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PUBLIC HEARINGS BEFORE THE  
NATIONAL COMMISSION ON EMPLOYMENT  
AND UNEMPLOYMENT STATISTICS

VOLUME 1

Hearings held in Washington  
May 9 and 10, 1978

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REPORT

OF THE

JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES



OCTOBER 3, 1978

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## LETTERS OF TRANSMITTAL

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SEPTEMBER 26, 1978.

*To the Members of the Joint Economic Committee:*

Transmitted herewith are the transcripts of the initial public hearings conducted by the National Commission on Employment and Unemployment Statistics.

The Joint Economic Committee has always maintained a deep interest in the evolution of the statistics on employment and unemployment to meet changing legislative needs. For that reason we have been pleased to participate as advisers to the National Commission on Employment and Unemployment Statistics, whose mandate covers this problem.

Because the public hearings held by the Commission provide informative and valuable material from several different sources, the committee has agreed to publish the transcripts in order to provide widespread dissemination. I believe that members of the Joint Economic Committee and other Members of Congress will find them most useful.

The views expressed in the transcripts are those of the witnesses and do not necessarily represent the views of the members of the Joint Economic Committee or the committee staff.

RICHARD BOLLING,  
*Chairman, Joint Economic Committee.*

---

SEPTEMBER 19, 1978.

HON. RICHARD BOLLING,  
*Chairman, Joint Economic Committee, U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith are the transcripts of the initial public hearings conducted by the National Commission on Employment and Unemployment Statistics.

The Joint Economic Committee has maintained a continued interest in the formulation of statistics on employment and unemployment. As you are well aware, these data are under increasing scrutiny because past legislation has placed insupportable demands on these statistics. In the initial process of examining various alternatives to existing methods of data collection and presentation, the Commission on Employment and Unemployment Statistics held public hearings. Witnesses included persons from congressional, academic, government, and public sectors. Their combined testimony gives the Joint Economic Committee a valuable and broadly based compendium of information.

The committee's undertaking to publish these hearings will enable a wide-ranging audience to review the material. The expected feedback from interested parties should provide another source of important insight in our studies. Public dissemination also will focus attention on the complexities and ramifications implicit in any changes recommended by the Commission.

The transcripts were prepared for publication under the direction of Sar Levitan, the Chairman, Marc Rosenblum and Lois Black of the Commission's staff.

The views expressed in the hearings are those of the respective witnesses and do not necessarily represent the views of the Joint Economic Committee or any of its individual members.

Sincerely,

JOHN R. STARK,  
*Executive Director, Joint Economic Committee.*

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NATIONAL COMMISSION ON EMPLOYMENT AND  
UNEMPLOYMENT STATISTICS,  
*Washington, D.C., August 16, 1978.*

MR. JOHN R. STARK,  
*Executive Director, Joint Economic Committee,  
U.S. Congress, Washington, D.C.*

DEAR MR. STARK: I am sending you transcripts of the initial public hearings conducted by the National Commission on Employment and Unemployment Statistics. The public hearings were an educational experience for us, and we hope to learn even more from the feedback when the transcripts are printed by the Joint Economic Committee. The record also should be of interest to other committees.

The material has been placed in three volumes as follows:

Volume I. Hearings held May 9-10, 1978, in Washington, D.C.

Volume II. Hearings held on May 23, 1978, in New York City; June 13, 1978, in Chicago; and June 20, 1978, in San Francisco.

Volume III. Hearings held on July 11, 1978, in Atlanta; July 26, 1978, in Washington, D.C., and written submissions by witnesses who could not appear in person to testify.

Our joint agreement to publish the material will help the Commission in its task to investigate and improve our system of labor force statistics. Due to the growing use of these data in the formation and implementation of government policy, the Commission strongly believes the issues should be presented to the public and not just a small charmed circle of economic experts.

Thank you again for your continued interest in the work of the Commission.

Sincerely,

SAR A. LEVITAN,  
*Chairman.*

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NATIONAL COMMISSION ON EMPLOYMENT  
AND UNEMPLOYMENT STATISTICS

(Created pursuant to Sec. 13 of Public Law 444,  
94th Cong.)

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## TRANSCRIPT OF PUBLIC HEARINGS

TUESDAY, MAY 9, 1978

### NATIONAL COMMISSION ON EMPLOYMENT AND UNEMPLOYMENT STATISTICS

Washington, D.C.

The Commission met pursuant to notice, at 9:30 a.m., in room 5437, 200 Constitution Ave., N.W., Sar A. Levitan, Chairman, presiding.

Present: Bernard E. Anderson, Jack Carlson, Michael H. Moskow, Samuel L. Popkin, and Joan L. Wills.

Also present: Arvil V. Adams, executive director; Marc Rosenblum, staff economist; and Wesley H. Lacey, administrative officer.

#### OPENING STATEMENT OF CHAIRMAN LEVITAN

CHAIRMAN LEVITAN: This is the first of a series of hearings that the National Commission on Employment and Unemployment Statistics is going to hold. There is, therefore, a strong desire to tell a captive audience about all the good things we have done and what we are going to do.

But since we have gathered here not to make speeches but to listen to good advice, we are going to start with a gentleman who has been a user, interpreter, and a policymaker of employment and unemployment statistics.

Mr. Bolling, we are honored to have you with us. Mr. Bolling is the Chairman of the Joint Economic Committee and a statutory advisor to the Commission. Mr. Bolling, we will be three times as good as the Speaker of the House is. We give 15 minutes instead of five minutes.

STATEMENT OF THE HONORABLE RICHARD BOLLING,  
CHAIRMAN, JOINT ECONOMIC COMMITTEE,  
UNITED STATES CONGRESS

MR. BOLLING: Mr. Chairman, I may not even take the 15 minutes. I have thought a long time about what I should say at this meeting because I think this is a very important Commission, and I think that the work it does will be critical to the future decisions that policymakers at all levels make. And I wish I felt wiser about how this Commission was going to solve some of the problems that I see ahead.

As is usual, I think in American politics--and maybe I am negative on the subject--commissions like this are not included in what I am about to say, but most groups tend to avoid the very difficult problems they face and deal instead with the ones that are perhaps easier because they are more finite.

And I have thought a lot about employment and unemployment for a very long time, much longer than I have been in Congress and I will not share with you my experience in the '30s as a very young man, but I think the problem that we have today is that we do not have the vaguest idea what we are talking about when we talk about unemployment.

Of course, we define it and Julius Shiskin can give you a very precise statement of what it is. So, I decided to raise the things that worry me, not necessarily the things that you can deal with because I think if we do not deal with the things that worry me and all the others too, the policymakers are still going to be operating in the dark.

Now, when the Commission organized, I had the privilege of being present then too and each one of these, I think, was mentioned rather briefly and I am going to mention them very briefly.

I do not understand how we deal with the problem of individual employment in the current situation which is too great a change from the days of depression, when there are so many different confirmations of employment in families, unless we know a great deal more than we

do about those confirmations.

Now, I do not understand even how to get at that except through, perhaps, a census. There may be a great deal more information on that than I read about, but I do not think we get a true measure of employment and unemployment just on individual employment statistics. At least as far as I know on the Hill, we do not seem to have an adequate awareness of the potential.

Now, that leads to a very fundamental political problem, and we are really talking about politics, making policy in the end. We in the Joint Economic Committee are not arguing about policy issues. We are arguing about factual issues, and we do not have the facts.

I do not want to harken back to the past, but when I first went on that Committee more than 25 years ago, or about 25 years ago, we sort of stipulated what the issues were, what the facts were, and then proceeded to have awful fights about the issues.

I do not exactly know how we have gotten so far out of touch with the facts, but the major argument that we are having today is over a percentage. What is unemployment? What is full employment?

Now, I just think that we have got to get beyond that or we cannot deal effectively with the policy of dealing with unemployment and full employment. I do not know how you go about doing that. I have no answer.

I just know that unless the policymakers have some kind of a factual base from which to work that the arguments are a waste of time. The right-wing Republican and the moderate to left-wing Democrat, they are just shooting over each others' heads; they are not talking about the same thing.

Now, that is something that is talked about. Two other things are not. One was mentioned briefly in that organization meeting and that is the other economy. Everybody has a different name for it. Some of it obviously is illegal. I do not know what you want to call those economies, but they are there, and I suspect there is one that is probably semi-legal and I suspect that the 5 million people that the census

thought they missed in the last census were probably largely involved in that economy.

And if we do not know who they are and where they are, I do not know how we are going to deal realistically with one of our objectives, which is the problem of poverty, because, at least in my district, I strongly suspect that a good many of those people that were missed are blacks and whites in the central city that are very hard to find, even if you walk the streets. The census people did not find them.

And I think we have to deal with that. I gather that that is a more prevalent thing in some European countries than we are familiar with, although I have not had a chance to read the literature.

Then, there is a third thing--and I am sure there are many that I have missed--that is sort of taboo because it is politically firey, at least taboo to policymakers and we come up with the most peculiar solutions when we come up with solutions at all. And that, of course, is aliens, legal and illegal.

And that links in with a whole series of foreign policy problems that I do not have the vaguest intention of starting to go into here, some immediate and close and some distant and very, very painful and complicated.

But if we do not face that situation in some kind of a realistic way, I do not see how we can deal with the total overall problem of employment and unemployment. And all of these things are obvious. I do not have any answers. I do know that we need answers.

And then there is one more and I will stop, and I think this has been a subject of so much controversy that I hardly need more than to say it. What is poverty? Who is poor? I think it is a controversy that has to not be resolved but put in some kind of a perspective that is accepted. I do not mean accepted in total or accepted by everybody, but I think we have to try to get some kind of an acceptance of what this year's or next year's American level of decency is.

And I know that sounds a little bit like a political speech, but unless you can get the conservative segments of the society to at least in part

support social programs, at least accept them, they do not over time, in my opinion, work very well.

Social security has been mostly accepted. It was not in the beginning. I think by and large it has been a success and, although it is contested occasionally by occasional candidates, it is different from the poverty program.

There are other illustrations and maybe I am entirely wrong in my view of how the American society and economy works and I will not bore you with my own particular philosophy on it very long, but I do think there has to be some acceptance.

I think the mistakes that legislators and policy-makers sometimes make is to think that if they win a battle, they have won a war over a social program. And, in fact, all they have done is perpetuate the war and set up, perhaps, the situation that will cause them to lose the battle.

And I think it is intolerable that we really do not know where the poverty is, the things I have mentioned, aliens, the other economy--in full--we do not fully know. And we have not come to some kind of an acceptance of the notion of what is enough.

Now, I will give you one illustration. I had a good deal to do with the passage of the early civil rights bills, without which there would not have been later civil rights bills, for reasons that will be obvious to some of you. The only way on earth that we could pass those was to begin with a proposition that was not de minimis--it was terribly important; it had to do with voting--but that could be sold to honorable conservatives.

And I think we have to approach some of these problems that you face in terms of developing a factual base from that point of view and that is why I think that these three or four things that I have mentioned are so important. And I am sure I have been totally unhelpful, but I have at least had an opportunity in a useful forum to say some things that I think are important.

CHAIRMAN LEVITAN: Thank you, Mr. Bolling. I

think, since we have all appeared on the other side of the table from you, maybe we can get a chance to repay you now.

MR. BOLLING: You have full opportunity.

CHAIRMAN LEVITAN: Thank you, Mr. Bolling.

MR. MOSKOW: Yes I would like to ask a question. Focusing on your point about facts, of course, one of the problems in looking at statistics is that everyone wants more. There is almost like an infinite demand for more labor force statistics, and I think with good reason because they serve an important purpose.

But one of our problems is going to be to adjust the priorities as to where we would recommend resources be allocated, what the most important factual needs are. And one of the areas that has been discussed a great deal is, of course, the need for additional and improved local and state unemployment statistics.

Now, I wonder if you would want to say a few words about that and how high a priority you would place on that area in terms of the allocation of future resources.

MR. BOLLING: Well, I started to include a part of that question in my own opening statement and I decided not to because I did not think it was really sort of fair to throw that one in too.

I am not at all sure, as I think about it--it may be permanently fixed--but I am not at all sure that the policymakers have been entirely wise in using that device. But, not to avoid your question, merely to raise the fact that I am not sure that it is wise to have that particular set of tools in action.

I do not believe in mechanistic approaches very much because I have never really seen them work very well in my own experience. Of course, I may be wholly wrong.

But leaving that and accepting the situation, clearly we are not going to be able to make the trigger mechanisms that we have in some of these laws. And I

studied the enormous amount of money that is involved and started to talk about that too.

Unless we have better local figures--an ability to come up with more precise and accurate and unarguable local numbers--and that means that they must have given the present situation considerable priority--because what we now have is a system that almost inevitably makes a political issue every time an automatic function takes place because the ones that did not get more than what they think they should have complain that they did not get enough, and nobody is really in a very good position.

So, what you are doing again in the system that I question is you are just setting up more and more conflict instead of getting more and more resolution. So, I think there has to be a very high priority, given the use of that sort of mindless approach, nonselective approach.

CHAIRMAN LEVITAN: Mr. Carlson?

MR. CARLSON: Your fourth point, dealing with an acceptable definition, at least a minimum definition that there tends to be a great number of people that would be supported on poverty, could you get us a little better feel of what you mean? We do have poverty definitions now based on a nutritious but low-cost diet and then some multiple of that gives us our definition of poverty that we have now, and that gives us what? Around \$6,000 for a family of four, in that range, plus or minus \$500.

Are you thinking of a much more detailed definition, or multiple definitions or what?

