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THE EMPLOYMENT SITUATION

HEARING

before the

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

March 8, 1996

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JOINT ECONOMIC COMMITTEE

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Prepared by DONALD C. EVANS III

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THE FEBRUARY EMPLOYMENT SITUATION

Friday, March 8, 1996

CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.

The Committee met at 9:30 a.m., in Room 334, Cannon House Office Building, the Honorable Jim Saxton, Vice Chairman of the Committee, presiding.

Present: Representatives Saxton, Stark, and Hamilton.

Staff Present: Lee Price, Chris Frenze, Reed Garfield, Greg Williams, Roni Singleton, Bill Buechner, and Bill Spriggs.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Representative Saxton. The hearing will come to order.

I suspect we may have some other Members that will join us in due course, but for obvious reasons, the weather included, some people may be running late. I am lucky. I live three doors from this building.

It is always a pleasure to welcome Commissioner Abraham to the Joint Economic Committee. As the Commissioner has warned us many times, caution must be used in interpreting a single month's data; however, the February payroll employment gains of 705,000 and a decrease in the unemployment rate of three-tenths of 1 percent are especially good news. And while the rebound from the January employment decline is certainly welcome, strong gains in employment in coming months will be needed before anyone becomes too complacent about the direction of the economy.

Let me just say at this point that an employment gain of 705,000, no matter how we measure it, is strong, good news. I think it is very

important to point out here, however, that we did have an almost 200,000 loss the previous month, and so it would seem to me -- and perhaps we can talk about this later with the Commissioner -- it would seem to me that a fair way to address this would be to say that there is obviously some rebound from a bad month in this month's good numbers, and that a net gain over the two-month period would appear from my vantage point to be about a 500,000 net gain, or 250,000 a month, which is still obviously good news.

Moreover, as we all know, many middle-class Americans are concerned about the erosion of their living standards in recent years. Recently, Majority Leader Armey referred to this as the "Clinton crunch." In February, the Bureau of Labor Statistics produced new numbers that shed light on this issue. According to the BLS data, median weekly earnings stagnated in 1995. The quarterly data in the release indicated that this stagnation continued right into the end of 1995. This explains why so many Americans feel that they are in a treadmill economy, running faster and faster and staying in the same place.

Despite running faster and faster, they still feel in many cases that they are falling behind. What is the explanation for this, I think many of us should ask ourselves. This morning I am releasing a new Joint Economic Committee study entitled *The Impact of the Welfare State on Workers,* that explains how excessive Federal spending has become a drag on economic and income growth. While government has useful functions, there is a point beyond which the costs outweigh government's benefits. This study shows that Federal spending has long since reached literally counterproductive levels.

The extra costs imposed on the economy through heavy taxation and borrowing reduces the capacity of the economy to expand output and income. The bottom line is that we have reached the point where every added dollar on Federal spending reduces economic growth. In fact, at current levels, each additional dollar of Federal spending reduces the sum total of wages by 26-cents. By sucking resources out of the private economy, excessive Federal spending undermines the potential of the economy to grow and generate increases in wages and benefits. Stagnation in our standard of living is the price tag attached to big government.

A serious effort to restrain Federal spending and taxation is needed to restore a basis for sustained income growth. The current stagnation in family income must be addressed.

Before we turn to Commissioner Abraham, let me welcome my friend who also trudged through the snow this morning, Mr. Stark, for any statement he may have.

[The prepared statement of Representative Saxton and the study entitled *The Impact of the Welfare State on Workers* appear in the Submissions for the Record.]

OPENING STATEMENT OF REPRESENTATIVE PETE STARK, RANKING MINORITY MEMBER

Representative Stark. Thank you, Mr. Chairman.

I am pleased to join with my colleague, Vice Chairman Saxton, in welcoming Commissioner Abraham before the Committee this morning, to discuss employment and unemployment for February.

The figures are indeed good news. Nonfarm payrolls rose a whopping 705,000 in February, and the unemployment rate fell to 5.5 percent. I guess this was the largest one-month gain in employment in almost 13 years and the third largest monthly gain in the postwar period. In the private sector, the economy created 633,000 jobs in February, and that was also the largest one-month increase in 13 years.

This morning's job growth brings us to a new milestone in job creation. Since January 1993, the economy has added 8.4 million new jobs to nonfarm payrolls. That is four times as many jobs as President Reagan created during his first three years in office and four times as many as President Bush created during his entire term.

At the same time, the last three years have been a period of low inflation -- in fact, the lowest period of inflation in 30 years. Since 1993, consumer prices have risen at an annual rate of only 2.6 percent. We have not seen that kind of performance since the early years of the Kennedy Administration.

With that backdrop, there is no basis for this morning's panic in the bond market. When George Will asked Senator Dole what this year's election was going to be about in last Sunday's questioning, Senator Dole replied, "it is going to be about bad news." I am sorry to disappoint the Senator, but we are going to have good news.

Now, as a practical matter, the economy has not only overcome the setbacks from bad weather in January, and we thought that was behind us, but also the economic ineptness of our Republican-led Congress. Republicans in Congress have contributed to the recent slowdown in the economy. The government shutdowns -- I think we voted on 10 of them here in the House, and the 11th yesterday -- those shutdowns engineered

in November and December depressed growth in last year's fourth quarter, according to the Commerce Department. Looking to the future, I think that their extremist economic policies and their failure to come to closure on appropriations bills and the budget for 1996 will weigh heavily on the economy.

There is another item. I would be remiss in the face of all this good news to suggest that I, and I am sure many of my colleagues, have been reading with great interest the recent series on job security in *The New York Times*. In the face of good economic news and the Federal Government, under the Clinton Administration, doing as well if not better than any Administration in the last 30 years, large private enterprises have been working to be the leading cause, as Mr. Buchanan has so eloquently reminded us, of family destruction and disruption and dismay. I call it the Dole malaise for middle-class families in this country.

And while I would share Vice Chairman Saxton's theory that this perhaps ought not to be something the Federal Government rushes in to correct, I think the President is right in dealing with corporate responsibility. These corporations that share so grandly in Federal subsidies, that do not pay their fair share of taxes, that suck the blood of the Defense Department, which gets $300 or $400 billion a year, all of that goes into private enterprise, for which they put precious little back into our communities.

Be reminded that while the Federal Government does spend a lot of money, I am sure that the 35 million senior citizens who receive social security don't think that that is counterproductive. And I am sure those same 35 million people who receive about $140 billion in benefits to pay for their Medicare understand that without those payments -- those Medicare payments which, by the way, we return 98-cents of every dollar we take in to private hospitals and private physicians, and private pharmaceutical companies -- without that government expenditure, those 35 million seniors would have no health insurance at all.

Those programs were put into place because private enterprise did not choose to do the right thing and did not offer insurance, so that while the Federal Government should not be the court of last resort for every ill that comes across the economic horizon, there are many areas -- defense, medicare, social security, which probably makes up 80 percent of what we spend -- we could not do without.

And so while it is great fun to bash the government, the government, as Commissioner Abraham's testimony attests, has done the right thing, and it may be all it can do. It seems to me it is now that the ball is in the

court of these large private enterprises to do the right thing for the American family and the American working people.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Stark appears in the Submissions for the Record.]

Representative Saxton. Commissioner, we are anxious to hear from you.

STATEMENT OF
THE HONORABLE KATHARINE G. ABRAHAM,
COMMISSIONER, BUREAU OF LABOR STATISTICS
ACCOMPANIED BY THOMAS J. PLEWES, ASSOCIATE COMMISSIONER, EMPLOYMENT AND UNEMPLOYMENT STATISTICS; AND KENNETH V. DALTON, ASSOCIATE COMMISSIONER, PRICES AND LIVING CONDITIONS

Ms. Abraham. Thank you, Mr. Chairman, Mr. Stark; I appreciate your both being here on this cold and snowy morning to give us the opportunity to discuss the labor market data that were released this morning.

Nonfarm payroll employment, as you have both noted, jumped by 705,000 in February, and the unemployment rate fell to 5.5 percent, down from 5.8 percent in January. The jobless rate has fluctuated between 5.4 and 5.8 percent since the last quarter of 1994.

The 705,000 rise in payroll employment followed a decline of 188,000 in January. The January decline reflected the severe weather in that month. Viewing the two months together, February's large increase together with January's decline yields an average monthly gain of 259,000 jobs.

The largest increase in employment over the month was in the services industry. January's weather-related declines in private education and amusement and recreation services were reversed. Health services added 46,000 jobs in February following almost no increase in January; over the two months combined, the pace of growth in the industry was in line with its long-term trend.

Business service rebounded from January's job decline of 31,000 with a gain of 126,000 in February. Much of this rise was due to the addition of 79,000 jobs in help supply services, which more than offset the January decline in that industry. Help-supply services added an average of 27,000 workers per month between December and February, considerably more than the monthly average for all of 1995.

Elsewhere in business services, computing and data processing services continued to show strength; employment also rose in services to buildings, boosted in part by the return to work of about 13,000 strikers.

Construction added 121,000 jobs in February. This increase reflects some real strength in the industry, though it also reflects the impact of severe weather on the recent pattern of layoffs and hires.

Retail trade gained 166,000 jobs in February, following a decline of 60,000 in the prior month. Much of the gain was in eating and drinking establishments, which had been particularly hard hit by the January storms. The growth in employment in department stores on a seasonally-adjusted basis, reflects the fact that there were fewer than expected layoffs in January and February, following weak holiday hiring.

Total government employment rose by 42,000 in February, more than offsetting January's losses. Employment in state education, local education, and other local government agencies increased. Partly offsetting these gains was the continued decline in Federal Government employment.

Manufacturing added 26,000 jobs in February, but this represents only a partial return to work of employees who had been off payrolls in January. Electronic components continued to be the only industry with within manufacturing with a steady growth trend, while most of the other manufacturing industries recovered only part of their January job losses. The factory workweek and factory overtime also recovered from their January declines, reaching 41.6 and 4.5 hours respectively.

Turning to data from the household survey, both the number unemployed and the unemployment rate fell in February. The number of jobless persons declined by 322,000 to fewer than 7.4 million, and the unemployment rate was down three-tenths of a percentage point to 5.5 percent. Unemployment rates declined for both adult women and for teenagers. Like the overall unemployment rate, however, the rates for all the major worker groups have been fluctuating within relatively narrow bands for some time.

Before my colleagues and I take any questions you might want to ask of us, I would like to briefly mention two items concerning our household survey data. First, the revised, seasonally-adjusted data series from the household survey which normally accompany the release of December figures are now available. These revised estimates were delayed because of the Federal shutdown and the work time lost during the January blizzard.

Second, as we announced last fall, we are reintroducing to our press release this month a range of alternative indicators of labor underutilization. A set of alternative indicators had been published for many years. Their publication was temporarily suspended when the revised household survey questionnaire was introduced in January of 1994. The new set of measures takes advantage of the data from the revised survey.

It is worth noting that although the levels of these alternative measures differ quite a bit, the historical movements in the measures generally have closely followed those of the official unemployment rate.

In summary, then, with respect to the data that we have to release, there was a substantial gain in payroll employment in February following January's weather-related decline. The unemployment rate fell back to 5.5 percent.

We would be, of course, happy to take any questions and address any issues you would like to raise.

[The prepared statement of Commissioner Abraham appears in the Submissions for the Record.]

Representative Saxton. Thank you, Commissioner. Let me just ask a couple of questions.

Is there any way to distinguish between full- and part-time workers in the payroll survey?

Ms. Abraham. No, there really is not. The information that we have from the payroll survey gives us, for each establishment that reports, the number of workers on the payroll, the number of production or nonsupervisory workers and then the average weekly hours of the production or nonsupervisory workers. So, there is no way on an individual-by-individual basis to break out part-time from full-time employees. The only data we have on that come from our household survey.

