits as a share of GDP, while up from 1993, remain below their 1973 level, often cited as a peak in income measures. Furthermore, when corporate profits are reinvested, higher productivity and income eventually result. If the Administration is basing its employment policies on the expectation that unprofitable or bankrupt corporations will create job or income growth, it will be disappointed.

Reich has apparently chosen to exaggerate the wage decline in an effort to stoke class warfare in preparation for the 1996 campaign. However, this ignores the fact that higher taxes and regulation reduce long term productivity and economic growth, undermining real wage gains. The Clinton Administration ignored warnings such as those in a 1993 JEC study pointing out that small business owners, who disproportionately account for new employment and much innovation, would bear the brunt of the higher tax rates in the Clinton budget.

Reich's Action's Undermine Credibility Yet Again

Unfortunately, this is only the latest episode of a long series of events undermining Reich's credibility:

- Last January Reich denied in writing the existence of certain memos that JEC Chairman Connie Mack had requested. When asked about any memos regarding BLS's participation in a political oversight group, Reich said, "There are no memorandum to anyone on this subject." However, when the BLS Commissioner was asked for documents, the memos were provided. Clearly Reich's response was not truthful, and Congress was misled as a result.
- Earlier this year Reich touted a 1992 study on the minimum wage which purported to show that higher minimum wages do not cause unemployment. A co-author of the report was rewarded by being named as Reich's chief economist. However, the Card-Krueger study now has been discredited by independent researchers, and stands as a monument to faulty survey methodology and questionable research. The employment data in the Card-Krueger report, for example, have been contradicted by other researchers who have tried to duplicate their results.
- In 1993 even the *New York Times'* published an article documenting how Reich and his chief economist had cooked employment numbers by mixing data from two separate employment surveys. "It smacks of cooking the numbers when it's convenient to do so...It's unconscionable for a Cabinet level Department..." observed one private sector expert.

The above quote sums up the whole problem. Secretary Reich has presided over a veritable "reign of error" at the Labor Department. His credibility with Congress and the public has been severely damaged as a result. His latest use of data in what nonpolitical experts in his own department describe as "misleading" is unfortunately not surprising.

Conclusion

After injecting this "misleading" analysis into the public domain, Reich should act to correct the record by retracting his public statement and helping the *New York Times* write a correction to its original article. An apology for misleading the public would also be appropriate.

Secretary Reich jumped on his political appointees' manipulation of the data to attack Congressional budget policy. This political shot reveals the intensely partisan motivation that seems to drive Reich's misuse of data. While political use of data is of course common, using these data in a misleading way undermines the credibility of the Labor Department, abuses BLS, and misleads the media and public. Certainly the budget resources currently devoted to the Department of Labor's office of the chief economist could be put to better use by the nonpartisan BLS.

In any event, to the extent there is a problem of stagnating incomes, it only underlines a major weakness of the Clinton Administration, which had made income growth a partisan political issue in the 1992 election. For those who view everything in redistributionist terms, which is not the view presented here, it is true also that the difference between the incomes of the rich and the poor are greater under Clinton than under Reagan, or any other President in the postwar period. Through his use of misleading statistics, Secretary Reich is attempting to divert attention away from the failure of the Clinton Administration to improve middle class income and earnings.

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Endnotes

1. As noted in the June BLS statistical release, under the BLS methodology, adjustments for the occupational shifts are made gradually over a 4 year period. In any given year the rotation of new occupational data reflects occupational shifts actually occurring several years before, not just in the previous 12 month period. In other words, the occupational shifts occurring over a 2 or 3 year period are compressed and rotated into the occupational mix at one point in time, for example, in the March 1995 data. Thus, there is a conceptual problem in attributing the effects of changes in the occupational mix to any 12 month period, because many of these changes picked up in March 1995, for instance, did not actually occur in the previous 12 month period, but in years before. Thus it would be invalid to state that a change in the occupational mix reduced real wages by 2.3 percent between March 1994 and March 1995, because some of the change in the occupational mix now reflected in the 1995 data actually occurred in 1993 or 1994. More specifically, in March 1995 the occupational rotation disproportionately included high wage manufacturing and transportation occupational shifts, magnifying the potential rotational effect on changes in wage levels between March 1994 and March 1995. The bottom line is that changes in the occupational mix that actually occur over several years are inserted all at once in one year. Reich's comparison is misleading because it misrepresents a publicly disclosed statistical artifact as if it were a real economic event during the period in question.