MR. BOLLING: I am thinking of a variety of definitions because I think any figure is bound to be inaccurate, untrue. I have the good fortune to have been born in the City of New York, growing up in north Alabama in the depression. I worked in the far west; my mother was from Wisconsin, and I represent Missouri.

So, I have absolutely no illusions about the variety that exists in this country. To make the point

very clear, I have said--and nobody has successfully contradicted me, at least to my satisfaction--that there is a greater difference between the regions of the United States than there is between France and Germany, and I am aware that they have different languages.

I do not know how in the devil you can come up with a figure like \$6,000. I do not know how you can get to regionalism, but I do know that I do not find that satisfactory.

One of the things that bothers me--I was born in New York--and my automatic reaction to the problems in New York was that the federal government could let New York go under. That did not mean we shouldn't put some strings on our aid--but one of their dilemmas up there, as was rather articulately stated by a former Post reporter, who is now a freelancer in New York whose name I have forgotten, a woman--what is happening in New York is killing the little people, not the well off.

That is because they have such an incredibly high cost. Now, I do not know how you come up with one figure. I am really talking about regionalism and taking into account a variety of other things including--I am perfectly willing to go to the point of trying to figure out what family income is, but I do not know how to do it.

I am not very helpful.

CHAIRMAN LEVITAN: You suggest, as I understand it, that a trigger mechanism for fund allocation cannot operate because we do not have proper local data. I agree with you about the paucity of local data, but isn't it true that it is a question of political realities?

Because, as I understand it, right now as Congress is considering CETA, we have lots of numbers. BLS, and the Employment and Training Administration are bringing up all sorts of simulations, and I think Congress is acting in a very sophisticated manner. They look at what the numbers say and they look at "how would that help my state or district most?" And that



is the best number.

So, is it a question of lack of numbers or is it a question of the way Congress operates? And I do not know how to change Congress.

MR. BOLLING: Well, I do not either. I, as you know, have spent a lot of time trying to change it.

CHAIRMAN LEVITAN: You have done all right.

MR. BOLLING: With some success and some failure. But I think that is right; I think that is valid up to a point, but I do know--and perhaps I am picking out too many individual cases. The political process operates like every other one. Part of it is trust.

Now, some of the people that I trust feel very strongly that some of the local figures are not accurate rather than not favorable. Now I have to tell you that I have not had the opportunity to go behind their complaints in detail, and I cannot pretend that I get to validate everything that I think by a complete research program.

But my impression is that there are some people who feel, that I trust--and that does not necessarily mean that they are just Democrats--feel that they are not getting a fair shake out of the figures because the figures are not precise enough.

Now, I am not in a position to argue with you about that, Mr. Chairman, because you know a great deal more about this particular thing than I do.

CHAIRMAN LEVITAN: But, Mr. Bolling, is it realistic for Congress to ask BLS to determine unemployment in 6,000 small areas? BLS or Census cannot prevent Congress from requiring the data. Again the fault comes back to you in Congress.

MR. BOLLING: But don't forget what I said at the beginning that I almost included a very serious question of whether that type of trigger mechanism made sense, in my opening statement. And I have a very serious question about that.

MR. POPKIN: Is that within our scope?

MR. BOLLING: Well, I am not sure it is.

MR. POPKIN: No, I asked because it is something that I have started to think about when we look at the data. I am asking my boss here, Sar.

CHAIRMAN LEVITAN: Yes, it is.

MR. POPKIN: Are we to be considering whether or not it makes sense to even talk about unemployment rate by Congressional district or by small areas when you have so much commuting?

CHAIRMAN LEVITAN: It is within our scope. I will give you the chapter and verse later.

MR. POPKIN: No, I did not mean to be critical. This is a very important issue, and I did not know ---

MR. BOLLING: I understand what I am raising too, and I am doing it on purpose. I understand I am asking you to add to the difficulty of your task and you may decide not to because it really is our rabbit. But this is an opportunity to get some people to look at it, who may look at it in a slightly different way than we do.

CHAIRMAN LEVITAN: I can promise you, Mr. Bolling, that we are not going to avoid the difficult problems, which was your first sentence, but I can also promise you that we will not know the answers to some of the questions.

MR. BOLLING: Well, of course. I am not asking for perfection, for heaven's sake.

MR. CARLSON: May I just pick up on that. Politically to trigger the funds into certain areas, can you have the trigger so general that it would be on major substate regions as opposed to 6,000 communities,

so you may be talking about 250 or 300 breakdowns, or maybe just by state?

MR. BOLLING: All right, let me appear not to answer that question but to answer it. I have been in Congress quite a while and under a bunch of administrations and I have found that the rules and regulations could be administered in ways that tended to be more objective rather than less objective. And they could be administered in the reverse, regardless of what they were.

And usually there was some device used to make it possible to appear to be fair. That leads me to a negative, which comes out positive, if I may sound very strange. That leads me to believe that in the end, it is the quality of administration, the way in which matters are administered, that determines how these programs work in terms of their ultimate purpose which is to reach certain people, certain kinds of people.

And if that conclusion is correct, if the manipulation of the political process in our system is too great, then I find myself coming back to the notion that it is better to use the nonmechanistic device of good administration rather than the pseudo-objective mechanistic device.

MR. CARLSON: But that puts a lot of burden on the Civil Service to ---

MR. BOLLING: Of course, it does.

MR. CARLSON: --- and they will be criticized by those that do not happen to like the direction it went ---

MR. BOLLING: That is correct.

MR. CARLSON: --- as opposed to the mechanism being criticized or the Congress being criticized for having set up the allocation according to a mechanism.

MR. BOLLING: Well, the Congress is almost

unbelievably capable of evading criticism in individual terms. The institutions are criticized and regularly, but the members generally succeed in keeping themselves popular. So, again, through a negative I arrive at a positive and go for good administration.

That is one of the reasons why I support something that has nothing to do with this, that has to do with Civil Service reform, so that we can have better administration.

But what I am saying is: I do not think you can escape the administration.

MR. CARLSON: Don't you really shift the need for data away from the Congress to the Civil Service who must then have the data?

MR. BOLLING: Yes.

MR. CARLSON: But the data is still needed.

MR. BOLLING: That is deliberate. I think we are more skillful at evading the meaning of data than most.

CHAIRMAN LEVITAN: But aren't you also very skillful in not providing the wherewithal to collect the numbers? Congress passed laws which appropriated billions of dollars without worrying about data. It may be a good slogan, billions for the unemployed and not a penny for the bureaucrats. By doing that, aren't you giving the bureaucrats or the officials the power to make policy because by allocating the funds on very flimsy data, they make the policy rather than Congress?

MR. BOLLING: Well, I would like to be a little bit more honest about it, a little more accurate about it so people understood what was going on instead of our pretending to do something that I agree with you we are not really doing.

That is why in the beginning I questioned the technique.

CHAIRMAN LEVITAN: How does one carry that message

to the other 534 members?

MR. BOLLING: About the same way I have been trying to carry other messages, just by working at it. And I am not suggesting that--I want to be very careful about this without appearing to suggest that you should not assume all the burdens that make reasonable sense--but I am suggesting that this be the prime burden of your message. I am just trying to say that I think it is something that has to be somewhere in any consideration of the problem.

MR. CARLSON: But then in a sense you are really saying the data needs, at least in the great detail that people have suggested, fall on the Civil Service under your ideal arrangement as opposed to the Congress itself, but it is still needed.

MR. BOLLING: Right--in the sense you are perfectly accurate under my ideal arrangement, but that is not what we have. I am trying to present alternatives as I see them and I think they are real alternatives, I happen to think, and I am not sure that this would be very popular in Congress, that it would be better if we worked harder at getting good administration and concerned ourselves less with pretending that we were precisely allocating funds. Maybe that is too cruel a way to speak of my institution.

MR. CARLSON: Well, if you have a problem on the next level below you and say that it is a Presidential appointee who is there for an average of 22 months and you cannot expect a long-sighted view--generally a short-sighted view--so you are really pushing it down further into the Civil Service.

MR. BOLLING: We are going to have an argument on that. I do not agree with that. I believe a person can come in at the political level with a minimum of professional background and using competent assistance be a very competent administrator.

I do not intend to use names, but I think I can

cite people who are far from expert in their field in both administrations, in the recent administrations, who have come in and have been enormously effective. And I think I can cite people who were perhaps even more successful in their previous careers who came in and had all of the facilities that the other people did and who were not worth a damn.

So, I am not prepared to forgive the political appointee.

MR. CARLSON: From our standpoint, if I were designing a data system for decisionmakers, I think it would be different for the civil servant than the Presidential appointee or the Congress, and that is why who the decisionmaker is becomes somewhat important as to what the data system should be. That is why I am asking the question.

MR. BOLLING: Well, I do not really--I think we have to have some common data base that is made understandable to all, but I am not going to argue that.

CHAIRMAN LEVITAN: Mr. Moskow, do you want to join to defend the political appointees?

MR. MOSKOW: Certainly not.

CHAIRMAN LEVITAN: Well, thank you very, very much, Mr. Bolling, and I hope you come back to advise us frequently and soon.

MR. BOLLING: I intend to participate.

CHAIRMAN LEVITAN: Thank you very much.

MR. BOLLING: Thank you, sir.

CHAIRMAN LEVITAN: Our next witnesses are three gentlemen from the American Enterprise Institute who have been on the other side of the street, in the Executive Branch, quite recently, but not today. Dr. Fellner, Dr. Kusters, and Dr. Stein.

You have a joint statement that you have prepared for the Commission. I will let you decide in which order you want to proceed and how you want to present it in your statement.

STATEMENT OF WILLIAM FELLNER, MARVIN KOSTERS,  
AND HERBERT STEIN, THE AMERICAN ENTERPRISE  
INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. Chairman and Members of the Commission, we welcome this opportunity to appear before the Commission and present our views. We would like to note that the views expressed in this statement are our own and do not necessarily reflect the views of the staff, advisory panels, officers or trustees of the American Enterprise Institute with which we are affiliated.

We are pleased that a National Commission on Employment and Unemployment Statistics has been established, and we believe that periodic examination of the procedures, concepts and methodology involved in constructing our employment, labor force, and unemployment statistics can play a constructive role.

We are also very much in accord with a process you are following of commissioning careful analyses and conducting a thorough examination of all of the issues surrounding these statistics. The unemployment data receive a great deal of public attention, and advice and suggestions on approaches to improving them should be based on a comprehensive assessment of the issues.

In our statement, we would like to summarize briefly a number of points that we believe the Commission should keep in mind in its deliberations. In some of these points, principles that we consider to be essential to maintaining reliable and comprehensive measures of labor market conditions are outlined. In others, approaches that we think merit exploration are put forward.

The concepts of employment, unemployment and labor force status are the central elements in the labor market statistics gathered through the Current Population Survey. The main focus of the analyses and of approaches to improving the statistics should be on

sharpening these distinctions and clarifying interpretations of these categories rather than on significantly or fundamentally altering the basis for collecting and presenting these data.

There are several reasons for this proposition. First, as we have noted, these data receive wide public attention and the concepts that have been in use for most of the last 40 years are generally understood by the public as representing labor force and job status.

Second, it is important to maintain a basic continuity in these data and concepts, both from the point of view of public understanding and from the point of view of analytic uses of these data.

Third, an attempt to transform the current unemployment statistics into a welfare-oriented index would be ill-advised, because such an index could not be used to adequately reflect either labor market conditions or the overall income and well-being of citizens and families.

We should adhere to the common sense notion that a person who has a job should not be called "unemployed." It would be a serious mistake, in our view, to move toward attempting to encompass measures of welfare and job status in a single index.

At the same time, we believe that an effort should be made to develop income and welfare measures that can be related to the statistics on labor force and employment status and that can supplement these data and facilitate better interpretation.

For example, information on what, if any, other income is received by families in which a member is unemployed would be extremely useful. Both the amount and the sources of other income would be valuable information, such as, for example, whether the family member unemployed is receiving unemployment compensation.

Information on household income would also be useful for assessing the welfare implications for certain groups of workers, such as teenagers, of relatively low-wage jobs that may provide valuable work experience and opportunities for advancement.

Another area in which opportunities for supple-



menting current information to improve our ability to interpret labor force, employment, and unemployment patterns should be explored is the general area of prior work experience.

Additional supplementary information, (1) for both the employed and the unemployed on the length of the period of current or prior employment, and (2) for the employed whether job changes occurred without an intervening period of unemployment, could improve our understanding of changes in jobs and employment status, duration of unemployment, and the timing of periodic labor market entry on the part of intermittent workers.

Additional information on wage or salary rates would be valuable both for the employed and unemployed. For the unemployed, data (1) on reservation wages, (2) on possible rejected job offers along with the wage that these offers entailed, and (3) on wages during prior periods of employment would be valuable for the interpretation of labor market conditions and job availability.

We recognize, of course, that wages are only one element in conditions of employment. Our emphasis on exploring possibilities for enrichment of the data along these lines flows from the proposition that while the distinction between being employed and not being employed is reasonably clearcut and susceptible to operational definition, the distinction between being unemployed and not in the labor force is more ambiguous.

That is, unemployment is a small fraction of those not working, and information that would be helpful in sharpening the distinction between workers in these categories could be valuable in interpreting labor market conditions. Improving our understanding of the relationship between unemployment data and wages associated with job acceptance could contribute importantly to our ability to interpret the unemployment statistics in terms of resources available for utilization at prevailing market rates.

Experimental work to explore the promise of supplementing the statistics in the ways that we have outlined would not involve significant expansion of the

resources currently devoted to this statistical program.