Representative Saxton. The reason I ask the question is that I spend a fair amount of time with the roughly 600,000 people that I represent in the southern part of New Jersey, and I find that more and more people -- and I don't know whether it is my imagination or not, but I find more and more people telling me that they have gotten a part-time job, sometimes as many as two part-time jobs.

Have you given any thought to trying to break out those kinds of -- that kind of data?

Ms. Abraham. Well, we do in the household survey ask individuals more detailed questions about their working hours. We ask people how many hours they work in a week, and people who work 35 hours or more we count as full-time. Thirty-five hours or more is full-time; less than 35 is part-time. Over a fairly long haul, there really has not been any trend in the proportion working part-time.

We recently have started collecting on a regular basis a different bit of information which is whether people are working more than one job. So we have an estimate now each month of the proportion of the labor force that holds two or more jobs. That fraction is currently 6.3 percent of the labor force, which is about where it was a year ago, a little bit higher than it was a year before that. That fraction, based on earlier evidence that we collected periodically, has trended up a little bit over time. It was, if I am remembering correctly -- and I can check these numbers for you, though I don't have them here -- about, maybe 4.9 percent, circa 1980, and it is now about 6.3 percent.

Is that consistent with your recollection, Tom?

So it has gone up a little bit.

Representative Saxton. The trend has been to go up a little bit?

Ms. Abraham. The fraction of folks who are working who hold more than one job has gone up a little bit.

Representative Saxton. Can the same worker appear on your survey more than once?

Ms. Abraham. In the household survey they only show up once. What we are counting in the employer survey is jobs, so a person who held two jobs would show up twice in some sense.

Representative Saxton. If a person picked up another job in addition to the one he previously held, how would this appear in the payroll measure of employment?

Ms. Abraham. It would show up as an added job. You also might think that in our household survey, if there were a lot of that going on, that you would see an increase in this multiple-job-holding rate, the share of the workforce that holds more than one job. Over the last year we have really seen no movement in that.

You know, month-to-month, you really don't want to necessarily be precisely comparing the numbers from the payroll survey to the numbers in the household survey, but in this case, that is what we have got to look at.

Representative Saxton. Let me turn to manufacturing employment for just a moment. Over the longer term, what has been the change in manufacturing employment from -- let's say over the last year from February of 1995 to February of 1996?

Ms. Abraham. Let me just pull those figures out so that I can give you a precise answer.

Over the past year, our net manufacturing payroll employment has been going up. It reached a peak back in March of last year. On net over the past year, though, it has fallen by -- let me give you an exact number -- 265,000.

Representative Saxton. So, in the manufacturing sector, we are down a little over a quarter of a million jobs?

Ms. Abraham. That is correct over the last year.

Representative Saxton. Okay. Thank you.

Mr. Stark?

Representative Stark. What I want to ask you -- and I have all kinds of technical questions leading up to it, but I guess I will just have to ask it the way that evidences my concern -- hidden in this silver cloud, some folks have suggested that there may be a concern that inflation will increase.

Now, as near as I can tell, we have had steady or low inflation; 1993 and 1994, it was around 2.7 percent, I believe, and last year it was 2.5 percent. Is it a fair assumption to say that while the number of jobs has increased, we have not had an increase in the wage level and that there could be good reason to anticipate that inflation will stay low, flat, and not increase?

There is a worry that inflation will increase, and I wonder if you could comment, Commissioner, on the current trend of inflation and whether you see it staying flat or whether, in fact, there is some reason to worry about it.

Ms. Abraham. Well, in answer to that, what I really have to offer is a summary of what the data show. I am in a better position to talk about the past than about the future, since I don't have any basis for making --

Representative Stark. Why don't you tell us what the recent data show about inflation and maybe that will be enough for us to make guesses about the future.

Ms. Abraham. For the purpose of thinking about what is happening to compensation costs, I think the best information that I have to offer

you is the data from our Employment Cost Index program. What the Compensation Cost Index from the Employment Cost Index program tracks is the rate of growth in total compensation, holding constant the industry and occupation mix of employment. So it is a measure that tries to abstract from changes in the composition of the workforce.

The rate of growth in the Employment Cost Index has declined in recent years, from 4.9 percent in 1990, to 4.3 percent in 1991, and 3.5 percent in 1992. It again was 3.5 percent in 1993, was 3 percent in 1994, and 2.9 percent in 1995. So, to this point, that measure has not shown any real signs of acceleration.

I guess the only caveat that I would attach to that is that a part of the reason for the very low rate of growth in compensation in 1995 was the fact that health insurance costs actually declined in at least one quarter during the year. At any rate, it was declining for part of the year, and so a question that people who were trying to project into the future, something that I would not attempt to do, might ask themselves is what they would expect to happen with insurance costs going into the future. And I do not have a good answer for that.

Over the year, with respect to inflation, the Consumer Price Index was up 2.7 percent over the year ended in January. The so-called "core rate," excluding food and energy, was a little bit more, up 3 percent over the year.

So there are other figures that one could look at. I don't think in a qualitative sense they show anything much different.

Representative Stark. Thank you.

Representative Saxton. We have been joined by the gentleman from Indiana, Mr. Hamilton.

Would you like to -- sure.

Commissioner, I mentioned in my opening statement a study that the Joint Economic Committee has done and that we are releasing the report on it today.

In essence, it looks at the effect of the size of government on the economy; and the report concludes that when government begins to consume more than 17.4 percent of our Gross National Product, the dollars that government consumes detract from our private-sector economy and wages are directly affected by that.

I know that you have not had a chance to see our study or the report yet, but inasmuch as today's percentage of GDP that we consume in government is up to something in the neighborhood of 22 percent, and

inasmuch as Mr. Stark had previously pointed out that there has been a rather weak increase in real wages, can you, from your position, draw some correlation between the size of government that we have collectively created and this new phenomenon, or recent phenomenon, in the lack of growth in real wages for American workers?

Ms. Abraham. Well, as you know, there are a variety of explanations that people have offered as to what is going on with real wages, and I am not really in a position to draw any conclusions about what the important factors there have been. Correlation does not necessarily indicate causality, of course; and sorting all of this out could be very difficult, and I am just not in a position to draw conclusions.

Representative Saxton. Right, we always put you in a position where you have to say, it is difficult for you in your position to say. I understand that. We appreciate --

Ms. Abraham. Right.

Representative Saxton. -- we do appreciate that. But I guess I would just like to -- and I don't know that I want to ask you a lot more questions about this phenomenon of big government and how it relates to wages or the increase or decrease in real wages, but it is obviously something that Americans are concerned about.

We talked about more people in today's economy seeking a second and sometimes a third job in order to increase their disposable income, and it is an interesting phenomenon to say the least. There is some evidence to support the fact that the size of government today -- which incidentally is some 20 percent over what this study concludes it should be to get to the optimum level of good that government can do and the optimum level, at the same time, of optimum growth in the economy, which the study concludes is about 17.4 percent; and obviously we are 4.6 percentage points over that level.

We have seen the stagnation of wages for American workers, and it is an interesting set of facts that seem to be evident in the economy, and at least our study does conclude that there is some correlation.

So I thank you for dealing with that, even though we did it in a vague way.

Lee Hamilton.

OPENING STATEMENT OF REPRESENTATIVE LEE HAMILTON

Representative Hamilton. Thank you very much, Mr. Chairman. My recollection is that we had a decline in employment in January, right, of 200,000?

Ms. Abraham. That is approximately correct.

Representative Hamilton. And now you have this rather extraordinary figure that you have presented us today for February. There were those who were suggesting in January that we might be slipping into a recession. There is certainly no evidence of that now, is there?

Ms. Abraham. This month's figure certainly would give you no basis for thinking that is what is going on. I always hesitate to draw too much of a conclusion from any one month's number. I, of course, will be eagerly waiting for the March data.

Representative Hamilton. We are always looking forward to the next month in your business.

Ms. Abraham. Right.

Representative Hamilton. What was the inflation rate last year?

Ms. Abraham. Over the year ending in January, the Consumer Price Index rose by 2.7 percent.

Representative Hamilton. Now, the inflation rate for the past three years has been about that, hasn't it? I think 2.6 percent is the figure I have. The inflation rate for the past three years has averaged about 2.6 percent; is that correct?

Ms. Abraham. It is about that. 2.7, 2.7, 2.5 percent in the three prior years ending in December.

Representative Hamilton. If you look back historically, how does that line up as a performance on inflation?

Ms. Abraham. Ken, you may have a longer time series on the Consumer Price Index than I do.

Mr. Dalton. Back to 1986, in that year, that single year, the CPI went up 1.1 percent; and to get a string of years, three years, where it was lower than 2.6, you have to go back to 1965.

Representative Hamilton. So, it is a pretty good performance overall.

Now, the inflation rate has continued to fall, or did fall in 1995, even though the unemployment rate was consistently below 6 percent. It used

to be that economists got nervous when unemployment went below 6 percent; they thought that that would trigger inflation, right?

Ms. Abraham. There was a time when people thought we could hum along with 3.5 and 4 percent, though more recently, people have put out estimates somewhere in the vicinity of 5.5 to 6 percent as what was sustainable.

Representative Hamilton. But the evidence of recent months is clear that you can get the unemployment rate below 6 percent for a sustained period of time and not trigger a spurt in inflation?

Ms. Abraham. The facts, as you describe them, are clearly correct. Unemployment has been below 6 percent. Inflation has been low. It does again remain to be seen what happens as we move into the coming years.

Representative Hamilton. The unemployment rate has now been below 6 percent for how long?

Ms. Abraham. For nearly a year and a half. It dipped below 6 percent in September of 1994.

Representative Hamilton. Okay. And during that time, inflation has been -- how would you describe it? Steady? Or low? Or steady and low? How do you describe it?

Ms. Abraham. I guess I would say basically steady and low. Would you agree with that?

Mr. Dalton. Steady, I would agree with.

Representative Hamilton. And low?

Mr. Dalton. You may get an argument on low.

Representative Hamilton. You mean the 2.6 or 2.7 percent is not low?

Mr. Dalton. Well, it is certainly by recent standards, but if you go back to the period we were talking about earlier, like 1965, annual increases were closer to 1 percent then.

Representative Hamilton. Do you have enough evidence now to say that the noninflation unemployment rate is not 6 percent, as previously was feared, but could be something lower than 6 percent?

Ms. Abraham. I am afraid we probably are not the right set of folks to ask about that, since drawing a conclusion about what the NAIRU is requires setting up a model and making some assumptions, and we are a lot more comfortable talking about data than about assumptions that would go into that kind of model.

Representative Hamilton. You have got some alternative measures of unemployment?

Ms. Abraham. That is correct.

Representative Hamilton. Where do they get us? What is the significance of those alternative measures?

I will tell you what I am driving at here. The question is, does the Fed have more room to expand the economy? Is there anything in these other unemployment rate measures that suggests to us that the Fed has more flexibility than many have thought in the past or may think now?

Ms. Abraham. Well, if I could just describe briefly what those measures are and how they have behaved, we are referring to them as alternative measures of labor underutilization, but I was sure when we made up that title that we weren't going to persuade people to adopt that terminology.

Those measures differ from the official unemployment rate with respect to how inclusive they are, essentially; and the reason that we have them is that there are those who argue that the unemployed include some people who really are not suffering serious hardship. Conversely, there are people who argue that the unemployment rate excludes many people who have got real serious labor market problems of one sort or another, who are not being fully utilized; so we offer a range of measures.

But I think for the purpose that you are bringing them up, the relevant question is not how does their level compare to that of the official unemployment rate, but rather is there any evidence that they have been tracking differently over time than the official unemployment rate? And as best we can tell from looking at the data, they generally track pretty closely with the official unemployment rate. That is, they rise and fall together.

Representative Hamilton. Let me put it this way: There is no evidence in these alternative measures to suggest that the Fed has any reason to forgo a cut in interest rates.

Ms. Abraham. Their behavior has tracked with the official unemployment rate, so whatever conclusion you would draw from movements in the unemployment rate, you would likely draw from looking at movements in these alternative measures.

Representative Hamilton. The alternative measures don't help us on the question that I am raising on the Fed?

Ms. Abraham. I don't think that they do, probably.

Representative Hamilton. Okay. Thank you.

Mr. Chairman, I appreciate it very much. Thank you.

Representative Saxton. Thank you, Mr. Hamilton.

While Mr. Hamilton was asking his questions, staff pointed out to me that there is one additional question that I would like to ask, which is related to the JEC study which will be released today relative to the size of government and wage rates.

Is it true that BLS has data on real median weekly earnings on an annual basis; is that correct?

Ms. Abraham. Yes, annually and quarter by quarter, we put out data on median weekly earnings from our monthly household survey.

Representative Saxton. Just to make the point, can you tell us whether real median weekly earnings during the years of 1994 and 1995 rose, fell or stagnated during, or between, those calendar years?

Ms. Abraham. The data that I have at hand are the data comparing the fourth quarter of 1995 to the fourth quarter of 1994. The figures, deflated using the Consumer Price Index, show steady median real weekly earnings. The figure was exactly the same in those two quarters.

Representative Saxton. So there was no growth or no --

Ms. Abraham. Fourth quarter to fourth quarter.

Representative Saxton. Fourth quarter to fourth quarter, we have a steady line.

Ms. Abraham. That is consistent with that figure having been fairly steady for a long period of time beginning in about 1980.

Representative Saxton. So we can say that we did not see growth over the last decade and a half?

Ms. Abraham. Using this measure of earnings and taking the Consumer Price Index as the right deflator, that is correct.

Representative Saxton. So during the years 1994 and 1995 we continued to see stagnation in terms of median weekly wages?

Ms. Abraham. That is correct.

Representative Saxton. Okay. Thank you very much.

We appreciate your coming to visit with us this morning, and we are glad that we have good news for certain American workers. We look forward to seeing you again next month.

Ms. Abraham. Thank you, Mr. Chairman.

[Whereupon, at 10:10 a.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

It's always a pleasure to welcome Commissioner Abraham before the Joint Economic Committee.

As the Commissioner has warned us many times, caution must be used in interpreting a single month of data. The employment gains and decline in the unemployment rate reported this morning are good news, especially in light of the employment losses reported in the previous month. However, the role of special factors, including the weather, certainly played a role. While the rebound from the January employment decline is certainly welcome, strong gains in employment in coming months will be needed before anyone becomes too complacent about the direction of the economy.

Moreover, as we all know, many middle class Americans are concerned about the erosion of their living standards in recent years. Recently Majority Leader Armey referred to this problem as the "Clinton crunch."

In February BLS released new figures that shed more light on this issue. According to the BLS data, median weekly earnings stagnated in 1995. The quarterly data in the release indicate that this stagnation continued right into the end of 1995. This explains why so many Americans feel that they are in a treadmill economy. Despite running faster and faster, they still are falling behind. What is the explanation for this?

This morning I am releasing a new JEC study that explains how excessive Federal spending has become a drag on economic and income growth. While government has useful functions, there is a point beyond which the costs outweigh the benefits. This study shows that Federal spending has long since reached literally counterproductive levels.

The extra costs imposed on the economy through heavy taxation and borrowing reduces the capacity of the economy to expand output and income. The bottom line is that we have reached the point where every added dollar of Federal spending reduces economic and income growth.

In fact, at current levels each additional dollar of Federal spending reduces the sum total of wages and benefits by 26 cents. By sucking resources out of the private economy, excessive Federal spending

undermines the potential of the economy to grow and generate increases in wages and benefits. Stagnation in our standard of living is the price tag attached to big government.

A serious effort to restrain Federal spending and taxation is needed to restore a basis for sustained income growth. The current stagnation in family income must be addressed.

The Impact of the Welfare State on Workers

Prepared at the request of

Vice-Chairman Jim Saxton

Joint Economic Committee
United States Congress

March 1996

THE IMPACT OF THE WELFARE STATE ON WORKERS

Executive Summary

This is the second study in a series I have commissioned on the impact of the welfare state on various aspects of the American economy. The first study, *The Impact of the Welfare State on the American Economy*, examined the drag on economic growth resulting from excessive levels of federal spending. The second study, *The Impact of the Welfare State on Workers*, analyzes the relationship between the size of the federal government and recent trends in income and compensation.

The first section of this study debunks the myth advanced by Labor Secretary Robert Reich that seeks to blame the income stagnation under the Clinton Administration on a recovery in business profits. This study refutes the notion that business profits cause income stagnation, and instead demonstrates that healthy business profits tend to generate compensation gains for American workers. This section of the study also shows that when appropriate inflation measures are used, hourly wages and benefits received by the typical worker increased about 26 percent between 1973 and 1994, after adjustment for inflation. This study demonstrates that there was a very close relationship between productivity and compensation growth during this period.

The second section of the report focuses on the relationship between excessive federal spending, productivity, and compensation. Among the conclusions of the study are the following:

- When federal spending as a share of GDP exceeds a level of 17.4 percent, additional federal spending becomes literally counterproductive, with negative effects on productivity and compensation growth.

- At present levels of federal spending as a share of GDP, restraining federal spending by one dollar during the current year would yield an increase of 26 cents in total wages and benefits. Sustaining this budget restraint over a seven year period would produce cumulative gains of $1.68.

- Over time, the drag of excessive federal spending on productivity and compensation growth are striking. If federal spending had been held constant at its 1965 share of 17.6 percent of GDP, and federal taxes adjusted accordingly, the present value of the gains to the typical worker over the period 1973-1994 would have amounted to $106,800, enough to purchase a median priced new home.

This study provides a public service by quantifying the sizable costs of excessive federal spending to the average worker in the U.S. I am pleased to make this study available to the Congress and public, and hope it contributes to an informed debate about the counterproductive effects of excessive federal spending in America.

Jim Saxton
Vice-Chairman
Joint Economic Committee

THE IMPACT OF THE WELFARE STATE ON WORKERS

by
Lowell Gallaway and Richard Vedder

PROLOGUE

This is the second in a series of studies designed to explore the question of whether the federal government in the United States is too large. In the first study, the general issue of the effect of the size of the federal government, measured as a percent of Gross Domestic Product (GDP), on the level of GDP is analyzed. Our major finding in that study is that beyond a level of federal spending amounting to 17.57 percent of GDP, additional federal expenditures have a negative impact. At current levels of spending and GDP, restraining federal spending by a dollar will add 38 cents to GDP.

In this study, we pursue this question at a more disaggregated level, focusing on the impact of an oversized government on the real compensation of workers in the United States. What we discover is a set of relationships that is quite consistent with our earlier findings. Specifically, we find that restraining current federal spending by one dollar will lead to a 26 cent increase in the real compensation of workers. The details of our analysis follow. The first section examines measurement issues and the relationship between productivity and compensation growth. The second section statistically examines the effects of an excessive federal government on wages and benefits.

I. THE LABOR INCOME GROWTH PROBLEM

"It was the best of times, it was the worst of times."
Charles Dickens,
A Tale of Two Cities

Charles Dickens did not have the American labor market in mind when he penned those famous words. However, with modest rewording to read, "Was it the best of times or the worst of times," they rather accurately describe the current controversy centering on the pattern of growth (or lack of growth) of the real economic rewards to workers in the United States. Depending on how one defines the pay of workers, and which price index is used to convert from nominal to real terms, almost any story can be told.[1] Figure 1 illustrates the extreme versions of the possible scenarios that may be sketched. The solid line describes average weekly earnings for the private sector of the economy deflated by the official consumer price index. The data are in index number form, with 1973 set equal to 100.[2] This data series shows an increase from 62.4 in 1947 to 100 in 1973 and, then, a decline to 79.3 in 1994.

On the other hand, the broken line in Figure 1 describes movements in worker compensation per hour deflated by the Gross Domestic Product deflator for the non-financial corporate business sector of the American economy. It stood at 49.9 in 1948, rose to 100 in 1973, and increased further to 137.7 in 1994, quite a different picture than that provided by the weekly earnings series.

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[1] Karl Zinmeister summarizes this controversy quite well in, "Coming this Year: Marx for Dummies," **Wall Street Journal**, January 25, 1996, p. a22.

[2] 1973 is used as the base year because it is a business cycle peak and many of the real wage series we will refer to also peak at that time.

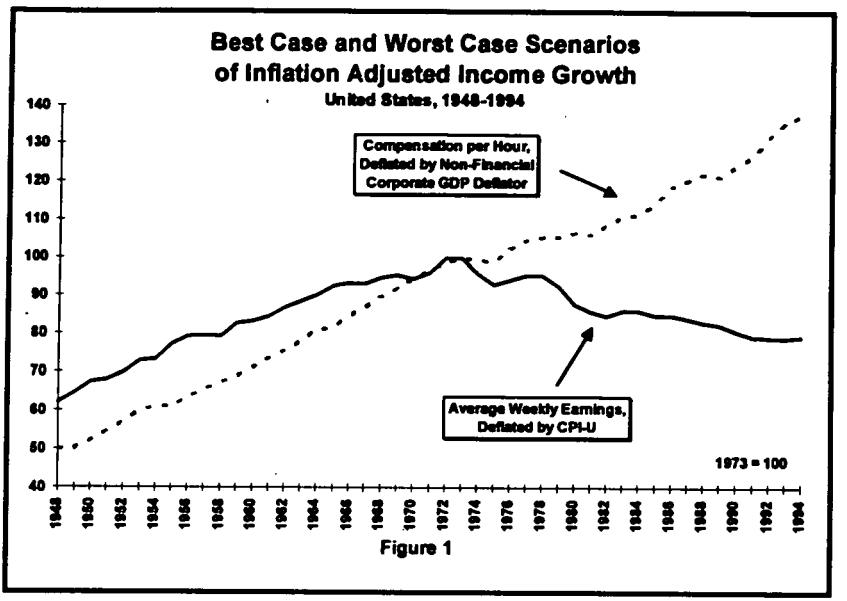

Figure 1

The Wage Measurement Problem

Two factors account for the widely disparate views of the world described graphically in Figure 1. First, the average weekly earnings series does not take into account changes in the number of hours worked per week, and second, it ignores the increasing importance of fringe benefits as a part of the payment package available to workers. Hours of work have been systematically declining throughout the post-World War II era.[3]

The negative impact of this decline on average weekly earnings is illustrated in Figure 2. Three series are presented there, average weekly earnings, average hourly earnings (both for the private sector of the economy), and average workers compensation per hour for the business sector of the American economy. All are deflated by the official consumer price index (CPI-U). A comparison of the weekly and hourly earnings series shows that, in 1947, the weekly index exceeded the hourly index by 9.1 percent. However, in 1994, the situation was reversed. The hourly series was larger than the weekly by 6.8 percent. Thus weekly and annual earnings averages understate wage growth because these measures are not adjusted for the decline in hours during the period.

[3] Between 1973 and 1994, average weekly hours in the private sector of the economy fell from 36.9 to 34.7, a decline of 6.0 percent. Source: Department of Labor, Bureau of Labor Statistics, as reported in **Economic Report of the President, 1995** (Washington, DC: Government Printing Office, 1995), Table B-45, and **Economic Indicators** (Washington, DC: Government Printing Office, 1995), November 1995, p. 15.