Since other approaches to expanding the statistical program may be recommended and considered by the Commission, such as increasing the sample size to obtain additional demographic or area detail, we wish to note that we are not recommending a major expansion of this statistical program.

If tradeoffs need to be made, we recommend that the Commission consider the approach of less frequent surveys in any particular geographic area or demographic group, while expanding the intensity of the surveys in terms of supplementary information gathered.

In view of (1) the interest that is frequently shown in data for specific geographic areas, (2) the contribution that more detailed information could make to supplementing our understanding of unemployment data for allocation of federal programs and funding support, we recommend that the commission investigate the possibility of supplementing our data on unemployment by making more use of data collected by the United States Employment Service.

At the present time, these data consist mainly of numbers of workers receiving unemployment compensation or filing new claims. Collection of more detailed information on industry of last employment, wages, and demographic characteristics, along with information on other registrants at the Employment Service, could vastly expand our information on unemployment collected from a different and independent source. These data have the merit of representing an entire universe instead of being sample based, they are subject to confirmation by employers, and they could help to satisfy demands for more local area detail.

In conclusion, we want to express the hope that the Commission will develop a specific and candid report concerning the significance and interpretation of our employment, unemployment, and labor force statistics. The report of the Commission can contribute to better public understanding of the meaning and limitations of these data and point to constructive directions in which they might be improved to further

enhance their usefulness.

Thank you for this opportunity to appear before you and express our views. We would be happy to elaborate further on any of the points we have outlined or to discuss other issues that you might wish to raise.

CHAIRMAN LEVITAN: If I might, I had the privilege of reading your statement last night, and a few questions came to my mind as I read it. On page two of your statement ---

DR. FELLNER: Page which?

CHAIRMAN LEVITAN: On page two--and you, Dr. Stein, repeated that point and emphasized it--you say that you do not want any fundamental altering of the basis for collecting and presenting these data. Does that mean that you do not want any changes in the definitions of the current usage that we have adopted some 40 years ago?

DR. STEIN: Well, of course, if you say that we do not want any, that is an extreme position. But I think that we do want to keep to the meaning of these terms as they are generally understood. I would not say that going from an age cutoff of 16 to 17, in my mind, is a radical change in the meaning of these terms.

But to say that we are going to include as unemployed people who are working would be a radical change. So, we would like to keep the concepts stable and if there are new things that we want to measure, we should recognize that they are new things and give them their own names.

I guess what I am saying is that we should try to call things by their right names.

CHAIRMAN LEVITAN: Well, we will get to the hardship index a little later, if that is what you are referring to. My inquiry referred to the several reasons you offer for not altering the collection and presentation of data.

The first one, we know what the figures mean. Let's be specific. Would you want to consider--you do not have to give a definitive answer right now--16 and 17 year olds? Ninety percent of them are in school and might not be considered as part of the labor force if they look for only a few hours of work.

Would you possibly consider that this is a change in our economy, in the way people behave, and therefore the same way as the BLS excluded in 1967 the counting of 14 and 15 year olds? As you know, in earlier decennial censuses they counted 10 year olds as gainfully employed.

Is it possibly time now to change to 16 and 17?

DR. FELLNER: I would like to have the information, Mr. Chairman, which you are describing here hypothetically or realistically. I would not like to see the unemployment concept changed for that reason. I would like to have the information. I would like to have many other pieces of information along with the number.

Change is very disturbing--major changes. I think that even the 1967 and 1970 changes in the questionnaire are disturbing if you try to engage in any kind of ---

CHAIRMAN LEVITAN: All right, Dr. Fellner, let's go then to the concept of continuity. We count the military outside the labor force. In 1973, we changed to a voluntary armed force. Now the armed forces are competing with private employers for the same youngsters. Do you think that continuity is necessary there, or does continuity possibly not reflect reality any more and, therefore, there is room for a change?

DR. FELLNER: That, of course, is a very well-put question, Mr. Chairman, but there I think continuity has been destroyed by events. So, it is arbitrary how you want to pick it up, on which side of the adjustment you take care of it. So, I have no strong convictions about that. Looking to the future, if we believe that military service is likely to stay voluntary, let's

adjust it to what the situation now is because there would be less trouble with it if you do that than if you adjust it in the other direction. This depends on a guess concerning the future.

So, there is no good answer to that question, Mr. Chairman.

CHAIRMAN LEVITAN: Well--and I do not want to take up too much time on that--we can go through many similar examples. If it is a system that was developed in the great depression of the 1930s, and now you have an entirely different society and economy, isn't it possibly time for an overhauling of the system by which we count the current labor force?

And to that extent, wouldn't it possibly be desirable to change the classification of a lot of marginal cases? I do not know how total aggregate employment and unemployment would change. Given these shifting factors, should continuity be a prime consideration? We are now dealing with an old system, and some of the concepts and definitions may have actually outlived their usefulness.

Dr. Kusters?

DR. KOSTERS: I think we should also point out that we say in our statement that we favor analyses and approaches to improving the statistics that would sharpen the distinctions and clarify their interpretation and so on. That is to say, it is not a statement that we are ruling all sorts of marginal changes in our view.

You are very much aware of the discussion that has gone on from time to time about under what conditions a person should be regarded as unemployed, whether he works one hour or five, or whatever, the conditions for answering the question in such a way that he is placed in the category of being unemployed--and there are a variety of such conditions. In some cases job search is a requirement and in other cases it is not.

The main point that we are making is that we do not favor basic and fundamental changes in the notion of what being unemployed or employed or in the labor

force means, but, on the borders, on the fringes of these categories there is always room for making judgments, probably for sharpening the distinctions that we now use.

Now, in the case, for example, of the treatment of the armed forces, there is in a sense a discontinuity that would be introduced by a difference in treatment. However, all of the basic data are there to reconstruct the series in whatever way you wish, and this is a different kind of discontinuity than restructuring the series in some way that would change very much the way we think of a person as being employed or unemployed.

CHAIRMAN LEVITAN: We will come back to concepts later. I see some of my colleagues want to raise some questions.

MR. POPKIN: Since the presentation was so absolutely clear and made so much sense on almost every single point and the one or two places where it was fuzzy, I assume that was on purpose, and I would like to ask: both in the paper and just now, you sort of implied that we should not count persons with a job as unemployed.

I had no idea that anybody had ever suggested that, and I wonder what you mean. Where has it been suggested that we count people with jobs as unemployed?

My boss here has spent years saying that some people with jobs have hardship, but I do not know anybody who has ever said that somebody with a job is unemployed, and I am not sure what you are alluding to.

DR. STEIN: Well, I am very glad to hear it. I think that is all we intend to say. If nobody wants to do it, well, let's not do it.

MS. WILLIS: Can you give more information on what you do not want changed, aside from not counting people who have jobs as unemployed? This concern about continuity, I hear about it and I read about it a great deal. I am constantly reminded of how I do not want to change over to the metric system myself because that is

disturbing to me.

But aside from economic analysis, which I am not saying is unimportant, I frankly think we need a little bit more clarification about why the validity of the concept of continuity is so important, what it is you do not want to see changed.

I have not, as a member of this Commission, heard anybody talk about, for example, the hardship index as being anything but a hardship index, which is not what we are talking about in terms of an unemployment statistic.

DR. STEIN: Well, I think one aspect of the concept of unemployment which I would not want to see changed is that a person who is to be counted as unemployed should be, not only not working, but he should be seeking work. I would not want to include as unemployed a person who is not seeking work.

Now, this issue comes up in relation to the treatment of the so-called "discouraged worker."

MR. POPKIN: Are there any others?

DR. STEIN: Well, those are the ones that occur to me primarily.

DR. KOSTERS: Well, there are other matters that are closely related to that. There is, for example, a section in the report on duration of unemployment and there, I think, is a fuzzy area, in a sense, of the conditions that were supposed to have been met by those people who were unemployed, say, for 13 weeks or 26 weeks.

That is, it is not at all clear that if they were interviewed in each of those months during the duration that they would have appeared as unemployed. They may or may not. It is an area where there is considerable vagueness. So that if one were to consider a measure of unemployment that weighted by duration, it seems to me one also ought to look very carefully toward improving our information on what that duration included.

MR. POPKIN: I am not sure I understand what you mean.

DR. KOSTERS: Well, I mean by that, for example, for some workers who are counted as unemployed, they need to have shown that they have tested the market in some sense. They have looked for a job. For others, that is not necessary, such as for people who are waiting to go to a job within 30 days and so on.

People are asked also in the survey how long they have been looking for work or a question to that effect. Now, what is not clear in many instances is whether during each of those four-week periods, whatever the criteria for current unemployment status are, that they fulfilled that job-search, market-test kind of criterion. They might have been ill. They might have been out of the labor force or they might not.

I am not really suggesting that the statistics are biased in one way or another. I am just saying there is a good deal of imprecision in what we know about them.

DR. FELLNER: To the best of our knowledge, the question that is asked is: When have you started looking for a job? And that leaves quite a bit of leeway there as to what happened since his last employment.

So far as we can figure out there is no guarantee that the statistics on reentrants is consistent with the statistics on the duration of unemployment. When they are testing whether a person is reentering, the question that is being asked apparently is: Why are you looking for a job? And the answer is either because I left my job, I lost my job, or, on the other hand, because ---

CHAIRMAN LEVITAN: You mean the reason for not looking for a job?

DR. FELLNER: Pardon?



CHAIRMAN LEVITAN: The reason for not looking for a job.

DR. FELLNER: No, he is unemployed.

CHAIRMAN LEVITAN: Oh, he is unemployed, I see.

DR. FELLNER: He is unemployed, so he is looking for a job. The question is: Is he an entrant or a reentrant? Or was he in the labor force all the time since he left or lost his last job? Now, it seems to us that the question, whether he is an entrant or a reentrant, on the one hand, or jobloser or leaver, on the other, is at present decided by asking him: Why are you now looking for a job?

Then, he may answer because I lost my job, because I left my job, or because I have now decided to get myself a job or get back into a job. And that, of course, need not be consistent with the data on the duration of his unemployment. He may, for example, truthfully answer that he is now looking for a job because he left or lost a job rather far back in the past, but he nevertheless should be regarded as a reentrant if he started looking for a job only a short while ago. The answers concerning the reason for looking for a job and the answers from which the duration of unemployment is inferred may be inconsistent with one another if we understand the procedure correctly, and I think that needs to be looked into. And, generally speaking, what needs to be looked into, I think, is the continuity of jobseeking over the period, since the time when he started looking for a job.

So, there are a number of things that could be sharpened and I think they should be sharpened. That does not mean that I am deviating from the general conception.

MS. WILLS: I would like to know--on page four you pick up three things, reservation wages, more information on possible rejected job offers. Why is it you chose those three issues as something we need more information on and are opposed to other kinds of possi-

bilities? That is one question.

Secondly, you raised later in the paper that if we got more information through the Employment Service that we would have better coverage to expand our information base. Two things come to my mind. Why hasn't that been done before from your perspective and what will that really buy us?

And my third question and final one--we do have to deal with tradeoffs obviously, and I think you heard part of the Congressman's concerns just earlier--we as a Commission do have to make some recommendations to Congress about what statistics are to be used for the allocation of funds and/or recommend that no statistics be used to allocate funds.

If you assume for a moment that we have to deal with the political realities of Congressman Bolling at all, they are going to need some facts. How is it you think your recommendations on continuity, these kinds of information that you are asking us, will deal with that political reality that we have to advise Congress on?

DR. STEIN: Well, I would like to say something--Dr. Fellner may also want to--on the question about the wages or these questions on page four.

It seems to me that the biggest gap in what economists would like to know about the unemployed is in this area of the conditions on which they are willing to work. That is, the thing that we measure is I think not what an economist would be interested in knowing, and we do not measure what an economist would be interested in knowing because it is very hard to measure what an economist would be interested in knowing so we measure what is out there easily obtainable.

But I think you would be interested in knowing: What is the number of people out there who are not working and who would be willing to work at a wage which does not exceed the value of their possible product? I mean, that is an important economic concept.

But we have no way of getting it. But this kind

of question would give us some clue to that.

MR. POPKIN: On that very narrow point, I was very curious on page four why you didn't suggest also that we ask people the reasons for rejecting the jobs they were offered other than perhaps the salary.

DR. STEIN: That would be a good question, yes.

MR. POPKIN: Is there a reason you did not mention that?

DR. STEIN: I did not think of it.

DR. FELLNER: It was mentioned in a way, I think. I think the way it is mentioned is that we said that terms of employment are not only a matter of the wage.

CHAIRMAN LEVITAN: Dr. Kusters?

DR. KOSTERS: Could I pursue that point on wages. I do not want to repeat what Herbert said about that basic component, the conditions under which people are willing to accept employment. It does seem to me when one looks back at reviews from time to time of employment statistics and issues surrounding them and so on, there is a tendency for them to reflect to some extent the kind of issues that are pertinent to the time when these committees consider the unemployment statistics.

And it seems to me in recent years there has been a good deal of work and a good deal of increase in our knowledge about issues concerning the nature of job search and what it means in terms of workings of the labor market. There has been a good deal of work by Martin Feldstein and others in this country and by some people in Canada on the impact of such things as higher unemployment compensation payments and wider availability of them on labor force behavior, for example. This is relevant, of course, to welfare reform issues.

What kind of impact do these kinds of supplementary income payments have on labor force behavior?

It is also increasingly relevant in a world in which there is more likely to be more than one worker in a family so that you do not always have one worker on which the family income depends.