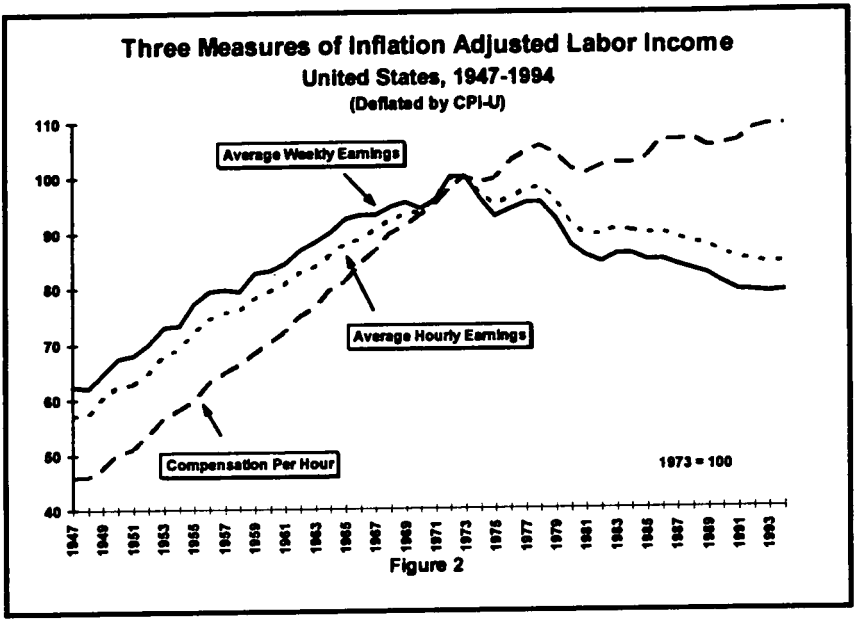

Figure 2

Even more important is the increasing importance of fringe benefits. In 1947, the compensation per hour index was 19.7 percent less than the hourly earnings series. By 1994, it was 28.1 percent greater. Moving from a simple hourly earnings to an hourly compensation analysis makes a tremendous difference. It changes the story from one of major declines in economic rewards to employees since 1973 to one of modest increases.

The Price Index Problem

Definitional distortions are only one part of the problem of assessing the growth pattern in the real value of the package of economic payments received by workers. The choice of a price index to convert nominal to real values is crucial. To illustrate the importance of the price index issue, the behavior over time of four such indices is shown graphically in Figure 3.[4] The four indices are:

[4] The price index issue has been moving to the forefront in recent years. The Boskin Commission report argues that the problem is even more acute than suggested here. However, we have confined our discussion to a series of currently published official indices.

1. The official consumer price index (CPI-U),
2. A special price index series disseminated by the Bureau of Labor Statistics known as the CPI-U-X1,
3. The price deflator for Gross Domestic Product, and
4. The price deflator for the corporate, non-financial, business sector of the economy.

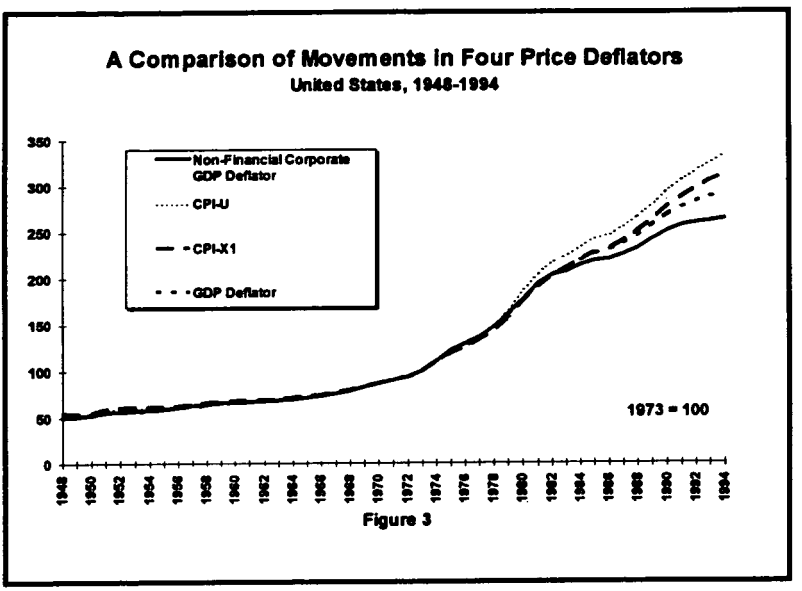

Figure 3

A few words are in order concerning the first two of these indices. The CPI-U-X1 was developed by the Bureau of Labor Statistics in response to criticisms of the determination of the CPI-U. It is widely recognized that the CPI-U developed a pronounced upward bias circa 1980 due to the manner in which it was treating housing sector costs. The official Census Bureau position on the use of this index is as follows:[5]

[5] U. S. Department of Commerce, Bureau of the Census, **Measuring the Effect of Benefits and Taxes on Income and Poverty: 1979 to 1991**, Current Population Reports, **Consumer Income**, Series P-60, No. 182RD (Washington, DC: U. S. Government Printing Office, 1992), page H-1.

The Bureau of Labor Statistics (BLS) developed an experimental Consumer Price Index (CPI-U-X1) for researchers who wish to make historical comparisons with the current Consumer Price Index for All Urban Consumers (CPI-U) which uses the rental equivalence approach to measuring shelter services. Prior to 1983, the measurement of homeowner costs included changes in the asset value of homes. ... This rental equivalence approach is a methodology that isolates the shelter services component and, therefore, is a superior measure . . .

Therefore, BLS recommends the use of CPI-U-X1 to those who need a CPI series that treats homeowner costs consistently over time.

Prior to the late 1970s, there is little problem with the price indices (see Panel A of Figure 3). For the most part, they move in unison. However, since than, there has been a substantial divergence in the four price indices we have described. By 1994, the CPI-U is 24.2 percent higher than the GDP deflator for the corporate, non-financial, sector of the economy (see Panel B of Figure 3). Such variation is capable of producing greatly disparate perceptions of what has been happening to the wages and compensation of workers in America. With three different wage and compensation measures and four different price indices, there are twelve possible variants of wage and compensation data. Values for these twelve wage and compensation indices are shown in Table 1 for 1947 (or, in some cases, 1948), 1973, and 1994.

Our preferred set of indices is that which describes the behavior of compensation per hour for workers. It more nearly measures the total per unit cost of labor to employers, as well as the total value of all money wages and various fringe benefits received by each unit of labor supplied in the market place. The four different versions of the real compensation per hour data series are shown in Figure 4. The differences are dramatic. Using the CPI-U, the real compensation shows a value of 109.3 (1973=100) in 1994. With the CPI-U-X1, it is 116.7; with the GDP deflator 124.2; and with the non-financial corporate business deflator 137.7

Table 1

Selected Values, Various Indices of Wage and Compensation Payments,
United States, 1947-1994

Wage or Compensation Measure	Price Index	1947	1973	1994
Average Weekly Earnings	CPI-U	62.4	100	79.3
Average Weekly Earnings	CPI-U-X1	61.1	100	84.3
Average Weekly Earnings	GDP Deflator	64	100	89
Average Weekly Earnings	GDP Deflator Corp. Non-Fin.	67.2	100	99.9
Average Hourly Earnings	CPI-U	57.2	100	84.6
Average Hourly Earnings	CPI-U-X1	55.9	100	89.9
Average Hourly Earnings	GDP Deflator	58.6	100	96.1
Average Hourly Earnings	GDP Deflator Corp. Non-Fin.	62	100	106.5
Compensation per Hour	CPI-U	45.9	100	109.3
Compensation per Hour	CPI-U-X1	44.9	100	116.7
Compensation per Hour	GDP Deflator	47.1	100	124.2
Compensation per Hour	GDP Deflator Corp. Non-Fin.	49.9	100	137.7

Source: Authors' Calculations

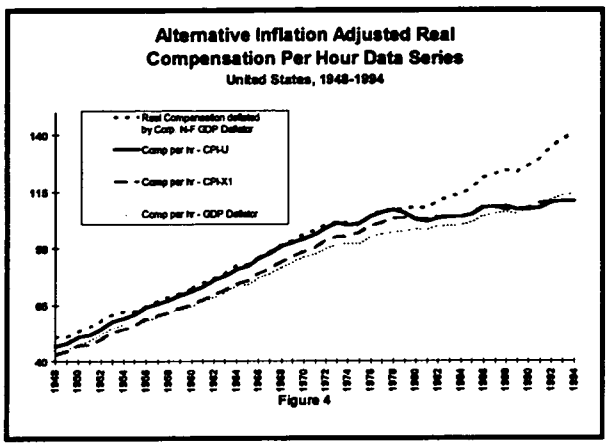

Figure 4

Notice that none of these data series substantiate the worst-case horror stories of sharply declining real economic returns to workers since 1973. Choosing among them is a difficult task. Only one can be rejected out of hand, that using the CPI-U. Beyond that, a case can be made for each of the other three, depending on whether you wish to focus solely on consumer goods or on some broader measure of goods and services produced in the American economy. Our solution to this problem is to use an average of the three data series derived by using the CPI-U-X1 and the two price deflators. The resulting real compensation series is shown in Figure 5. It shows a level of compensation in 1994 of 126.0.

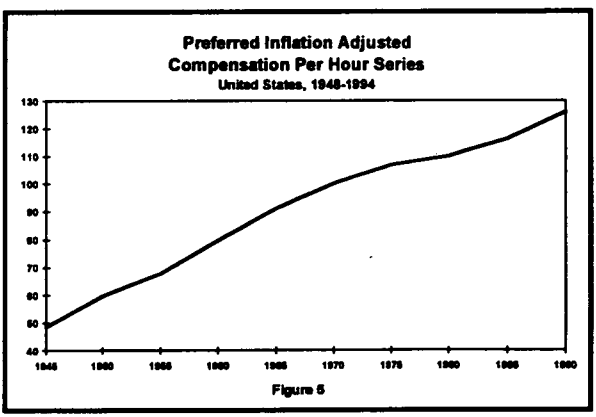

Figure 5

The Compensation Growth Issue

While the real compensation series shown in Figures 4 and 5 all indicate an increase in the hourly compensation of workers since 1973, a comparison of that growth with what occurred earlier in the post-World War II era clearly indicates a decline in the rate of growth in more recent years. Table 2 shows the annual growth rate in real wages or compensation for all twelve variants of the wage and compensation series reported in Table 1 plus that shown in Figure 5 for both the pre-1973 and post-1973 periods. In all twelve cases, the rate of growth is much greater in the pre-1973 period. In fact, in the first seven variants, growth is substantial and positive prior to 1973 and negative in the years following. It is only in the last six that growth is positive in both of these periods. In the case of the five variants of the real hourly compensation series, it more than doubles in the years 1947-1973. After 1973, the best rate of growth shows more than a one-third increase and our preferred measure increases by just a little more than one-fourth. This pronounced slowdown in the rate of growth in real hourly compensation needs to be explained.

The Reich Hypothesis

Secretary of Labor Robert Reich has offered an explanation of this phenomenon. In a Department of Labor press release,[6] he states, "There is something wrong with rising profits, rising productivity and a soaring stock market, but employment compensation heading nowhere." The thrust of Reich's claim is that increases in profits imply decreases in compensation.

The Reich hypothesis can be evaluated quite simply. Standard data sources provide information on the share of the total value of output that is accounted for by corporate profits. One such source contains data for the non financial corporate business portion of the economy.[7] From it, the share of the total value of output attributable to after-tax corporate profits can be calculated. We then used this data series in an attempt to explain variations in the real compensation per hour data series shown in Figure 5. Specifically, we explored the relationship between year-to-year changes in the corporate profits measure and year-to-year changes in real hourly compensation.

Table 2

Annual Growth Rates, Various Indices of Wage and Compensation Payments
United States, 1947-1973 and 1973-1994

Wage or Compensation Measure	Price Index	Annual Rate of Growth (%) 1947-1973	Annual Rate of Growth (%) 1973-1994
Average Weekly Earnings	CPI-U	1.8	-1.0
Average Weekly Earnings	CPI-U-X1	1.9	-0.7
Average Weekly Earnings	GDP Deflator	1.7	-0.5
Average Weekly Earnings*	GDP Deflator Corp. Non-Fin.	1.6	0.0
Average Hourly Earnings	CPI-U	2.2	-0.7
Average Hourly Earnings	CPI-U-X1	2.2	-0.5
Average Hourly Earnings	GDP Deflator	2.1	-0.2
Average Hourly Earnings*	GDP Deflator Corp. Non-Fin.	2.0	0.3
Compensation per Hour	CPI-U	3.0	0.4
Compensation per Hour	CPI-U-X1	3.1	0.7
Compensation per Hour	GDP Deflator	2.9	1.0
Compensation per Hour	GDP Deflator Corp. Non-Fin.	2.8	1.5
Compensation per Hour*	Avg. of CPI-U, CPI-U-X1, and CNF Deflator	2.9	1.1

* Data available beginning with 1948 Source: Authors' Calculations

The results are reported in Table 3 for two different versions of the relationship and two different time periods. One version analyzes the linkage between changes in the corporate profits statistic and changes in compensation in the same period. The other looks at the same relationship, but asks the question, "Do changes in the corporate profit share this year affect the change in compensation between now and next year?" The two time periods used are 1948-1994 and 1973-1994.

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[6] Department of Labor press release, statement by Secretary Robert Reich, June 22, 1995.

[7] Data are obtained from **Economic Report of the President, 1995** (Washington, DC: Government Printing Office), B-14, p. 291, and **Economic Indicators** (Washington, DC: Government Printing Office), November 1995, p. 3.

Table 3

Regression Results, Analysis of Change in Real Compensation
Per Hour, United States, 1948-1994

Independent Variable	Time Period	Regression Coefficient	t-Statistic	Adjusted R^2	D-W Statistic
Change in After-Tax Profit Share	1949-94	-19.97	-1.29	0.0319	1.99
Change in After-Tax Profit Share	1973-94	2.52	0.09	-0.10	2.00
Change in After-Tax Profit Share (Lagged One Period)	1949-94	24.73	1.60	0.04	1.99
Change in After-Tax Profit Share (Lagged One Period)	1973-94	53.28	2.12	0.1174	2.04

Note: All regression equations have Arima adjustment = (0,2) Source: Authors' Calculations

Two rather clear findings emerge from the information contained in Table 3. First, there is no evidence of a significant relationship between changes in the corporate profit share of the value of output and changes in real compensation in the same year. The Reich hypothesis is not confirmed. Second, and more important, changes in the corporate profit share this year and changes in real hourly compensation next year are somewhat related (in a statistical sense)[8] to one another. However, the direction of the relationship directly contradicts the Reich hypothesis, being positive in nature. Increases in the corporate profit share this year are associated with increases in real hourly compensation next year. Interestingly, the relationship is more statistically significant in the post-1973 period. It seems clear that the Reich hypothesis makes no useful contribution to explaining the slowing of the rate of growth in real hourly compensation since 1973. It, along with its "class warfare" overtones, should be rejected. Any insights into the reasons for the compensation slowdown must come from elsewhere.

The Productivity Hypothesis

An alternative to Robert Reich's conjectures is to examine the behavior of the productivity of labor when seeking to explain variations in real compensation through time. Historically, levels of labor compensation have moved very closely with advances in the productivity of the labor input into the productive process.[9] Thus, perhaps the slower growth in labor compensation in recent years is merely a product of a lack of growth in the productivity of labor. A strong case can be made that this is so. The importance of productivity in this respect is illustrated quite vividly by Figure 6. It shows the pattern of behavior of average productivity per hour in the business sector and our preferred real hourly compensation series since 1947. The correspondence between the two is almost perfect.

[8] For the entire period, the relationship is significant at about the ten percent level. However, for the years 1973-1994, it is significant at the five percent level.

[9] For a discussion of the relationship between real wages and productivity, see our **Out of Work: Unemployment and Government in Twentieth Century America** (New York and Oakland, Calif.: Holmes and Meier and Independent Institute, 1993), particularly Chapter 11.

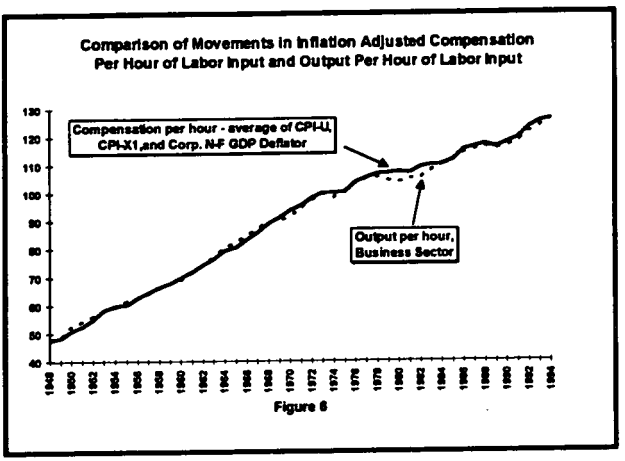

Figure 6

The graphic evidence shown in Figure 6 indicates that the observed retardation in the growth of real compensation in the United States can be traced to a similar retardation in the rate of productivity growth in the United States. Why the slowing in productivity growth? A reasonable hypothesis is that productivity growth is influenced in some fashion by governmental activities.

II. THE SIZE OF GOVERNMENT AND PRODUCTIVITY GROWTH

The increased command of government over scarce resources may have lowered productivity in America by shifting some resource allocation decisions from the relatively productive private sector to the less productive public sector. Why, however, is the public sector less efficient, less capable of producing high levels of output per worker? Six factors are key to understanding the government's negative role in productivity growth: behavioral incentives, monopoly, rent-seeking, regulation, benefit-cost asymmetry, and the shortsightedness effect.

Incentives

In the market-driven private sector, managers have a strong incentive to raise outputs in relation to inputs used to produce those outputs. Higher productivity means greater profits, as costs fall in relation to revenues. Greater profits, in turn, usually mean higher rewards to the managers and other employees considered responsible for the enhancement of productivity. Greater rewards might come in form of higher prices on company stock (particularly valuable when employees have stock options or are in a ESOP plan), profit sharing bonuses, or simply higher salaries. Market prices convey information that make decision-making relatively easy, easing resource allocation decisions. Ultimately, profits are generated by satisfying the needs of consumers. Profits serve as a measure by which managers of businesses can be held accountable by their bosses, the stockholders.

By contrast, in the public sector, managers seldom receive any rewards for enacting cost-reducing or output-enhancing measures. Indeed, in some cases, increases in productivity merely mean the manager in question has a smaller budget, and also must incur the wrath of fellow employees who may suffer from the changes which provided the advance in output per worker. The lack of profit signals makes it difficult to evaluate performance and thus hold managers accountable.

All of this explains why corporate downsizing by large, profitable companies such as IBM, ATT and Eastman Kodak is commonplace as firms try to enhance efficiency and thus shareholder value. Government downsizing, however, is far less common despite the fact that already the public sector is, on average, already less productive than the private one.

Monopoly

For most governmental services, there is a single provider. The government has a monopoly on the provision of the service. A government bureaucracy does not feel pressure to cut costs to meet competition from competing providers of goods or services. In general, that is not the case typically with providers in the private sector, who face competition from one or more firms anxious to offer a better product at a lower price. Competition prods firms into efficiencies and into offering improved products. The lack of competition may explain why, by most measures, productivity has not risen rapidly in the provision of, for example, education and postal services.

Rent-Seeking Behavior

As government grows, efforts to use the political process to redistribute income from the general taxpaying public to specific individuals or groups also intensify. Highway contractors promote "infrastructure investment", public employees seek large salary increases, businesses seek subsidies, still others favor public assistance of one form or another. When a group receives a payment without providing anything in return, it collects "economic rent." By any measure, most of the increase in real federal government expenditures in the past generation have gone for "transfer payments" - money being taken from the general taxpaying public and given to favored groups.

Mancur Olson calls these groups "distributional coalitions" and argues persuasively that they impair economic growth.[10] A host of studies have argued that rent-seeking behavior negatively impacts on growth.[11] The return to productive activity by ordinary citizens is reduced by taxes used to cover transfer payments.[12] On the other hand, the receipt of transfers is often contingent on the recipient showing a lack of productivity. Payments are given for not working (unemployment insurance, disability payments, welfare). The availability of alternative sources of income reduces incentives to work, reducing aggregate output.

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[10] Mancur Olson, **The Rise and Decline of Nations** (New Haven: Yale University Press, 1982).

[11] For example, see Richard Vedder and Lowell Gallaway, "Rent-Seeking, Distributional Coalitions, Taxes, Relative Prices and Economic Growth," **Public Choice**, vol. 51, 1986, pp. 93-100.

[12] For a recent study citing dozens of papers demonstrating the adverse effects of taxes on economic growth, see Richard Vedder, **State and Local Taxes and Economic Growth: Lessons for Federal Tax Reform**, Staff Study, Joint Economic Committee of Congress (Washington, DC: Joint Economic Committee, 1995).

Regulation

In a world without government, profit-maximizing private entrepreneurs have every incentive to raise productivity - to reduce the use of inputs for any given quantity of output. Government regulation, if it is meaningful, interferes with this process. Governmental constraints limit the ability of firms to use resources as they like. If Machine A is used, government rules may specify how the equipment can be used. Labor laws regulate compensation of employees (e.g., minimum wage laws, the Davis-Bacon Act), sometimes reducing employment and thus output. In short, if it is correct that, other things held the same, cost-minimizing firms try to maximize output per worker, any government rule that forces behavioral changes will, almost by definition, lead to lower productivity. The cost of regulation may well reach into the hundreds of billions of dollars annually or beyond.[13] Of course, some regulation may be needed, but this can become excessive and generate more costs than benefits.

Concentrated Benefits/Disbursed Costs and Rational Ignorance

The quality of public sector decision making is distorted by the fact that when benefits of government action are concentrated among a relatively small proportion of the population, but costs are widely disbursed among all taxpayers, many projects are undertaken that would not otherwise survive objective scrutiny. "Pork barrel" projects are typically public works schemes benefiting thousands of people but paid for by millions. The beneficiaries see significant benefits per recipient from the project, so campaign hard for its enactment. Non-benefiting taxpayers who are paying for most of the project typically find its cost very low, so they are not likely to protest.

A hypothetical example demonstrates the point. Suppose the people of a community talk their influential congressman into slipping a new project into an appropriations bill. Let us say the project provides $200 million in benefits to the one million persons of the community receiving the improvement - $200 per person or $800 for a typical household of four. People in that community will clamor for the project, as the benefits are big enough to provoke serious lobbying. Suppose the project cost the 260 million American taxpayers $300 million - $1.15 a person or less than five dollars for a family of four. The costs are so small that the typical taxpayer is not going to expend time and resources fighting the marginally harmful project. The average taxpayer is "rationally ignorant" about the project. Yet the costs to society ($300 million) are greater than the benefits ($200 million), so the investment is clearly one with a negative return to society. Yet the asymmetrical lobbying on the project will typically lead to it being undertaken. This principle is at work literally hundreds, if not thousands, of times annually in various types of special interest legislation.