So, it seems to me that that raises to the foreground more sharply at this time the issue of the conditions under which people would be willing to take employment.

In an inflationary period, this issue is also particularly relevant. But it seems to me that changes in social conditions, changes in our income support mechanisms and so on make this a more pressing issue than it previously was, and it would be useful, it seems to me, if the Commission could address it and present some basic information on the state of our knowledge on these issues so that it would be the useful reference work and place to turn to for information on these matters that some of the previous reports have been.

CHAIRMAN LEVITAN: Don't you think, Dr. Kusters, that the suggestion you make on page three for a hardship index--and I am delighted that you joined the club--might take care of that? The present measurement of employment and unemployment does not take into consideration family income, and the fact is that a majority of families have more than two earners. Many also receive transfer payments. Maybe an additional measure is needed to reflect reality in the labor market. I therefore welcome your excellent idea about the hardship index to supplement present data and fill a gap in these data.

Would you agree with that? Does that fill your needs, Dr. Kusters?

DR. KOSTERS: Well, let me say that I do not have any objection whatsoever to a hardship index. I just think we should not transform what we used to regard as an unemployment rate into one. They are very different concepts and what we mean by continuity, at least what I mean by continuity, is to try to avoid transforming the unemployment rate into something else.

Now, one can think of a lot of useful information one can get. One can get, of course, information on discouraged workers. Maybe we could get comparable information, as Herb Stein has suggested, on discouraged employers who are on the other side of the market.

But I think that there is a lot of information that would be very useful concerning family income or other sources of income and so on, and we could develop a number of indexes and we should have the imagination to develop separate new names for them as well, rather than calling them the unemployment rate.

DR. STEIN: As I understand it, I do not think that the hardship index will serve the need of these figures about reservation wages. That is, there may be people who are unemployed and whose incomes, or family income is very low, but that does not give us any clue to the wage at which they would be willing to work.

They may have very high expectations or demands. So, it seems to me this is a different thing.

CHAIRMAN LEVITAN: Well, it would partially fulfill that need. That it would not completely fulfill it, that is certainly correct.

DR. STEIN: Well, okay. I do not think it would fill it very well because I think that the idea that it would fulfill it to a high degree implies some assumptions about what we were calling earlier the elasticity of supply of labor, which may be incorrect. So, I think it is a separate question that deserves attention.

Of course, from time to time, the BLS has done some work on this, as you know, and Dr. Fellner has worked on these questions, that if they have reported the wages at which some sample of the unemployed would be willing to work--of course, are seeking work--but this sample is very incomplete and the survey is taken very infrequently and it is very hard to interpret.

DR. FELLNER: They ran into a problem of very

considerable slippage there. That is to say they had a very high nonresponse ratio to begin with and then they had further slippages on the specific questions. This may have to do with something that is very hard to overcome, but I think that one should put one's mind to overcoming it, namely, the difficulty that that kind of information needs to be gotten from the person in question and not indirectly through a member of his household.

CHAIRMAN LEVITAN: Dr. Fellner, do you think that we should try to get data on reservation wages from special studies, longitudinal studies, or would you want to make them part of the Current Population Survey? The reason I am asking this question is that you know the Census people and BLS people are very leery of asking questions because they depend on voluntary responses.

And there are just so many personal questions that you can ask of volunteers. You alluded just now that the responses may not be as reliable or that many would refuse to respond. Would you think then that this should be part of CPS or should the information be obtained through special surveys?

DR. FELLNER: Well, I do not think that I am particularly competent to answer that question. I think that is the kind of question which people who are actually engaged in the work know much more about than I would. I think it would make sense not to make it part of the regular monthly survey, but to do it frequently.

To the best of my knowledge, it was done once. Now, that may be my limited knowledge of it, but to the best of my knowledge it was done once and rather recently and with meager results due to no lack of conscientiousness on the part of the people who were doing it.

Due to no fault of their own, it is a very inconclusive survey. They do have some data which they have not published so far on what the latest earnings of the unemployed were. This did not get into the special

report. They do have some data on that and those also should be published. And they should try to find methods for reducing the difficulties into which they ran.

MR. MOSKOW: You started asking part of the question I was going to ask. There are some practical limits as to how much you can get on a monthly survey, according to the Census Bureau and BLS, and I was just wondering--I guess there are two questions: Is there any information that we are now getting on a monthly survey that you think is unnecessary in the future and you would delete and substitute the suggestions you have made? Second, the alternative would be since people want more information on discouraged workers and a lot of other subgroups that may require surveying the individual and not just the respondent in the household, would you lean towards some type of a twice-a-year or three-times-a-year special survey of a group of people, on a regular basis, to get this very detailed information?

DR. FELLNER: I would imagine that that would be the answer, yes, that they would get that kind of information perhaps including the reservation wages and so forth.

MR. MOSKOW: Yes.

DR. FELLNER: Through surveys that are not integrated with the monthly survey and one would perhaps transfer some questions that are now in the monthly survey into the other survey which would be undertaken frequently.

CHAIRMAN LEVITAN: Dr. Stein?

DR. STEIN: Well, I would be willing to give up the monthly survey entirely if you can get away with it. I do not know why we have to know this every month. There are a lot of things we do not know every month, and if it would be economical to do a quarterly

survey, if that would enable you to do more questions, I think that would be a permissible tradeoff.

I think that the monthly variations are small; we do not learn anything from them; they just keep people in a constant state of agitation.

DR. FELLNER: As you point out, we do not have any monthly GNP either.

MR. MOSKOW: That is right. Some people thought they wanted it, but they got over that.

CHAIRMAN LEVITAN: Dr. Kusters?

DR. KOSTERS: Could I comment just a bit further on that?

I think that whenever I look into these questions I see things that it would be nice to know and get more data on. There are all kinds of pressures for expansion of the amount of information one gets and at least in our statement we came out in favor of not trying to expand the Current Population Survey to fulfill every kind of data need for all kinds of local areas and so on, and in favor of possibly periodic, more intensive information.

And that is also one of the reasons why we have suggested exploring at least the possibility of using some existing data more intensively, the employment service data, as an alternative in a sense to expanding the number of surveys, questions on the survey and the sample size that would be involved.

CHAIRMAN LEVITAN: Dr. Kusters, would you be willing then to get some kind of uniformity in the state employment data at the cost of greater federal intervention? Because, as you very well know, in some states insured unemployment may represent 50 percent of total unemployed, as counted by the CPS, and in some states it may be 70 or 80 percent.

Since the variation is so very great, would you then be willing to have federal intervention to get more uniform data?



DR. KOSTERS: Well, there are always two approaches to that sort of thing. One approach is to try to get federal uniformity, and the other is to take systems as they are and to adjust for differences in the way they are treated. I really do not have any detailed recommendation on that. We have only suggested it as something that might be explored, whether there could be better utilization of those data.

CHAIRMAN LEVITAN: Dr. Stein?

DR. STEIN: Well, I will proceed from that. I would like to say something about the question that was asked about the regional or local data in relation to what I heard Congressman Bolling say, and I have not followed it, but I must say I was staggered to think that there was an interest in having unemployment information on 6,000 regions of the United States.

I cannot see any sense to an unemployment number for something which is less than what you might call a labor market area, and I think you should tell the Congressmen that the unemployment figure is supposed to measure a condition of the availability or nonavailability of jobs. That cannot be defined in 6,000 parts of the United States.

CHAIRMAN LEVITAN: Quoting you, Dr. Stein, we shall do so.

MS. WILLS: Just for a point of information, we have been told that they now recommend, as of two days ago, that we expand that to 10,000.

DR. STEIN: Well, you could protest.

MR. POPKIN: I would like to hear a word from each of you, if you have anything to say, on the need for more longitudinal data on some of these questions, even if it is very expensive to trace people's labor market behavior over a 10-year period?

DR. STEIN: I think that is very important and

valuable. I think that the only way we are going to get some light on the question of the value of the tens of billions of dollars we are spending on employment and training programs is to see how people perform after they have been through these things, and that means you have to follow them for a long time.

And I think an evaluation of the causes of so-called chronic or structural unemployment always implies things about conditions of peoples' lives over a period of time, and I think that we need to know more about that.

CHAIRMAN LEVITAN: Dr. Kusters?

DR. KOSTERS: I would like to comment on that briefly, too.

While I believe it would be nice to follow people around over time to learn something more about matters such as the contribution of employment training programs and so on, I do not believe that the Current Population Survey is an appropriate mechanism for that. I do not think we should get into that at all in the Current Population Survey, frankly.

I notice that you have a little section on that in your outline, and my comment on that would be that I think it would be very desirable if recommendations are made for approaches other than the Current Population Survey, that they be based on a thorough review of studies that have already been made in this area, so that any approach that is followed will be solidly based on evaluative approaches that have proven successful and on all of the evaluations that have been done so far.

Many have been done and there should be some information on the relatively more successful approaches to evaluation. There are some now underway, as I understand it, in connection with the Census Bureau, but I do not believe that the Current Popula-

tion Survey is an appropriate vehicle for providing information useful for that purpose.

CHAIRMAN LEVITAN: Do you think that a longitudinal study like the one at Ohio State University would be the proper vehicle for it?

DR. KOSTERS: It may be useful. I would not really want to comment on what the most desirable design would be. It is only one of a really quite large number of explorations by this time into that kind of area, and I would very much like to see a careful analysis of the usefulness of the approaches that have been used and that should be recommended for further exploraton in that context.

DR. FELLNER: I certainly would agree with that. I think one thing that should be done and perhaps was done--I am just not aware of any appraisal or analysis--is to explore to what extent the data we get from the present longitudinal studies are consistent with what we get from the cross-sections.

There would be this difficulty, I think, that to explore consistency you really would have to talk even in the cross-section surveys to the person to whom the data relate and not just to a member of his household.

You would have to talk to the person in question to get anything worthwhile there, and there may be some lack of comparability for that reason between the Current Population Survey and surveys tracing the destinies of individuals. That needs to be explored. I still think it will be important to do that and to devote quite a bit of effort to working out what the difficulties are and how they could be overcome, yes.

CHAIRMAN LEVITAN: Dr. Stein, I have a question for you, and this is my final one, unless my colleagues might have some more. I am a charter reader of the excellent newsletter, The Economist, which you are authoring. If I remember correctly, we talked about this earlier this summer. The Economist carried a piece in which you identified a 7 percent unemployment

level as representing full employment.

DR. STEIN: Right.

CHAIRMAN LEVITAN: Now that BLS reported that unemployment has declined to 6 percent, would you say that we are having super-full employment, or would you want to modify that statement?

DR. STEIN: Well, of course, you tempt me strongly.

CHAIRMAN LEVITAN: Yes, I did.

DR. STEIN: I raised the possibility last fall when I wrote that. My article was called "Full Employment at Last?", and it appeared in the Wall Street Journal. One of the main points I was making was that we did not know what full employment was. I would stick with that very strongly.

Of course, the fact that we are at 6 percent would not at all disprove the contention that 7 percent was full employment because, after all, when I came into the government in 1969, the unemployment was 3.3 percent. Even my more ambitious colleagues thought 4 percent was full employment then, so it is possible to have the unemployment rate lower than the full employment rate.

What I understood to mean by full employment was a rate that you could not get below without an acceleration of inflation, and I did not think that an accelerating inflation was a continuously endurable condition.

All right, so we are below 7 percent; we have the inflation accelerated. Now, you can draw the conclusion you like from that. I do not think it disproves that 7 percent was full employment, but I will not insist on it.

CHAIRMAN LEVITAN: But would you want to recant the statement?

DR. STEIN: I do not want to recant anything I

said at that point. I mean, I did not say that 7 percent was full employment. I do not want to withdraw the possibility that it was.

CHAIRMAN LEVITAN: Could it also be possible, when you were saying that unemployment was really not 7 percent, that the seasonal adjustments were incorrect?

DR. STEIN: Well, I think that became a problem in the next few months. When I wrote that in August, the unemployment rate had been 7 percent for some months and I think even with the revised figures, it still had been 7 percent for a few months in August, and the problem, as I recall, part of the divergence between the old and new seasonal began to appear later in the year, so that when the unemployment rate in the old bases remained at 7 percent through September, October, and November, then, of course, I felt confirmed in my view and the seasonal adjustment kind of raised a question about that view.

But I understand that there are still questions about seasonal adjustment, so maybe I was right. Maybe you will revise the seasonal and find that it was 7 percent all year long.

CHAIRMAN LEVITAN: I see.

Thank you very, very much for the help and thank you for changing your schedule, Dr. Stein, to be with us. We will be looking forward to your advice and help over the next 17 months left before we deliver the final report.

Thank you, gentlemen. We will have a 10-minute recess.

(A brief recess was taken.)

CHAIRMAN LEVITAN: Our next witness is Mr. Edwin J. Coleman, Chief, Regional Economic Measurement Division. Mr. Coleman, would you present your statement, please.

STATEMENT OF EDWIN J. COLEMAN, CHIEF,  
REGIONAL ECONOMIC MEASUREMENT DIVISION  
BUREAU OF ECONOMIC ANALYSIS, U.S. DEPARTMENT  
OF COMMERCE

MR. COLEMAN: Thank you. I have a brief statement, less than 15 minutes, that will state the BEA position for the commission.

One of the major programs of the Bureau of Economic Analysis is the preparation of personal income and employment estimates at the national, regional and local area levels. The national estimates have long been in use as indicators of economic well-being.

In recent years, however, there has been an increasing demand for more reliable county and metropolitan area estimates by both private and government agencies. Personal income and its derivatives at the local area level are used for current economic analysis and for economic projections. They play a major role in the Federal General Revenue Sharing Program and in the allocation of other Federal grants-in-aid.