The Shortsightedness Effect

Many investments that raise productivity take several years to complete. The costs of the project come quickly, but the benefits largely accrue many years in the future. In the private sector, investments of this type are undertaken since firms know that such investment is vital to maximizing the present value of future profit streams. In the public sector, however, payoffs received even two or more years from now from expenditures made today are politically irrelevant, since congressmen must face re-election within a very few years of the date

[13] Professor Vedder is completing a study for the Center for the Study of American Business at Washington University in St. Louis that demonstrates this point using time-series data on productivity and regulatory effort (as measured by spending on regulation). The tentative title is **Federal Regulation's Impact on the Productivity Slowdown.**

the decision is made to proceed with the expenditure. There is a bias, then, to make decisions that have immediate benefits and deferred costs, when in fact some of those decisions are socially undesirable, since the present value of those future costs exceed the value of the benefits. The costs, however, are largely disguised from the voters, while the benefits are obvious. Similarly, some worthwhile expenditures are not undertaken even where the present value of benefits exceed costs simply because the benefits are in the future and the political value of those benefits to existing congressmen are minimal.

Thus the political process promotes "shortsighted" decisions, and leads to such fiscal policy strategies as large deficit financing (spend today and derive political benefits financed in the future by disguised taxation). The shortsightedness effect is one factor in explaining the persistence of budget deficits. When new social programs are begun, typically they are structured so first or second year costs are moderate, but "out year" expenditures soar. Politicians than can claim "I helped get you new program A" and derive political benefits for programs that may have, net, greater financial costs than benefits.

An Empirical Evaluation of Government's Impact on Productivity

The preceding argument has emphasized the negative side of government activities. However, not all government actions are counterproductive. There are things that government can do that improve the functioning of the economy, such as providing for national defense, maintaining a system of laws that assist in settling contractual disputes and provide for the safety of individuals and their property, providing a basic infrastructure, and establishing a minimal safety-net for its citizens. In the strictest economic sense, the positive effects of government tend to reduce the costs of producing goods and services, thereby raising productivity and lowering prices. What is critical in evaluating the impact of the Federal government on the average productivity of labor is the net effect of its positive and negative contributions. When government is small, additions to it are more likely to improve the nation's economic performance. However, as it becomes larger and larger, it tends to stray off more and more into programs that produce the kinds of inefficiencies previously described. What this indicates is a systematic relationship between the size of the Federal government and the average productivity of labor. At low levels of government spending and activity, the contributions to enhancing levels of productivity are positive, but at high levels, they are negative.[14]

The availability of numerical data detailing levels of federal government expenditures, expressed as a percent of GDP, and the average productivity of labor allow a statistical evaluation of the suggested relationship between the size of government and the productivity of labor. To do this, we estimated a statistical relationship of the form:

$$(1)\ PR = a + bG - cG^2 + dT + e$$

where PR represents the annual average productivity of labor, T delineates the passage of time, G is federal government spending as a percentage of Gross Domestic Product, and G^2 is the square of the variable G. The variable T is included to control for the long term growth in the average productivity of labor. The statistical results are reported in Table 4. All of the independent variables are statistically significant at commonly accepted levels. Also, the signs of the variables indicate that the hypothesis that beyond some size growth in the magnitude of government adversely affects the productivity of labor is confirmed. Interestingly, the value of G beyond

[14] The relationship described here is an extension of the Armey curve concept explored in our earlier study for the Joint Economic Committee. **The Impact of the Welfare State on the American Economy** (Washington, DC: December, 1995).

which growth in government begins to exert its negative effects is a Federal government share of Gross National Product of 17.42 percent, almost exactly the same value found in our earlier analysis of the impact of government on real Gross Domestic Product.[15]

To firmly establish the quantitative linkage between the size of the Federal government and the compensation of labor, a statistical estimate of the productivity-compensation relationship is also reported (see Table 5).[16] As expected, on the basis of Figure 6, the average productivity of labor and real compensation are powerfully related. This indicates that the already observed effect of the size of government on labor productivity is directly transferable to real compensation, indicating that growth in the size of the Federal government beyond the optimal level of 17.4 percent has operated to reduce the level of real compensation per worker in the American economy.

Table 4

Regression Results, Analysis of Change in Average Output Per Hour of Labor Input
United States, 1947-1994

Independent Variable	Regression Coefficient	t-Statistic
Federal Government Expenditure as Percent of GDP	4.18	4.16
Square of Federal GovernmentExpenditure as Percentof GDP	-0.12	4.18
Time	1.62	42.81

Note: Other regression statistics: Adjusted R^2 = .9942, D-W = 1.47, Arima Adjustment = (0,2).
Source: Authors' Calculations

Further insight into the magnitude of the impact of the growth of government on wage levels in the United States can be obtained by asking the question, "What would have happened if the size of government had remained stable at some lower level, as opposed to the increase reflected in the actual historical record. Making such an assumption permits calculating a hypothetical productivity and real wage series that then can be compared with the actual. A good point of departure for this purpose is the year 1965, at which time federal government spending stood at 17.6 percent of Gross Domestic Product, very close to the optimal level of Federal government spending as a

Table 5

Regression Results, Analysis of Relationship Between Productivity and Real Compensation Per Hour
United States, 1948-1994

Independent Variable	Regression Coefficient	t-Statistic
Average Output Per Hour of Labor Input	1.0068	517.47

Note: Other regression statistics: Adjusted R^2 = .9993. Since real compensation would be zero if average product of labor were zero, the regression equation is constrained to pass through the origin.
Source: Authors' Calculations

[15] See our **The Impact of the Welfare State on the American Economy**, Joint Economic Committee study (Washington, DC: Joint Economic Committee, 1995).

[16] This regression equation is constrained to run through the origin. The basis for this is the **a priori** expectation that at a zero level of average productivity of labor, real compensation would be zero.

Table 6

Comparison of Actual and Hypothetical Real Compensation Per Hour
United States, 1973-1994

Year	Hypothetical Real Compensation Per Hour (1973=100)	Average Real Compensation Per Hour (1973=100)
1973	100.0	100.0
1974	102.0	100.0
1975	104.0	100.1
1976	106.1	103.6
1977	108.1	105.3
1978	110.1	106.7
1979	112.1	106.9
1980	114.1	107.4
1981	116.2	107.0
1982	118.2	109.0
1983	120.2	109.7
1984	122.2	110.1
1985	124.2	111.7
1986	126.3	115.4
1987	128.3	116.3
1988	130.3	117.2
1989	132.3	116.1
1990	134.3	117.8
1991	136.3	119.4
1992	138.4	122.9
1993	140.4	125.1
1994	142.4	126.0

Source: Authors' Calculations

share of Gross Domestic Product that we have estimated. When the necessary calculations are made, the results shown in Table 6 (and displayed graphically in Figure 7) are obtained. Since our primary interest is in explaining the retardation of the growth in real compensation since 1973, the actual and hypothetical compensation series have been indexed on 1973 (=100). What we find is that holding the level of federal government spending constant at 17.6 percent of Gross Domestic Product since 1973 would have produced a level of real compensation in 1994 some 13 percent higher than what actually occurred.

The picture of how large government negatively influences the level of economic activity in the American economy is now clear. When government grows beyond the level that optimal for the economy, it introduces inefficiencies that increase the cost of producing goods and services and reduce the real returns to labor. The cumulative impact of these inefficiencies over a substantial period of time is immense. Using the actual estimates of compensation per hour in the non-financial corporate business sector and the data describing the average number of hours worked per week in the private non-agricultural sector, we have estimated the present value of the annual losses per worker (measured in 1994 dollars) of oversized government in the years since 1973 (through 1994). In 1994 alone, the total loss of compensation amounted to $4132, some $344 per month. Over a longer period of time, for someone who had worked the typical workweek and earned the typical compensation during those years, the present value of the cumulative cost of the excessive federal government totals $71,200.

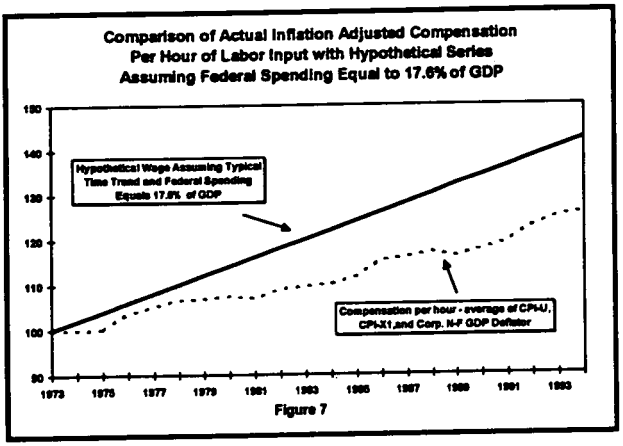

Figure 7

There also would be gains from the reduction in federal taxes that almost certainly would have followed in the wake of holding federal spending at 17.6 percent of GDP. During the period 1973-1994, federal government revenues averaged 18.7 percent of GDP. If the revenue share would have fallen by 1.1 percentage points (the difference between 19.7 and 17.6 percent) in this interval, the increase in after-tax compensation would have been about half the gain attributable to the productivity increases that would have ensued as the result of restraining government spending.[17] Increasing the $71,200 figure by fifty percent gives an estimate of $106,800, exactly the median price of a home in the United States in 1993.[18] Roughly speaking, an oversized government in the years 1973-1994 has cost the average worker the value of a typical home.

The Future of Real Compensation

What is done is done. The question that remains is, "What about the future?" "What can be done to rectify this situation in the years ahead?" The obvious answer is to impose restraint on federal government spending. Using the relationships we have developed, it is possible to estimate the marginal effect of restraining spending growth on levels of real compensation. Assuming 1994 levels of GDP and federal spending, restraining spending by $100 billion would result in about a 1.5 percentage point reduction in federal spending as a percent of GDP (from 22.0 to 20.5 percent). Using the statistical results reported in Table 4, this would produce an 0.8 percent increase in both productivity and compensation of workers. When that rate of increase is applied to the business sector total compensation data contained in the National Income and Productivity Accounts, a total increase in compensation of $26 billion is indicated. Thus, $100 billion of federal spending restraint would produce a $26 billion increase in total real compensation of workers, 26 cents per dollar of spending restraint.

Replicating an analysis reported in our earlier study of the impact of oversized government on GDP, we estimate that a dollar of spending restraint this year that is maintained over the following six years will generate $1.68 of additional total real compensation for workers.

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[17] The reduction from 1994 levels of federal spending to the 17.6 percent level would have increased the average output per hour of labor by 2.1 percent.

[18] **Statistical Abstract of the United States, 1994** (Washington, DC: Government Printing Office, 1995), Table 1208, p. 732.

CONCLUSION

Several striking conclusions emerge from this study:

1. The worst-case horror stories of declining real income payments to workers since 1973 are not true. When appropriately defined and deflated to take into account changes in price levels, there has been a meaningful increase, some 26 percent, in the real compensation package received by the typical worker for an hour's labor.

2. While there has been growth in real compensation per hour since 1973, the rate of increase has slowed perceptibly when compared with the pre-1973 post-World War II period.

3. Secretary of Labor Robert Reich's "excessive profits" explanation for the retardation of real compensation growth is contradicted by the available evidence.

4. The pattern of growth in real compensation over time almost exactly mirrors the behavior of the average productivity of labor. Consequently, growth in both real compensation and labor productivity slowed in the post-1973 era.

5. The average productivity of labor is significantly affected by the percentage federal expenditures are of GDP. Beyond a federal government share of GDP of 17.4 percent, additional spending impacts adversely on average output per hour of labor services employed. Of course, this translates into a similar impact on the real hourly compensation of workers.

6. If federal spending had been held constant at its 1965 share of 17.6 percent of GDP, and federal taxes adjusted accordingly, the present value of the gains to the typical worker over the period 1973-1994 would have been $106,800, an amount sufficient to purchase a typical home in the United States.

7. At present levels of federal spending and GDP, restraining federal spending by a dollar during the current year will yield an increase of 26 cents in total worker compensation. Sustaining that restraint over a seven year period would produce cumulative gains of $1.68 in total compensation.