The county employment series, developed as a supplement to the personal income estimates, represent the only annual estimates of employment by county in industrial detail, currently being maintained.

The Bureau of Economic Analysis, in its preparation of State and local area income and employment estimates, conducts no surveys of its own, but rather relies heavily on data contained in the administrative records of both State and Federal programs. The remainder of the data comes from the various censuses and from nongovernmental sources.

Much of the data generated as a byproduct of the State unemployment program of the Bureau of Labor Statistics, the social insurance programs of the Social Security Administration, and the Federal tax program of the Treasury Department provide an important basis for the development of economic and social statistics.

Although much of the reported statistical information is not directly or wholly suited for income measurement, adjustments can be made to convert this material into useful measures reflecting national and regional economic developments.

The major alternative to the administrative record approach to income and employment measurement would be for BEA to collect the necessary information in surveys of income recipients. The survey approach would provide data directly suited for the measurement of personal income and its employment adjunct, eliminating the necessity of adjusting for definitional and conceptual differences among the various inputs.

The cost associated with this alternative, however, would be prohibitive because a very large sample would be necessary to permit reliable local area estimates.

On the other hand, the use of administrative records for statistical purposes is, or can readily be made to be, both reliable and economical. Nonetheless, it has to be emphasized that there is considerable room for improvement in the quality and access to data basic to the personal income and employment estimates at both the local area and national levels.

One of the areas of concern is the degree of establishment reporting in the ES-202, which purportedly covers approximately 90 percent of private payrolls and upon which the bulk of the county estimates of wages and salaries, employer contributions to private pension, health, and welfare funds, and personal contributions to social insurance as well as employment are based.

The BLS guidelines for reporting of information of multi-establishment firms are such that it is possible for employment and payrolls of branch establishments to be combined with that of the primary unit into a single reporting unit.

This deficiency can be remedied if establishment reporting were made mandatory and BLS given access to the Census Standard Statistical Establishment List (SSEL), the use of which by other agencies is currently inhibited by Title 13.

Access to the SSEL could give a complete geographically and industrially coded establishment list to code the ES-202 reports. The use of the file would serve as an important first step in the difficult reconciliation of Census and BLS statistics.

Another prime concern with respect to the ES-202 is that the employment and payroll tabulations BEA obtains from the ES-202 files are viewed as secondary statistical byproducts of the UI program. As such, the processing and tabulating of the data have a low priority on the work schedule of the State agencies, whose primary commitment is related to the unemployment insurance aspects--taxes paid by employers and claims by the beneficiaries.

BEA has a working arrangement with each of the State Employment Security agencies whereby it receives directly from each agency tapes and/or tabulations of quarterly wages and monthly employment by county and two-digit industry.

However, while most States try to be cooperative, very often there are delays in the transmission of these data to BEA because of the workload involving the unemployment insurance itself, particularly at times of high unemployment. These delays impair the quality of the county income and employment estimates and reduce their relevance as a current measure.

Such delays are not restricted to the sub-State data. They frequently occur at the State level where the data are received by BEA directly from BLS. Here, too, delays often occur because of low internal priorities. Delays in transmission of the State data undermine the reliability not only of the State quarterly and annual personal income series, but also the national series, since BEA must make estimates for the missing States using less reliable methods or data.

At the heart of the problem is the division of responsibility between the technical and administrative operations of the ES-202 program which presently exists. In past years, efforts on the part of users to obtain improvements in the timing and quality of the industry and geocoding, as well as the processing, of the ES-202 reports failed due to an inability to clearly earmark funds directly for statistical improvements.

BEA endorses the recommendation that the technical and administrative responsibility be consolidated under one roof and that this roof be part of the BLS house.



We further recommend that the earmarking of funds for improvements in the processing and tabulating of employment and payrolls, as well as the upgrading of the priority level of this phase of the ES-202 program, be carried through to the State agencies.

There are two other recommendations concerning the ES-202 that BEA would like to see implemented. The first is a test of the current level of compliance by matching the ES-202 files with the IRS Form W-2 which now supersedes the Form 941 previously used by the Social Security Administration. In 1972, when the extended coverage provisions arising out of the 1970 amendments to the Federal Unemployment Tax Act took effect, there was evidence of considerable noncompliance with the UI laws in prior years. To the best of our knowledge, there has been no check since to determine whether the level of compliance has improved.

A second recommendation is the inclusion of tabulations by "legal form of organization" at least every year. This data classification is of particular importance for the national accounts.

The BLS 790 establishment series in its present form is of limited use to BEA in its State quarterly income series. It is used extensively at the national level. BEA relies on the monthly data on employment, hours, and earnings gathered in the 790 not only for the monthly national estimates of the wage and salary component of personal income, but also as an indicator of economic activity in months when the data normally used in the preparation of the GNP estimates are not available.

Therefore, BEA is concerned about the large revisions that occur annually when the UI data are inserted into the 790 series as a benchmark.

We are inclined to believe that the revisions are only partly a result of the ES-202's lag in reflecting changes in industrial classification. More than likely, the cause is in the nature of the 790 itself: that is, the sample is based on the voluntary cooperation of employers sampled; it is used as a link-relative; and industries other than manufacturing are apparently poorly covered in the sample.

Other contributing factors are, no doubt, the lack of a suitable benchmark for average weekly hours and average hourly earnings and the lack of 790 data on the hours and earnings of nonproduction and supervisory workers.

An expanded 790, as recommended in the Wolfbein report, could be utilized at the subnational level in many ways:

The collection of earnings data for all employees would contribute to the improvement of the State quarterly estimates. At present, BEA must rely upon BLS 790 employment data for the preparation of the wage estimates for the nonmanufacturing sector.

If earnings data were collected on a monthly basis, even at the industry division level, for all sectors, the quality of the quarterly estimates would be upgraded considerably.

The inclusion of monthly data for all Standard Metropolitan Statistical Areas (SMSAs), based on an increased sampling rate to ensure quality data for the smaller SMSAs would facilitate the preparation of a quarterly income series for SMSAs and non-SMSA portions of States, for which there is an increasing demand, a demand that BEA has been unable to accommodate because of the lack of sufficiently reliable data upon which to base such estimates.

The inclusion of data on hours worked for all industries, rather than, as at present, for manufacturing only, would enhance the possibility of the establishment of a full-time equivalent employment series at the subnational level.

Another key element necessary for producing this measure is the derivation of estimates of the number of farm and nonfarm proprietors on a full-time equivalent basis.

The recommendation that more emphasis be placed on producing information on the self-employed is wholeheartedly endorsed by BEA. Although there is a large body of data available on self-employment, it is almost exclusively at the national level.

With the exception of recently available data from the Social Security Administration's self-employment

file, BEA has very little information on the number of self-employed or their income by State and local area except on an episodic basis. The Social Security data base has contributed greatly to the improved reliability of the estimates of income and number of nonfarm proprietors.

However, it is not compatible with the concept of fulltime equivalency since it includes only those self-employed filing Schedule SE with their IRS Form 1040. Exempted from filing for Social Security self-employment tax are those whose net earnings from self-employment are less than \$400 as well as those who have already paid the maximum Social Security tax for wage and salary jobs.

The confusion in defining "proprietorship" in farming has also impeded BEA's attempts to prepare State measures of full-time equivalent self-employed because of a lack of a definition of "proprietor" that is consistent for both farm and nonfarm. A serious effort to resolve this confusion is most important.

An alternative to expanding the BLS 790 series, and possibly more economical, would be to adapt several existing BLS series that already cover, although limited in scope, some of the information that has been suggested be added to the 790. Specifically, by broadening the base of the Survey of Employer Expenditures for Employee Compensation and the Employment Cost Index Survey, these programs could yield reliable information at the State and SMSA level similar to the national data they now provide.

Two promising alternatives to the proposal by Wolfbein that BLS derive commutation data by zip code analysis of employee addresses obtained through its surveys are: the Current Work History Sample/IRS Link Project and the new Social Security reporting system. Either alternative would place less of a reporting burden on the business community than the implementation of the zip code recommendation.

The first alternative refers to the current Census-BEA joint project to construct a bridge between the Social Security Current Work History Sample and IRS administrative records. This "bridge" would be used to

update the Census benchmark computer flows data.

The new Social Security reporting system, which went into effect at the beginning of the year, utilizes the annual W-2 reports filed with IRS, eliminating the quarterly form 941. The W-2 file will be processed by the Social Security Administration and IRS for their respective purposes.

For the first time, information about all W-2s will be in computer-readable form. This change in administrative procedures presents an excellent opportunity for the development of a statistical information system capable of producing data on employment, wages, migration and commutation patterns on an annual basis and at the same time provide a check on the ES-202 files.

The ultimate success in developing such a system depends upon interagency coordination and modification of existing confidentiality restraints, such as Title 13 of the Census legislation and the Tax Reform Act of 1976, which may limit access by the Department of Commerce and other agencies to data on the W-2 records.

Establishment reporting should become mandatory and the priority level of the statistical uses of the record system should be upgraded so that full advantage of the information potential is realized in all of the data systems.

BEA generally supports those recommendations made in the Wolfbein report to the National Commission on Employment and Unemployment Statistics that would bring about much needed improvements in the 790 establishment survey and in the underlying ES-202 data base.

It is difficult to exaggerate the importance of this BLS/BES data system to policymakers and to the statistical community on which the policymakers rely for support.

They are, however, programs currently in existence, the Survey of Employer Expenditures for Employee Compensation, the Employment Cost Index Survey, the Standard Statistical Establishment List, and the newly implemented Social Security reporting system, which, if expanded or made more accessible, might provide a good supplement to the data presently available from the

BLS/BES system. The latter two sources of information offer the most promise.

Given the necessary budgetary and legislative support, they represent alternatives to expanding selected areas of the 790 and might, in the long run, prove more economical as well as more acceptable to business.

In any case, the dramatic increase in the use of the wage and employment data, as well as personal income, in formulas used to distribute billions of Federal dollars to States and local areas requires that significant improvements be made in these various programs. That is the end of my prepared comments.

CHAIRMAN LEVITAN: Thank you, Mr. Coleman.

MR. CARLSON: May I just pick up on your use of the Social Security data--I guess it is the IRS data with the Social Security--saying that that has powerful opportunities for producing data on employment, wages, migration, etc., and you say that there is a restraint now and a problem of confidentiality.

As I understand it, that restraint is by individual file, not by your specifying a run that could be made and the results provided in summary form. Am I incorrect on that?

MR. COLEMAN: No, you are not.

Agencies like BEA have a mortal fear of obtaining individual information, and we generally try to have it summarized to a county or industry level before we obtain it. But much of the editing and analysis has to take place in small areas, small counties in which, even when you summarize the data to a county level, you are faced with a confidentiality issue quite frequently.

So, the agency that has prime responsibility for retention of the file for confidentiality, with good reason, says, "Well, we will keep the file and we will do the processing." I think this is a real problem for the statistical agencies who really would abide by the rules and would have very little opportunity to abuse the confidentiality issue.

But the initiating agency is very conservative and fearful of releasing the data. There is a blockage developing in the transmission of administrative record information between statistical agencies, even at the summary level.

Frequently, when they do summarize it for you, you lose much of your capability to analyze the data.

MR. CARLSON: I guess the trick there would be to have the analysis done within the agency which has the confidentiality responsibility. In some other areas we have found that somebody from the statistical agency could, in fact, become the employee of the other agency, having the skill necessary for that, and qualify under the Act to do the analysis for you and give it in summary form for whatever publication purposes are needed.

MR. COLEMAN: Yes, that is a viable alternative. We--BEA--need Census agents to look at data for editing purposes. Our concern with regional statistics is that because of the small geographic areas, we run into confidentiality problems that people at the national level just never dream of.

MR. CARLSON: But of all the things that you have said, I think that you have come to conclude that this offers one of the most promising areas, probably at the least cost, of getting more richness of data on a local area basis.

MR. COLEMAN: Well, I am a firm believer in using existing administrative record systems rather than surveying the business community to death because I think the business community is already to the point where the noncompliance problem is becoming very severe. So, yes, I would say that--but I would say only as a supplement to the ES-202 program which BEA considers probably the prime source of its income information at the local area level.

CHAIRMAN LEVITAN: Mr. Moskow.

MR. MOSKOW: I have just a few questions.

First, just as a point of clarification, your testimony is presented on behalf of the BEA. I assume that does not solely reflect the views of the Commerce Department?

MR. COLEMAN: No, it does not. It reflects the view of the Bureau of Economic Analysis.

MR. MOSKOW: Okay. The second thing is: I am pleased to see the concern that you expressed about the added cost of collecting data, both tax dollars as well as the cost of supplying the information. You have made some recommendations here. Have you made any cost estimates as to what the cost would be in terms of tax dollars for providing additional funds for these purposes or in terms of the time for people filling out the forms?

MR. COLEMAN: No, I have not.

It would be considerably less than initiating primary surveys.

MR. MOSKOW: Yes.

MR. COLEMAN: Because the mechanism is in place.

MR. MOSKOW: Right. Is that something that the BEA could provide for the Commission?

MR. COLEMAN: I think the only people that could provide that information would be BLS since they are conducting the surveys and they know what the costs are for what they are doing. They could easily estimate--or not so easily estimate--the margin of cost.

MR. MOSKOW: In terms of the data that you are presently analyzing, they are used, if I understand correctly, for distribution of general revenue sharing funds?