What these findings strongly indicate is that spending restraint at the federal level is critical to enhancing the level of worker compensation in the United States. Every dollar of such restraint eliminates 26 cents of the deadweight burden imposed on workers by the inefficiencies created by a federal government that has become too large.

The authors, Lowell Gallaway and Richard Vedder, are professors of economics at Ohio University in Athens, Ohio.

PREPARED STATEMENT OF PETE STARK, RANKING MINORITY MEMBER

I am very pleased to join with Vice Chairman Saxton in welcoming Commissioner Abraham before the Committee this morning to discuss the employment and unemployment figures for February.

This morning's figures are good news, in fact very good news indeed. The number of jobs on nonfarm payrolls rose a whopping 705 thousand in February, while the unemployment rate fell to 5.5 percent. This was the largest one-month gain in employment in almost thirteen years and the third largest monthly gain in the post-war period. In the private sector, the economy created 663 thousand jobs in February, which was also the largest one-month increase in 13 years.

This morning's job growth brings us to a new milestone in job creation. Since January 1993, the economy has added 8.4 million new jobs to nonfarm payrolls. This is four times as many jobs as President Reagan created during his first three years in office and four times as many as President Bush created during his entire term.

At the same time, the last three years have been a period of low inflation, in fact the lowest period of inflation in thirty years. Since 1993, consumer prices have risen at an annual rate of only 2.6 percent, and we have not seen that kind of performance since the early years of the Kennedy Administration. With that backdrop, there is no basis for this morning's panic in the bond market.

When George Will asked Senator Dole what this year's election was going to be about last Sunday, Senator Dole replied, "It's going to be about bad news." He and many other Republicans have been predicting recession for three years. Today's numbers suggest that he and other Republicans need to rethink their campaign theme.

This economy has not only overcome the setbacks from January's bad weather, but also the economic ineptness of the Republican majority in Congress. Republicans in Congress have contributed to the recent slowdown in the economy. The government shutdowns that they engineered in November and December significantly depressed growth in last year's fourth quarter, according to the Commerce Department. And looking to the future, I think it is clear that their extremist economic policies and their failure to come to closure on the appropriations bills and the budget for fiscal year 1996 have also weighed down the economy.

For today, though, we have had some very good news and I look forward to Commissioner Abraham's statement.

PREPARED STATEMENT OF KATHARINE G. ABRAHAM

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to comment on the labor market data released this morning.

Nonfarm payroll employment jumped by 705,000 in February, and the unemployment rate fell to 5.5 percent, down from 5.8 percent in January. The jobless rate has fluctuated between 5.4 percent and 5.8 percent since the last quarter of 1994.

The 705,000 rise in payroll employment followed a decline of 188,000 in January. The January decline reflected the severe weather in that month. Viewing February's large increase together with January's decline yields an average monthly gain of 259,000.

The largest increase in employment over the month was in the services industry (287,000). January's weather-related declines in private education and amusement and recreation services were reversed. Health services added 46,000 jobs in February following almost no increase in January; over the two months combined, the pace of growth in the industry was in line with its long-term trend. Business services rebounded from January's job decline (31,000) with a gain of 126,000 in February. Much of this rise was due to the addition of 79,000 jobs in help supply services, which more than offset the January decline in that industry. Help supply services added an average of 27,000 workers per month between December and February, considerably more than the monthly average for all of 1995. Elsewhere in business services, computing and data processing services continued to show strength; employment also rose in services to buildings, boosted in part by the return to work of about 13,000 strikers.

Construction added 121,000 jobs in February. This increase reflects some real strength in the industry, but also the impact of severe weather on the recent pattern of layoffs and hires.

Retail trade gained 166,000 jobs in February, following a decline of 60,000 jobs in the prior month. Much of the gain was in eating and drinking establishments, which had been particularly hard-hit by January's storms. The growth in employment in department stores, on a seasonally adjusted basis, reflected the fact that there were fewer-than-expected layoffs in January and February, following weak holiday hiring.

Total government employment rose by 42,000 in February, more than offsetting the January losses. Employment in State education, local education, and other local government agencies increased. Partly offsetting these gains was the continued decline in Federal government employment.

Manufacturing added 26,000 jobs in February, but this represents only a partial return to work of employees who had been off payrolls in January. Electronic components continued to be the only industry with a steady growth trend, while most of the other manufacturing industries recovered only part of their January job losses. The factory workweek and factory overtime also recovered from their January declines, reaching 41.6 and 4.5 hours, respectively.

Turning to data from the household survey, both the number unemployed and the unemployment rate fell in February. The number of jobless persons declined by 322,000 to fewer than 7.4 million, and the unemployment rate was down three-tenths of a percentage point to 5.5 percent. Unemployment rates declined for both adult women and teenagers. Like the overall unemployment rate, however, the rates for all the major worker groups have been fluctuating within relatively narrow bands for some time.

Before my colleagues and I take your questions, I would like to mention two items concerning our household data. First, the revised, seasonally adjusted data series from the household survey that normally accompany the release of the December figures are now available. These revised estimates were delayed because of the federal shutdown and the work time lost during the January blizzard. In addition to recalculating the estimates based on updated seasonal factors, we also have revised the estimates for 1990 through 1993 using 1990 census-based population controls adjusted for the estimated undercount. The new population controls previously had been used in the estimation process only for the data from January 1994 forward.

Second, as we announced last fall, we are reintroducing to our press release this month a table showing a range of alternative indicators of labor underutilization. A set of alternative indicators had been published for many years. Their publication was temporarily suspended when the revised household survey questionnaire was introduced in January 1994. The new set of measures takes advantage of the improved data from the revised survey. It is worth noting that, although their levels differ, the historical movements in these measures generally have closely followed those of the official unemployment rate.

In summary, there was a substantial gain in payroll employment in February following January's weather-related decline. The unemployment rate fell back to 5.5 percent.

My colleagues and I now would be glad to answer your questions.

News
United States Department of Labor
Bureau of Labor Statistics
Washington, D.C. 20212

Technical information:
Household data: (202) 606-6378
606-6373
Establishment data: 606-6555
Media contact: 606-5902

USDL 96-84

Transmission of material in this release is embargoed until 8:30 A.M. (EST), Friday, March 8, 1996.

THE EMPLOYMENT SITUATION: FEBRUARY 1996

Nonfarm payroll employment increased by 705,000 in February, and the unemployment rate decreased to 5.5 percent, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The jump in payroll jobs follows a decline of 188,000 in January, which largely reflected the severe weather conditions in the eastern part of the country. The jobless rate has hovered within a relatively narrow range since late 1994.

Unemployment (Household Survey Data)

The unemployment rate fell 0.3 percentage point to 5.5 percent in February, and the number of unemployed persons decreased by 322,000 to 7.4 million. Each had risen by a similar magnitude in

Chart 1. Unemployment rate, seasonally adjusted, March 1993 - February 1996

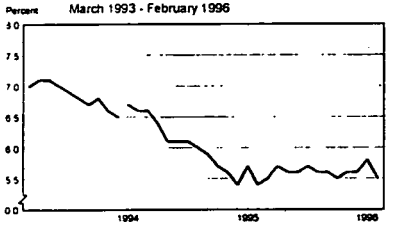
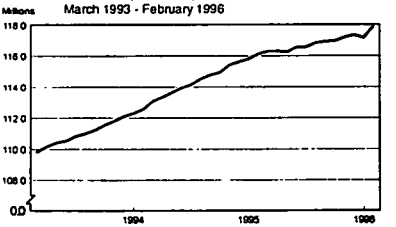


Chart 2. Nonfarm payroll employment, seasonally adjusted, March 1993 - February 1996



All seasonally adjusted household data have been revised to incorporate updated seasonal adjustment factors, which reflect the 1995 experience. Also, unadjusted household data series have been revised for 1990-93 to reflect 1990 census-based population controls, adjusted for the estimated undercount. As a result, seasonally adjusted data back to 1990 are subject to revision. The January 1995-January 1996 unemployment rates, as originally published and as revised, appear on page 5, along with additional information on the revisions.

In addition, as announced last fall, this release resumes publication of a range of alternative measures of labor underutilization (table A-7).

Table A. Major indicators of labor market activity, seasonally adjusted
(Numbers in thousands)

Category	Quarterly averages		Monthly data			Jan.-Feb. change
	1995		1995	1996		
	III	IV	Dec.	Jan.	Feb.	
HOUSEHOLD DATA	Labor force status					
Civilian labor force	132,380	132,432	132,352	132,903	133,018	115
Employment	124,909	125,096	124,981	125,226	125,663	437
Unemployment	7,471	7,336	7,371	7,677	7,355	-322
Not in labor force	66,427	66,920	67,156	66,730	66,754	24
	Unemployment rates					
All workers	5.6	5.5	5.6	5.8	5.5	-0.3
Adult men	4.8	4.7	4.8	4.9	4.9	.0
Adult women	5.0	4.8	4.7	5.1	4.8	-.3
Teenagers	17.7	17.6	18.0	18.2	16.6	-1.6
White	4.9	4.9	4.9	5.0	4.9	-.1
Black	10.9	9.9	10.2	10.6	10.3	-.3
Hispanic origin	9.2	9.3	9.3	9.2	9.7	.5
ESTABLISHMENT DATA	Employment					
Nonfarm employment	116,782	117,190	117,357	p117,169	p117,874	p705
Goods-producing [1]	24,159	24,155	24,173	p24,114	p24,267	p153
Construction	5,240	5,293	5,297	p5,314	p5,435	p121
Manufacturing	18,344	18,293	18,307	p18,232	p18,258	p26
Service-producing [1]	92,622	93,034	93,184	p93,055	p93,607	p552
Retail trade	20,862	20,956	20,981	p20,921	p21,087	p166
Services	32,951	33,170	33,248	p33,204	p33,491	p287
Government	19,316	19,314	19,328	p19,299	p19,341	p42
	Hours of work[2]					
Total private	34.5	34.4	34.3	p33.7	p34.5	p0.8
Manufacturing	41.5	41.4	41.2	p39.9	p41.6	p1.7
Overtime	4.4	4.4	4.3	p4.1	p4.5	p.4
	Earnings[2]					
Average hourly earnings, total private	$11.51	$11.59	$11.61	p$11.66	p$11.65	p-$0.01
Average weekly earnings, total private	396.98	399.19	398.22	p392.94	p401.93	p8.99

[1] Includes other industries, not shown separately.
[2] Data relate to private production or nonsupervisory workers.
p = preliminary.
NOTE: Household data have been revised based on experience through December 1995.

January, as revised. The unemployment rate has fluctuated between 5.4 and 5.8 percent since the last quarter of 1994. In February, the jobless rate for adult women decreased by 0.3 percentage point to 4.8 percent; the rate for teenagers dropped 1.6 percentage points to 16.6 percent. The unemployment rates for the other major worker groups—adult men (4.9 percent), whites (4.9 percent), blacks (10.3 percent), and Hispanics (9.7 percent)—showed little or no change over the month. (See tables A-1 and A-2.)

Total Employment and the Labor Force (Household Survey Data)

Total employment increased by 437,000 in February, to 125.7 million. The proportion of the working-age population that was employed (the employment-population ratio) edged up to 62.9 percent; however, the measure was slightly lower than a year earlier. The number of persons working part time for economic reasons increased by 411,000 in February, reversing a decline of similar magnitude in the previous month. (See tables A-1 and A-3.)

The number of persons who held more than one job in February was 7.9 million (not seasonally adjusted). These multiple jobholders made up 6.3 percent of all employed persons, the same as a year earlier. (See table A-9.)

The size of the civilian labor force was about unchanged in February, at 133.0 million, seasonally adjusted. The labor force participation rate held at 66.6 percent and has shown no clear trend since last spring.