MR. COLEMAN: I have samples of the uses of the

personal income data which incorporate the wage data that we are discussing, and we estimate that something like \$35 to \$40 billion of Federal funds use personal income somewhere in an allocation formula, not necessarily as the primary weight, but as a major weight.

So, this issue of regional data that we are talking about is truly a serious one for Federal operations and the quality of the data is truly a serious one.

MR. MOSKOW: Let me get the \$30 billion and \$17 billion ---

MR. POPKIN: That is entirely separate from that, isn't it?

MR. COLEMAN: Yes, \$17 billion is the CETA money. I would be glad to provide the Commission with a breakdown. I did not bring it with me, but I will be glad to provide you with a breakdown of the agencies using the data and how we arrived at the figure of \$35 or \$40 billion.

MR. MOSKOW: I think that would be very helpful. Let me ask you another thing. You do not utilize any unemployment statistics?

MR. COLEMAN: We use employment; we do not use unemployment statistics.

MS. WILLS: What recommendations--you do have some in here--do you need the Commission's endorsement, blessing, change in laws, etc., to implement these recommendations from the Federal perspective?

CHAIRMAN LEVITAN: I would like to warn you, Dr. Coleman, BLS and Census are right in back of you.

MR. COLEMAN: I know.

CHAIRMAN LEVITAN: So, any answer you give is at your own peril.



MR. COLEMAN: Well, you know, one of the problems with the 202 is it is a Federal-State cooperative system.

MS. WILLS: Yes.

MR. COLEMAN: And when we attempt to get some of the States to improve their data, the States say, "As a State agency, we would like to see you (the Federal agency) improve the data. We are a State agency, we cannot do anything." They then put on their Federal hat when we approach them from the Federal standpoint and say, "Well, as a Federal program, you need to do something." They say, "Well, we are controlled by our governor who appoints the Commissioner of Employment Security."

So, in Federal-State cooperative data systems, there are real cost advantages in using Federal-State cooperative systems, but one of the disadvantages is that it is difficult to legislate solutions because it is a mix of two levels of government.

For example, we have tried over the years through OMB to get money directly to the R&A chiefs of the Bureaus of Employment Security for the improvement of the quality of the data, and it has always failed.

MS. WILLS: So--I do not want to put words in your mouth, but see if I am hearing you correctly. One of the things that you are suggesting is that there be, by administrative fiat, or preferably by legislative fiat, some sort of clarification on the role of the Bureau of Labor Statistics as it relates to the research system inside the state employment security agencies.

Do you consider that a critical factor?

MR. COLEMAN: Yes, if the research is focused on the quality and the content of the estimates. It seems reasonable to assume that if the Federal Government is going to spend \$40 billion, distribute \$40 billion, that it should earmark a specific sum of money for the quality of the estimates being used.

MS. WILLS: Are there any other recommendations in here that would require Federal legislative changes?

MR. COLEMAN: Yes, I would believe you would have to change the legislation to--I am not sure that BLS can of its own accord change the establishment report to include the information that we had asked for on the legal form of organization or the proprietors. They may be able to do that; I do not know.

CHAIRMAN LEVITAN: Mr. Coleman, from what we have heard so far, this seems to be a very crucial point for the Commission's consideration, and I do not think it would be very feasible to pursue that right now until we explore it more fully.

Are there any additional papers that you would want to submit to the Commission so that the staff and the members could study it? And, then, I would like to invite you to come down to discuss this with the Commission in greater detail because the possibilities that we are suggesting are very, very important for the work of the Commission in terms of quality, at the State and local level.

And when you start asking the question of why it has not been done before, we know those things --- and that is a proper subject for discussion, I suppose, in a public hearing.

MR. COLEMAN: Fine. I would be most willing to give it some thought, see what additional data or information I might have that would be useful to the Commission, and I am at the Commission's disposal to meet at your discretion.

CHAIRMAN LEVITAN: Thank you, Mr. Coleman.

MR. CARLSON: Let me just ask: Inasmuch as you put quite a bit of hope, if not faith, in the new Social Security reporting system ---

MR. COLEMAN: You are attributing more hope than I really have.

MR. CARLSON: You don't even have faith?

I guess this point you mentioned, this change in administrative procedures, presents an excellent opportunity.

MR. COLEMAN: Yes.

MR. CARLSON: It would be nice to know what potential is there, since going the administrative route may have less burdensome qualities for the people who fill out the forms. Are you the key person who can help us on that or should we be contacting somebody who is actually managing the systems?

MR. COLEMAN: Yes, I am not the key person on that, but I think I can put you in touch with the person who is.

MR. CARLSON: I think that would be worthwhile.

MR. COLEMAN: I clarify my point about the lack of faith or hope in that the problem with administrative records is that frequently program agencies do not have the time or the resources to edit the local area data, and we found that in working with the Social Security files that this was a critical problem, that much of the current work history sample that we pulled turned out to be far dirtier than we had anticipated.

MR. CARLSON: But the potential seems ---

MR. COLEMAN: The potential is there, yes.

MR. CARLSON: --- and lower cost seems to be greater here ---

MR. COLEMAN: Yes, it is.

MR. CARLSON: --- than any of the other alternatives.

MR. COLEMAN: I think the administrative record approach has great potential.

CHAIRMAN LEVITAN: Mr. Coleman, we appreciate your help and the Commission will be in touch with you when you come back from your trip. Thanks again for adjusting your schedule, too. Thank you very much, Mr. Coleman.

Our next scheduled witness is Ricardo Zazueta. I do not see him in the audience. Therefore, we will continue with Nancy Barrett. Could you change it for a half-hour earlier?

DR. BARRETT: Yes.

CHAIRMAN LEVITAN: Thank you, Nancy.

Dr. Barrett, thank you for the prepared statement. Will you proceed in your own fashion, summarizing it or reading your statement, whichever way you prefer.

DR. BARRETT: Fine. Thank you, Mr. Chairman.

STATEMENT OF NANCY SMITH BARRETT, PROFESSOR  
OF ECONOMICS, THE AMERICAN UNIVERSITY, AND  
DIRECTOR, RESEARCH ON WOMEN AND FAMILY  
POLICY, THE URBAN INSTITUTE

Dear Mr. Chairman and members of the Commission. It is a pleasure to be here today both to congratulate you on your preliminary work and to wish you well on your important mission, as well as to identify what in my mind are important issues that the Commission should consider in its deliberations.

One major policy issue that is of immediate concern is assessment of the degree of slack that currently exists in the economy. This debate has raised the possibility that our current measure of potential GNP perhaps overstates the capacity of the economy to produce.

The problem is, of course, that a prolonged period of economic slack has coincided with many structural changes in the economy. These changes include demographic changes in the labor force, higher and more comprehensive unemployment insurance benefits, higher natural resource costs, environmental and safety regulations, and the like.

Despite what many would have us believe, we simply do not know how the economy would behave if it were operating at capacity today. For instance, in the slack labor markets of the past decade, the availability of unemployment insurance may have added to measured unemployment to the extent that jobless workers remained in the labor force rather than dropping out or refrained from accepting or remaining in a job far below their skill level.

What is not at all clear is how strong this effect would be in a tight labor market where plenty of good jobs are available. There is no evidence that individuals would opt for unemployment insurance when they can find an acceptable job.

Inflation is no longer a test of how close we are to capacity. Inflation today is much more the legacy of inflationary expectations that perpetuate a self-fulfilling cycle of wage and price increases than a sign of undue pressure on the economy's productive capacity.

The recent pickup in the inflation rate is primarily the result of an acceleration of food prices and the cost of imported goods.

Despite these uncertainties, the question of how much excess capacity is now in the economy is critical to determining the appropriate macroeconomic policy stance. How can the President and members of Congress reach a wise decision on whether and how much to cut taxes this year if economists cannot agree on a measure of potential GNP?

I have written a background paper for this Commission that suggests new data needs in this area and tries to sort out some of the issues associated with interpreting existing data.

The second point I would like to raise is that many of the structural changes I alluded to earlier necessitate a reevaluation of the way we think about the labor market.

To take only one example, many of our concepts are based on the assumption that the primary labor force is comprised of adult males. In 1977, however, 54 percent of the civilian labor force was comprised of women and

youth, under age 25, compared with 45 percent in 1965.

This shift in the demographic composition of the labor force means that we need to bring different data to bear on the labor force experience of individuals and to develop new models for explaining their behavior in the labor force. Given the way our society is organized, nonmarket options remain more significant in the labor market decisions of women and young people than for men. Conventional variables like unemployment and wage rates need to be supplemented with such measures as family status, fertility, educational opportunities, and the like, that were in the past considered beyond the purview of labor market analysis.

Further, life cycle information is particularly important in assessing the probability of labor force participation for women, necessitating improved longitudinal data sets. Data obtained from the recently-developed National Longitudinal Surveys has been particularly useful for analyzing the labor force behavior of women and teenagers, but they suffer from small sample sizes and the fact that they are restricted to limited age cohorts.

We need much better and more timely data on the educational status of teenagers and to develop some linkages between those educational data and data on teenage employment and unemployment.

Inadequate information about the determinants of the labor force behavior of persons other than adult males has resulted in a number of problems that plague policymakers. The remarkable strength of labor force growth through the 1974-75 recession and the continued growth in the past two years, despite high unemployment, has puzzled economists and policymakers who are trying to achieve what seems to be an impossible target of 4.5 percent unemployment.

The official labor force projections of the Bureau of Labor Statistics are consistently below the mark, and budget watchers are confounded by the ever-increasing numbers of women and youth who are potential participants in federal job programs under CETA.

Even now there is talk of restricting eligibility for public service jobs to "primary earners," but data

inadequacies preclude any reliable estimate of how effective such a limitation would be and what would be its distributive implications.

Changes in the demographic profile of the unemployed have also rendered the concept of joblessness ambiguous. When one thinks of the labor force as comprised of adult men who are the primary breadwinners with women at home doing housework and young people in school, then the distinction between unemployment and joblessness is not very significant.

But when individuals have clearly defined social and economic roles that span market and nonmarket work, as do women and young people, then the question: "When is a jobless person in the labor market?" becomes much more difficult to answer.

And the difficulty is compounded when unemployment statistics are collected from a household survey rather than administrative data since the responses are influenced by a wider range of interpretations.

The availability of unemployment insurance adds another dimension of confusion. Under our system we count UI recipients as unemployed even if they are not seriously looking for work while we omit many jobless persons who desperately want work but have given up what they view as a fruitless, discouraging search for a job.

All this adds up to an overwhelming need for better ways to assess the labor market status of the jobless and better information on discouraged workers.

The changing demographic composition of the labor force is frequently cited as a cause of high unemployment and sluggish productivity growth, due to the relatively low earnings of women and young people. Better data in this area could improve our understanding of the causes of structural unemployment and of why women, especially, continue to earn relatively low wages.

Further clarification of the dimensions of joblessness in our society is crucial to our assessment of the amount of slack in the economy as well as to our evaluation of the economic hardship that is suffered when jobs are not available to all who want them.

A final issue is that most of our labor force data are obtained from households despite the fact that we have a potential gold mine of information that could be collected from establishments. The BLS establishment survey covers over 150,000 firms reporting on over 40 percent of the labor force and provides current information on wage and salary, employment, hours, earnings and labor turnover by industry and geographic location.

Except for employment, however, none of the data are provided by sex. Space does not permit me to elaborate on all the many reasons why we should get establishments to report by sex. Apart from the well-known superior reliability of establishment reports of income, relative to household reports, some data such as turnover rates are only available from firms.

Another need is for data on part-time employment by industry. Presently, the only source of data on part-time workers is the Current Population Survey, and the definitions currently used in the CPS are ambiguous and controversial.

Despite the obvious benefits of all the things I suggested, they also have their costs, both budgetary and substantive. Substantive costs are incurred when a break in a data series results in a loss of historical continuity and makes it impossible to compare the present with the past. Expert witnesses will come before this Commission asking for many new data series and many changes in the old concepts and definitions. But the Commission must be aware of the need for continuity and for keeping within reasonable budget restrictions.

Given the many demands that will be made, I would like to express what I view to be the most important outcomes of your deliberations.

First, there is an overriding need to achieve a national consensus on the acceptability of the official unemployment statistic, or some other measure, as a criterion for federal funds distribution. Literally billions of dollars in funds ride on the numbers published by BLS and their reliability and suitability for this purpose is increasingly called into question.

Achieving a consensus means dealing with all of



the issues I raised earlier in addition to more technical problems like seasonal adjustment, defining geographic boundaries, and the like. Small changes that seem inconsequential taken in isolation but that cumulate into significant ones as well as reconsideration of big-picture issues are both important aspects of this Commission's deliberations.

We will undoubtedly never achieve a similar consensus on macroeconomic policy goals. Some people will opt for upside risk, that is, keeping unemployment as low as possible, without generating a serious acceleration of inflation, while others will prefer the risk on the downside, keeping inflation at bay without generating a serious recession.

Despite these differences, however, we should be able to get much more agreement than we now have on our measure of economic potential to serve as a benchmark against which actual GNP is compared.

In the past, we have too often viewed unemployment as a measure of economic hardship. But now, demographic changes have greatly altered the traditional support system of families and a more comprehensive system of transfer payments based on entitlement blurs the distinction between the working poor and the non-working poor.

Professor Levitan has suggested a new measure of hardship. Although I disagree with many of the criteria in his particular index, at least it is a beginning in what I hope will be an open national debate on the subject.

Finally, I think it is extremely important to bear in mind how critical is the choice of data concepts and the timely availability of data for analyzing social and economic behavior and in designing and implementing public policy. Data availability not only limits the hypotheses one is able to test and the questions one can answer, but data concepts often suggest the questions themselves or at least influence the researcher or policymaker in the way questions are formulated.

At no time is the need for testing new hypotheses and breaking out of traditional mindsets more crucial than in a period of rapid change. I submit that the

U.S. labor market is undergoing such change and that if we cling to outdated statistical concepts we will also cling to outdated ways of thinking about the world. This can only lead to bad research and bad public policy. I urge you, for this reason, to be forward-looking in your deliberations over the very important issues contained in your mandate.

CHAIRMAN LEVITAN: Thank you, Nancy.

MR. MOSKOW: I have a couple of questions. As you know, at present we have the best system of collecting employment and unemployment statistics in the world, it is my understanding.

Of course, we always want to improve it. But I am just wondering if you think that we are going to make quantum leaps? If we do improve our system, are we going to make quantum leaps forward in our understanding of the labor market and also in our social policy deliberations, or is it really just going to be sort of marginal improvements in those two things? Because we are talking about spending a lot of dollars here.

DR. BARRETT: Yes. I think that you raised two issues. One of them has to do with improving our data collection system and the other has to do with thinking about collecting different kinds of data or using different measures for describing and evaluating the performance of the labor market.

I think that you really were talking about the second aspect--at least that is what I was talking about. There are some questions we do not ask about the unemployed because we assume that they have been continuously in the labor force ever since school.

And, in fact, that is not the case for women, or for many women. We have very little information on the experience of workers prior to their entering the labor force or prior to their becoming unemployed, and I think several people brought that up today.

We do not have a longitudinal picture of the

causes and effects of unemployment. We do not want to throw out the unemployment statistic, but to assess the performance of the economy or the hardship imposed on the economy by substandard economic performance. There are other important variables.

I disagree very much with Mr. Stein and his view that if a person has a job that we should not worry about that person any more. In fact, he went on to say, rather inconsistently, that it is important to collect income statistics on the unemployed to find out if they really are hard up.

The implication was that some of these unemployed people are so well-to-do that unemployment is not a hardship for them, and we ought to know about that.

Similarly, it seems to me that we ought to know something about the income of people that are employed.

That is not to say that we ought to throw out the concept of unemployment entirely, but it might not be the most relevant concept for a lot of the questions that we ask about people. The unemployment concept is quite specific, of great importance to economists, but with only limited relevance to hardship or poverty. We should try to avoid confounding poverty, or income-related, problems with unemployment.

MR. MOSKOW: Let me ask you one other question. What are your criticisms of Professor Levitan's hardship measure that you mentioned in the paper here?

DR. BARRETT: Well, I think that he takes--with all due respect, Sar--he takes a rather short-term snapshot view of hardship. For example, as I understand his proposal, he would not want to include in his measure unemployment of what he calls secondary earners which are usually, in most cases, women, married women.

And the reason that I think that is short-sighted is that for the large majority of women in low income families who are disproportionately represented among the unemployed, their marital status is "iffy" at best. The fact of the matter is that most of these women end up for some portion of their lives the sole support of children.

Something like 40 percent of all children born in the United States today, including upper, lower, all income strata, will at some point be supported solely by their mothers. Forty percent of all children will at some point be supported solely by their mothers.

Now, it seems to me that if we think about unemployment of women as causing negative attitudes towards work, as causing a disruption of their employment continuity, as resulting in less work experience than if they had been employed, then I say that any social index, any index of hardship that does not take into account the fact that this woman may later on be having to support children and be looking for a job and be handicapped because she was unemployed, because she had a discontinuous work experience, and because she developed bad attitudes toward work, that somehow this ought to be counted.

And if, further, you want to elaborate on Sar's general line of thinking, you think that these women should not be given priority in public jobs programs because they are viewed as secondary earners, that seems to me to be a very bad social policy. It develops a mentality among these women that they should not be expected to work. Consequently, when they do find themselves supporting children, they have to rely on welfare or some other form of income transfer.

CHAIRMAN LEVITAN: Professor Barrett, we will argue some other time, but for the time being I will just plead "not guilty" to most of the charges that you made.

MS. WILLS: Do you have other concerns on the hardship index? Other factors?

DR. BARRETT: No. I think by and large it is a good idea. I just think that there are going to be several problems with it. The first is that you are never going to please everybody. I mean, politically, it is a very difficult thing. The unemployment concept is a lot less susceptible to the kinds of political pressures that you are going to get when you try to

define who it is that is being hurt by some government policy.

But I just cannot think of any kind of a hardship measure that deliberately excludes a sizeable proportion of the population and says that they are not disadvantaged by unemployment.

CHAIRMAN LEVITAN: Dr. Barrett, if I may, I will send you the design that we are working on--measurements which I think will take care of some of your objections--I am afraid not all of them. But if you will advise us how to eliminate all those problems ---

DR. BARRETT: Look, Sar, the thing about the hardship index is the same thing I was saying about unemployment. If you want to have a criterion for distribution of federal funds, if you want to have a criterion for evaluating the performance of the economy, there has to be consensus, it seems to me, on what is being measured.

And if you have substantial disagreement from a major element of the population, most of them people who are concerned about the question of poverty among female-headed families, poverty among women in general, as well as discrimination, they will not buy your index.

CHAIRMAN LEVITAN: That is why I am trying to get your endorsement.

MR. POPKIN: Would you be so kind as just to follow up with a note. I have not read your paper. I do not think I have your Commission paper here. I would like to see a list of specific suggestions from you--this is just a small thing--the changes and the exact questions and procedures you would use in this CPS and BLS survey, in addition to all your other things which we will be getting into later because you alluded to the problems you had with the questions, but you did not go on and say, "Here is what I think we should do."

And I think you should follow up later, if you

would, please, with the specific suggestions for question changes.

CHAIRMAN LEVITAN: Mr. Carlson.

MR. CARLSON: I, too, came late to your statement, but I notice you are concerned about potential GNP. Are you really recommending that the Commission do something about the difficulty of coming up with a standard definition of potential GNP?

DR. BARRETT: Yes, in my background paper, I made very specific recommendations concerning data needs in that particular area. The major concerns have to do with determining the benchmark unemployment rate, that is, what ought to be used as the standard, full employment/unemployment rate.

Another one concerns determining the rate of potential productivity growth, which is very tricky at the moment because of the higher energy costs and the allegation that somehow energy substitution is responsible for the slowdown in the potential rate of productivity growth. We need to assess the growth of the capacity of the economy to produce for that reason.

Now, as I suppose you know, the responsibility for the potential GNP series rests with the Council of Economic Advisers. This, in my mind, is not a very good idea because the Council of Economic Advisers also resides in the White House and is responsible for articulating the economic policies of the government, of the presidential administration.

So, it has a political view of the world as well as an economic view of the world. And I do not mean in the least to question the integrity or competence of the individual members of the Council of Economic Advisers. I myself was on the staff of the Council of Economic Advisers last year.

CHAIRMAN LEVITAN: I could not ask for anything better.

DR. BARRETT: When the Ford Council of Economic

Advisers revised down the potential GNP series by a substantial amount, which essentially reduced the gap--the official gap--between the actual and the potential performance of the economy, this was a matter taken in the academic community with quite a bit of alarm. Those responsible for performance should not at the same time determine the benchmark.

I think there was justification for revising that potential GNP series down at the time, but it should have been done by somebody not in the government, or at least not a body with an explicitly political mandate.

In any event, there are data questions as well. We do not have very good data on what the effect of energy substitution has been on productivity growth. In my view, there has not been much substitution away from energy use, so a lot of the argument is sort of a long-run argument rather than a short-run argument.

However, we do not have very good information on that and we need better data. The same thing is true with the interpretation of the unemployment rate as a measure of capacity. We need much better information than we have now on unemployment of hours and on unemployment of skills.

It seems to me that if you have a person that is in a job that does not fully utilize his or her skills, for whatever reason, then your economy is operating below potential. Art Okun and Wayne Vroman, for example, at Brookings, have done a number of very excellent studies on the process of what they call worker upgrading of the business cycle. They show that workers in a recession get downgraded in terms of the capacity of the job to utilize their skills, and we really need to get some better measure of the excess capacity resulting from that phenomenon.

If lower wages for women and other groups result from discrimination, rather than a lack of skills on their part, then actual output as we measure it is again below potential. We need to be able to assess all of these things and I have made specific suggestions in my paper on potential GNP for how we could get data on that kind of thing.

CHAIRMAN LEVITAN: Dr. Barrett, we thank you. I am sorry that most of the members here did not have a chance to see your full, complete paper. Some of the questions would be answered. We are a little amiss in distributing them, but we will do so soon.

I think that since Mr. Zazueta is not here--what was scheduled next, Marc?

DR. ROSENBLUM: We were then scheduled for lunch and our afternoon speakers have not yet arrived.

CHAIRMAN LEVITAN: And what time are they expected to arrive?

DR. ROSENBLUM: About 1:30.

CHAIRMAN LEVITAN: Which means that we will take a break now for taking in some victuals.

(Whereupon, at 12:00 p.m., the hearing was recessed.)

#### AFTERNOON SESSION

CHAIRMAN LEVITAN: Dr. Ossofsky, welcome to the hearings. I appreciate very much your being able to adjust your schedule and make it for 1:30, but we had a witness, Mr. Ricardo Zazueta, who was supposed to be here earlier and he did not show up. So, thank you very much for coming earlier.

Dr. Ossofsky, I understand you have a statement.

DR. OSSOFSKY: I do.

CHAIRMAN LEVITAN: You can either read it or include it in the record. You have all the time you need, up to 15 minutes.



STATEMENT OF JACK OSSOFSKY,  
EXECUTIVE DIRECTOR,  
THE NATIONAL COUNCIL ON THE AGING

DR. OSSOFSKY: Thank you, Mr. Chairman. I will follow the statement, although I will make some insertions as I go along.

I appreciate the opportunity which you and the members of the National Commission on Employment and Unemployment Statistics have given us.

I am Jack Ossofsky, Executive Director of the National Council on the Aging, NCOA, a private, non-profit organization which provides leadership and guidance in the development of services for older persons in hundreds of communities throughout the country.

Since 1950, the Council has worked to improve the lives of older Americans by eliminating the problems of aging and opening up opportunities for older people. We are especially committed to those opportunities such as work which encourage independence and self-sufficiency.

Through our National Institute on Age, Work and Retirement, NCOA has provided research, information, technical assistance and consultation on middle-aged and older workers to employers, government agencies and universities for over a decade. Our quarterly journal, "Aging and Work," formerly "Industrial Gerontology," has created a body of knowledge on all subjects related to middle-aged and older workers.

NCOA is very pleased to appear before this Commission to discuss the relationship between labor force statistics and middle-aged and older workers. The importance of the Commission's charge--to revise the way in which information on our nation's employed and unemployed is collected, analyzed and reported--cannot be overestimated.

These statistics are the basis for the distribution of funds and the evaluation of federal programs, such as the Comprehensive Employment and Training Act, with the potential of helping many middle-aged and older people return to the active labor force and maintain their economic independence.

Thus, I am sure you will understand our concern that the current approach to data gathering and reporting may not reflect the actual employment status of middle-aged and older workers.

Current statistics show that older workers experience a markedly low rate of unemployment, but our experience tells us this is false. The Bureau of Labor Statistics (BLS) reported that, in 1977, the average unemployment rates for persons 45-54, 55-64 and 65 and over were 4.0 percent, 3.9 percent, and 5.1 percent, respectively.

These rates are lower than the average annual unemployment rate of 7 percent and especially lower than the rates for those 16-19 and 20-24, which were 17.7 percent and 10.9 percent, respectively. If we were to rely solely on these official government statistics, we might perceive an optimistic picture of the older worker in the economy.

Yet, numerous studies published both by NCOA in "Aging and Work" and elsewhere question the accuracy of the official statistics. In a 1975 monograph by Elizabeth Meier for NCOA, using the Louis Harris survey data, 10 percent of those aged 55-64 considered themselves to be unemployed, that is, in the labor force but currently unable to find a job.

The figure of 10 percent is considerably above the official government figures for this group during the same time period of May through July 1974 reported as slightly over 2 percent for males and 3 percent for females.

Part of the divergence between the official and survey rates is caused by different definitions of unemployment. BLS' definition of unemployment includes only those actively seeking work during a certain period. NCOA has stressed a number of times that these figures do not include thousands of "discouraged" workers who give up on finding work, remain unemployed, but are considered to be outside the labor force.

As a recent "Aging and Work" article states, "Advocates of a broader definition of unemployment believe that present figures--which categorize discouraged workers as not-in-the-labor-force--understate by a considerable extent the true unemployment rate."

The not-in-the-labor-force categorization may be particularly misleading with regard to older women who have given up the search for employment.

Though the category "discouraged worker" covers all ages, it is older workers who are most likely to be hidden in this group. During the first quarter of 1978, for example, workers aged 55 and above constituted 14.7 percent of the civilian labor force and 15.2 percent of the unemployed, but 32.5 percent of the total number who were classified as discouraged.

But if we view the discouraged worker as someone who has stopped looking for employment because of job market conditions, and include those with the belief that age is a barrier to employment, the proportion is 36.3 percent, two and one-half times the proportion of older workers in the labor force.

The statistics regarding duration of unemployment also support the contention that older workers are likely to become "discouraged workers" once unemployed. The two are interrelated: the long duration of unemployment for the older worker can lead directly to the "discouraged" status. The average mean duration of unemployment in 1977 increased with age, as shown below.