Persons Not in the Labor Force (Household Survey Data)

About 1.8 million persons (not seasonally adjusted) were marginally attached to the labor force in February—that is, they wanted and were available for work but had stopped looking for jobs sometime in the prior 12 months. The number of discouraged workers—persons who had stopped looking for work specifically because they believed no jobs were available to them—was 455,000 in February. Both figures were close to their levels of a year earlier. (See table A-9.)

Industry Payroll Employment (Establishment Survey Data)

Total nonfarm payroll employment rose by 705,000 in February, rebounding strongly from weather-related declines in January. Services, retail trade, and construction all experienced particularly large employment increases. Most other industries also exhibited strong growth following depressed January levels. Overall, job growth during the first 2 months of 1996 averaged 259,000 per month. (See table B-1.)

The services industry added 287,000 jobs in February, following weather-related reductions in the prior month. Business services, which dipped by 31,000 in January, accounted for the largest share of the February increase (126,000). Within business services, employment in help supply services increased by 79,000, after showing no net growth since last September. The number of jobs in building services rose by 24,000 over the month, partly due to the return of 13,000 strikers. Computer services added 14,000 jobs in February, continuing its upward trend. Employment in health services rose by 46,000, in line with its recent trend when combined with January's small gain. Amusement and recreation, social, and educational services showed significant gains in February, due in part to the improved weather conditions.

Retail trade employment rose by 166,000, rebounding sharply from job losses in the prior 2 months. Eating and drinking places, which were particularly affected by the January blizzard, added 62,000 workers over the month. Job gains also were robust in department stores (59,000), partly the result of a weather-related rebound. Automobile dealerships and service stations employment continued to expand, and miscellaneous retail establishments added 24,000 jobs, thereby regaining January's losses. After registering a very small increase in January, employment in wholesale trade rose by 16,000, about its average for 1995.

Construction employment was up by 121,000 in February, seasonally adjusted. Improved weather conditions contributed to this gain, but the industry also has shown underlying strength. Mining employment rose by 6,000 over the month, with 3,000 of this increase in oil and gas extraction.

Manufacturing employment was up 26,000 in February, reflecting the return of employees from weather-related cutbacks. Despite this increase, factory employment was still down by 49,000 since December and 267,000 since its recent peak of March 1995. Auto manufacturers brought back only part of the workforce that was laid off in January due to high inventories. In contrast, the electronic components industry continued its growth trend.

Employment in the transportation industry rose by 23,000 in February, with trucking and warehousing and local transit contributing most of the growth. The finance industry added 9,000 jobs over the month.

Government employment rose by 42,000 in February. This increase was mostly in state and local education, where some nonsalaried employees had been off payrolls in January due to the snowstorm. Federal government employment continued to fall.

Weekly Hours (Establishment Survey Data)

The average workweek for production or nonsupervisory workers on private nonfarm payrolls rose sharply in February—0.8 hour—to 34.5 hours, seasonally adjusted, rebounding from the impact of the extreme weather last month. The weather's influence was particularly evident in manufacturing; the factory workweek declined by 1.3 hours in January and increased by 1.7 hours in February. Factory overtime was up by 0.4 hour to 4.5 hours. (See table B-2.)

The index of aggregate weekly hours of private production or nonsupervisory workers on nonfarm payrolls rose by 3.2 percent to 134.5 (1982=100) in February, reflecting a large rebound in both employment and hours. The manufacturing index increased by 4.4 percent to 105.8. (See table B-5.)

Hourly and Weekly Earnings (Establishment Survey Data)

Average hourly earnings of private production or nonsupervisory workers on nonfarm payrolls edged down by 1 cent in February, after seasonal adjustment, following a 5-cent rise in January. Average weekly earnings rose by 2.3 percent because of the workweek increase. Over the year, average hourly earnings increased by 2.9 percent and average weekly earnings by 2.6 percent. (See table B-3.)

The Employment Situation for March 1996 is scheduled to be released on Friday, April 5, at 8:30 A.M. (EST).

5

Revised Household Survey Data

Recent shutdowns and the weather-related closing of many federal agencies, including BLS, delayed the annual revisions in the seasonally adjusted household survey series. These revisions are being introduced with the publication of February 1996 data, 2 months later than usual. In addition, unadjusted series for 1990-93 have been revised to incorporate 1990 census-based population controls, adjusted for the estimated undercount. Thus, seasonally adjusted data for January 1990-January 1996 are subject to revision.

Table B summarizes the effects of the revisions on the overall unemployment rate since January 1995. Rates were revised in only 2 months, each by 0.1 percentage point. Revised seasonally adjusted data for major labor force series, also since January 1995, appear in table C.

The March 1996 issue of Employment and Earnings will contain the new seasonal adjustment factors for major series for the January-June 1996 period. The publication also will contain a description of the 1990-93 population revisions, the current seasonal adjustment methodology, and revised data for the most recent 13 months for all regularly published tables containing seasonally adjusted household survey data. Revised monthly data for the January 1990-January 1996 revision period for several labor force series also will be published in the March 1996 issue. Microcomputer diskettes of historical seasonally adjusted monthly data may be purchased from BLS; contact Gloria P. Green on 202-606-6373. Historical seasonally adjusted monthly data also are available on the INTERNET. INTERNET users can access these data from the ftp://stats.bls.gov/pub/special.requests/lf directory.

Table B. Seasonally adjusted unemployment rates and change due to revision, January 1995-January 1996

Month and year	As first computed	As revised	Change
1995			
January	5.7	5.7	.0
February	5.4	5.4	.0
March	5.5	5.5	.0
April	5.8	5.7	-0.1
May	5.7	5.6	-.1
June	5.6	5.6	.0
July	5.7	5.7	.0
August	5.6	5.6	.0
September	5.6	5.6	.0
October	5.5	5.5	.0
November	5.6	5.6	.0
December	5.6	5.6	.0
1996			
January	5.8	5.8	.0

New Seasonal Adjustment Procedures for Establishment-Based Series

BLS plans to implement improved seasonal adjustment procedures for the nonfarm payroll employment, hours, and earnings series effective with the release of annual benchmark revisions and May 1996 preliminary estimates on June 7, 1996. The new seasonal adjustment procedures identify and control for the effects of varying time intervals between surveys (also known as the 4-vs. 5-week effect) and are based on X-12 ARIMA software newly developed by the Bureau of the Census. Historical data series from January 1988 forward will be revised to incorporate the new methodology. Further information on this planned change is available upon request. (Contact Patricia Getz at 202-606-6521.)

Table C. Employment status of the civilian noninstitutional population by sex and age, seasonally adjusted

(Numbers in thousands)

Employment status, sex, and age	1995												1996
	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
TOTAL													
Civilian noninstitutional population[1]	197,753	197,886	198,007	198,148	198,286	198,452	198,615	198,801	199,005	199,192	199,355	199,508	199,634
Civilian labor force	132,170	132,078	132,391	132,529	132,058	131,962	132,342	132,298	132,501	132,473	132,471	132,352	132,903
Participation rate	66.8	66.7	66.9	66.9	66.6	66.5	66.6	66.5	66.6	66.5	66.4	66.3	66.6
Employed	124,671	124,681	125,106	124,973	124,598	124,566	124,832	124,859	125,036	125,244	125,062	124,981	125,226
Employment-population ratio	63.0	63.1	63.2	63.1	62.8	62.8	62.9	62.8	62.8	62.9	62.7	62.6	62.7
Unemployed	7,499	7,197	7,285	7,556	7,460	7,396	7,510	7,439	7,465	7,229	7,409	7,371	7,677
Unemployment rate	5.7	5.4	5.5	5.7	5.6	5.6	5.7	5.6	5.6	5.5	5.6	5.6	5.8
Men, 20 years and over													
Civilian noninstitutional population[1]	87,528	87,572	87,622	87,664	87,691	87,750	87,818	87,905	87,940	88,027	88,046	88,172	88,223
Civilian labor force	67,593	67,451	67,563	67,479	67,283	67,281	67,264	67,218	67,286	67,193	67,171	67,133	67,363
Participation rate	77.2	77.0	77.1	77.0	76.7	76.7	76.6	76.5	76.5	76.3	76.3	76.1	76.6
Employed	64,190	64,355	64,367	64,196	63,951	64,039	64,031	63,982	64,023	64,146	63,901	63,879	64,246
Employment-population ratio	73.3	73.5	73.5	73.2	72.9	73.0	72.9	72.8	72.8	72.9	72.6	72.4	72.8
Agriculture	2,397	2,463	2,481	2,371	2,241	2,331	2,321	2,297	2,296	2,351	2,259	2,252	2,399
Nonagricultural industries	61,793	61,892	61,886	61,825	61,710	61,708	61,710	61,685	61,727	61,795	61,642	61,627	61,848
Unemployed	3,403	3,096	3,196	3,283	3,332	3,242	3,233	3,236	3,263	3,047	3,270	3,254	3,317
Unemployment rate	5.0	4.6	4.7	4.9	5.0	4.8	4.8	4.8	4.8	4.5	4.9	4.8	4.9
Women, 20 years and over													
Civilian noninstitutional population[1]	95,961	96,020	96,037	96,099	96,141	96,204	96,265	96,327	96,408	96,487	96,555	96,633	96,717
Civilian labor force	56,913	56,965	57,028	57,273	57,027	56,898	57,315	57,291	57,387	57,516	57,502	57,426	57,591
Participation rate	59.3	59.3	59.4	59.6	59.3	59.1	59.5	59.5	59.5	59.6	59.6	59.4	59.5
Employed	54,109	54,177	54,226	54,339	54,243	54,059	54,422	54,458	54,568	54,661	54,752	54,715	54,842
Employment-population ratio	56.4	56.4	56.5	56.5	56.4	56.2	56.5	56.5	56.6	56.7	56.7	56.6	56.5
Agriculture	873	879	881	874	835	813	801	811	778	816	808	816	857
Nonagricultural industries	53,236	53,298	53,345	53,465	53,408	53,246	53,621	53,647	53,790	53,845	53,946	53,899	53,785
Unemployed	2,804	2,788	2,802	2,934	2,784	2,837	2,893	2,833	2,819	2,855	2,750	2,711	2,949
Unemployment rate	4.9	4.9	4.9	5.1	4.9	5.0	5.0	4.9	4.9	5.0	4.8	4.7	5.1
Both sexes, 16 to 19 years													
Civilian noninstitutional population[1]	14,263	14,294	14,348	14,385	14,454	14,498	14,531	14,569	14,657	14,678	14,754	14,703	14,694
Civilian labor force	7,664	7,662	7,800	7,777	7,748	7,785	7,763	7,789	7,828	7,764	7,798	7,793	7,749
Participation rate	53.7	53.6	54.4	54.1	53.6	53.7	53.4	53.5	53.4	52.9	52.9	53.0	52.7
Employed	6,372	6,349	6,513	6,438	6,404	6,468	6,379	6,419	6,445	6,437	6,409	6,387	6,338
Employment-population ratio	44.7	44.4	45.4	44.8	44.3	44.6	43.9	44.1	44.0	43.9	43.4	43.4	43.1
Agriculture	287	254	274	283	284	291	287	268	261	267	258	257	273
Nonagricultural industries	6,085	6,095	6,239	6,155	6,120	6,177	6,092	6,151	6,184	6,170	6,151	6,130	6,065
Unemployed	1,292	1,313	1,287	1,339	1,344	1,317	1,384	1,370	1,383	1,327	1,389	1,406	1,412
Unemployment rate	16.9	17.1	16.5	17.2	17.3	16.9	17.8	17.6	17.7	17.1	17.8	18.0	18.2

[1] The population figures are not adjusted for seasonal variation

NOTE Seasonally adjusted data have been revised based on the experience through December 1995

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