<u>Ages</u>	<u>Average Mean Duration in Weeks</u>
16-19	8.9
20-24	12.9
25-34	15.3
35-44	16.5
45-54	19.3
55-64	21.2
65+	22.6

Omitting discouraged workers from the official unemployment count merely hides the true rate of unemployment and deceives the public into believing that this group is not in need of assistance. It is essential that the official definition of unemployment be revised to include the discouraged, whether discouragement results from job market or personal reasons, so that the many older workers now omitted are enumerated as desiring work.

This new definition of unemployment could assist officials charged with developing programs and policies to assist older workers. As it now stands, published data give the impression that joblessness is not a serious problem among older workers.

This serious failing can lead, and has led, to an inequitable distribution of federal employment and training program resources and caused a serious detriment to the vast numbers of older people who still need jobs.

Unemployed older workers are also often hidden in the "Not in the Labor Force" category because of retirement. Dr. A. J. Jaffee of Columbia University in an unpublished paper states: "One of the reasons for the fact that unemployment is not so extremely high among older workers is that those who cannot find jobs quit looking and simply retire; they are not then classified as unemployed."

It is important here to note that in a recent study of supplemental federal unemployment insurance benefits, most of the people who had used their maximum benefits and subsequently dropped out of the labor force were 45 years and over; 70 percent were age 45 years and over, and 45 percent were 55 and over.

It appears from this study that the older the individual, the greater the chance that he/she will have used all entitled employment insurance and still be unemployed or out of the labor force once all benefits have expired. This increases the pressures for many older jobseekers to elect pension and Social Security benefits prematurely, at reduced levels and, thus, cease to be counted in the labor market.

Others have been involuntarily retired though they

are still able and willing to work. The Louis Harris survey commissioned by NCOA revealed that "over a third of those who are retired said that they did not retire by choice, but were forced to." This is a very large group of older people who are also listed as "not in the labor force" under the current statistics.

Clearly, we need to distinguish between voluntary and involuntary retirement and, then, between those who were forced to retire but still are able and willing to work and those who are not.

Yet, there are no questions in the monthly Current Population Survey that seek to ascertain if retirement was voluntary or involuntary. In fact, there is no breakdown for even the specific category of "retired" under the "Not in the Labor Force" category in the A-3 tables.

If these data are to be useful, a subcategory of retired should be reported, a breakdown made of voluntary or involuntary retirement, and the numbers of those who want to go back to work counted.

Other issues which must be considered include:

In general, many tables published by BLS lump all workers 65 and over into one category. The passage of the 1978 Age Discrimination in Employment Act Amendments, PL 95-256, will raise the age of protection to 70 for most private employees and eliminate it entirely for federal workers.

Therefore, it is imperative that more detailed information on age subgroups within the 65 and over category be made. Only one table even attempts to do this now.

Employment and poverty status by age is tabulated in unpublished tables. This information should also be reported on a regular basis to provide guidance to policymakers and administrators in programs such as CETA or the older worker community service employment program. For the same reason, it would be desirable to report duration of unemployment data by income, as well as age.

Table A-18 which highlights duration of unemployment by sex, age, race, and marital status should be published in a form that includes more detailed age

breakdowns to allow us to determine the duration level for those 40-44, 45-49, etc., rather than the current presentation by decades, i.e., 35-44, 45-54, etc.

Similarly, Table A-8, which reports statistics on full- and part-time status of the labor force by age, should be available in more detailed age breakdowns than 25 to 54 and 55 and over. Many older workers must now obtain part-time jobs, and more specific age breakdowns would be helpful.

Also, it would be valuable to know how many older workers with part-time jobs really want full-time employment, particularly because this could suggest the extent to which persons in these categories may experience economic hardships.

The employment status of middle-aged and older workers could be significantly improved if their employment assistance needs were more accurately reflected in official data.

Therefore, we urge your most serious attention to our recommendations concerning the adequacy of current older worker unemployment rates, the need to reclassify many so-called "discouraged" workers, and the need for more detailed information on those who identify themselves as retired, as well as on the full- and part-time employment needs of older workers.

Thank you for your consideration of our views.

CHAIRMAN LEVITAN: Thank you very much.

MS. WILLS: Are you suggesting that one of the things that we need to do is to take a look at the CPS and redirect some questions not only to get more clarification on the discouraged workers, but also to find out more information in terms of retirement--forced retirement--in presenting the CPS?

DR. OSSOFSKY: That is correct; precisely.

MS. WILLS: Why are you choosing the CPS as the methodology?

DR. OSSOFSKY: Well, there seems to be some basis, based on some of the other questions raised there, to

be able to differentiate and relate to other data that you have. We have no particular emphasis on one method or another, but would like to integrate it with other data that you are gathering now and to differentiate a little bit more clearly within the existing questions that are currently being asked.

We do not pretend to be experts in the statistical gathering field here nor in the methodologies used. What we do claim some expertise in is that what we are finding in life is not being reflected in data. Yet, the policies that are being developed to reflect what is going on in the communities are based on the data.

Therefore, we need to make some changes. If you want to find another more appropriate way to do it, we are very open to those suggestions. It just seemed to us more appropriate to build it into your current methodologies.

MS. WILLIS: Do you think that by adding the discouraged worker as a part of the count of unemployment that that will solve many of the problems that you are concerned about?

DR. OSSOFSKY: If you look at the way CETA's funds are being utilized in the communities, for example, you will discover that while middle-aged and older workers represent perhaps half of the work force in our country, they are lucky if they are reflected in 4 percent of the client groups of that program.

There are many tasks that need to be taken to overcome it and one of them is the gathering of data. That happens to be the purview of this Commission. We will take other tasks to other committees and commissions at the appropriate time.

This is not an issue or a battle that we can resolve by simply taking one simplified answer to it, but we at least need the hard data and we do not think we are getting it sufficiently here.

CHAIRMAN LEVITAN: Dr. Ossofsky, why do you assume that the enumerators discriminate against older people, although I find it difficult to define older people at age 40. Why do you assume that the enumerators are

more prone not to count or interview them in the way they do everyone else?

If anything, I would think that older people would be easier to reach. The undercounting problem is certainly much lower at that age. Why do you think that CPS is not doing a proper job in this area?

DR. OSSOFSKY: I am not sure I can give you a very good answer to that. All I know is that when we commissioned Lou Harris to do the study of older people, we set up an advisory committee that included specialists in social research and gerontology who knew something about the conditions of older people.

Lou Harris, normally in a national poll, will interview 1,800 people. In meeting our requirements, he had to interview over 4,000--close to 5,000--we oversampled, particularly to reach older blacks and minorities in order to be able to draw some valid conclusions.

I can tell you too that some 10 years ago when I directed a program for the Office of Economic Opportunity on behalf of the National Council, called Project Find, what we underscored at that time and in the years that followed is that you have to knock on every door in order to find the older people, particularly those who are most vulnerable, those who have given up hope and those who are isolated from the life of the community.

But while I am not suggesting that your enumerators do not do a good job for the normal segments of our society, you have to look very hard and very thoroughly to find the older people, and it may very well be that what is adequate in seeking out and documenting the needs of the rest of the population is not good enough, not detailed enough in locating, gathering the data, and finding adequate responses on the part of older people.

There is also the question of how questions are raised with older people. We know that if anybody knocks on the door and asks certain kinds of questions, he may find it more difficult to get a valid answer unless the questionnaire and the whole issue is couched



in terms that make it comfortable for the person to answer.

Now, I would not suggest that this is true for all older people. I do not want to stereotype all old people, but it is true for enough that we need to take special means to make sure we are getting accurate data.

The other part of the answer is that it is at such variance with what we who work with older people are finding in the data that we uncover.

CHAIRMAN LEVITAN: I do not understand. Are you mentioning that older people are having problems, or is it a question of counting? Because, for example, Dr. Ossofsky, you mentioned very eloquently in your testimony that older workers seem to have longer periods of unemployment, something which you can document.

Now, I would not be surprised at that, because older people very frequently retire and can still collect unemployment insurance in a number of states.

DR. OSSOFSKY: Sometimes.

CHAIRMAN LEVITAN: No, isn't it a fact?

DR. OSSOFSKY: I do not know how much of a fact it is. I know of many instances in which some older people do that.

CHAIRMAN LEVITAN: Well, I know that in a number of larger states they do allow retirement and then collection of unemployment insurance.

DR. OSSOFSKY: If it is a mandatory retirement; not if it is voluntary retirement. That would, however, not deal with the great volume that we are finding here of people who are not eligible for retirement yet. If we were to single out the people who were 65 or even 62, you might be able to make a pretty good case, at least in those states.

How do you deal with the person who is 55? How do you deal with the person who is 63 or 61 and not eligi-

ble for Social Security? So, I think we are dealing with a much broader issue here on how we deal with the growing numbers of older people in our society and one of the reasons that we need to begin getting some good, hard data now is that the trend in our population is such that we had better begin shaping our data pretty accurately to prepare for changes in our population in the coming years.

CHAIRMAN LEVITAN: I assure you, Dr. Ossofsky, that the Commission will be very sympathetic with the concerns you expressed. But isn't it also true that the availability of private pensions (which I didn't hear you mention in your testimony) might also have something to do with the employment and unemployment status of older people in the labor force?

DR. OSSOFSKY: Yes, it has something to do with it. But, how do you account for the fact that 4 million older people, many of whom are drawing pensions, made it clear that they are drawing those pensions because that is their source of income at the moment, they are entitled to them, but they would rather go back to work?

How do you account for the fact that we now have close to 50,000 people in the Title IX program who are willing to give up in many cases not only Medicaid benefits, because we are dealing with the older poor, but other sources of income in order to go back to work?

The fact of the matter is that for great numbers of this generation of older people the opportunity to work and the additional income is much more important and much greater potentially an income than the dollars they get in pensions. In private pensions, of course, they are only covering a small fraction of today's generation of older people.

CHAIRMAN LEVITAN: Again, Dr. Ossofsky, I am not quarreling with you and with your concerns, but this Commission's interest is in statistics.

DR. OSSOFSKY: Of course.

CHAIRMAN LEVITAN: And if you mention 4 million and then you say in the next breath 50,000, it would seem to me that is a very small percentage of 4 million.

DR. OSSOFSKY: You underscore precisely the need for expansion of the Title IX program. There are 4 million people ---

CHAIRMAN LEVITAN: That is not ---

DR. OSSOFSKY: I understand, but that is where the difference comes from. You are asking me: If there are 4 million people who want to work, how come only 47,000 are employed? Because that is the total number of jobs currently provided by that particular program.

CHAIRMAN LEVITAN: Dr. Ossofsky, before the clock rings again, do you have something really specific--except for the discouraged worker, which everybody seems to be mentioning here. What else can be done either through CPS or through any organization that would improve the statistics you want about older workers? And I hope you would stop defining them at age 40.

DR. OSSOFSKY: If the prejudice and conditions of discrimination would stop, we would not have to define them that way. The circumstance of defining them stems from trying to deal with the problem, not from a search for a definition.

I am not sure that I could very accurately define what an older worker is because I think that all you learn about chronological age by an individual is how many candles to buy for his cake or her cake. That is about all that tells you.

We think that we have to get much more firm and complete data about the middle-aged and older worker for the reasons that we have cited. We think that they are not being adequately represented in the figures that you have available. Public policy is based on those figures and resources are made available based on those figures, and our own experience in data seems to

show that we are not finding them in sufficient quantities as they are being found by others outside the system.

And what we are urging you to do is to find a more appropriate way to do so, and then among those you interview to differentiate between the ages of the discouraged worker and the courses of retirement as well. I think it would give us perhaps a fair picture of unemployment in our country, but also a more accurate one.

CHAIRMAN LEVITAN: Dr. Ossofsky, I will ask the question in another way. You have been in this business for a number of years, if I remember correctly. The present Secretary of Commerce was a member of your group, as are many other distinguished citizens. You have a lot of resources.

Do you think that your organization could tell us better ways of counting your constituency, or do you want to leave it to the rhetoric that you have supplied us with?

DR. OSSOFSKY: I would be happy to have some of the specialists who have worked with us in the development of specific techniques, who are better equipped than I am in the technology of statistical data, the gathering of such data, and polling methodologies, to meet with your Commission, either formally or informally, to share with you the methodology we have used in other data which has given us altogether different results than those used by the Bureau of Labor Statistics.

CHAIRMAN LEVITAN: Would you provide that for the record of the Commission?

DR. OSSOFSKY: I would be happy to supply you with the names of such people for the record and to set up any meetings that would be of value to the Commission to achieve that goal. We welcome the opportunity to work with you in that regard and welcome your inquiry.

CHAIRMAN LEVITAN: I would appreciate your doing so. Thank you very much.

DR. OSSOFSKY: Thank you.

MR. ANDERSON: I have a question about the treatment of discouraged workers. As you know, the definition of unemployment at the current time is intended to permit us to identify people who are willing and are in fact actively engaged in seeking work. The burden of your testimony, Dr. Ossofsky, is that those persons who say they want jobs but are not doing anything to seek jobs should be added to those who do not have jobs and are looking for them in order to have a more comprehensive measure of unemployment.

That would seem to suggest that what economists call the labor market test should be disregarded altogether, and I wonder if you think that is the case or whether you think there might possibly be some way to inquire into when an individual most recently sought work as a way of trying to get at the willingness to work.

Do you think that a person, for example, who has sought work within the last six months might be counted as unemployed, or the last year? Or what about a person who has not sought work in the past two to three years? Should that person still be counted as unemployed in your view?

DR. OSSOFSKY: Mr. Anderson, the most practical way I can answer that question has to do with the fact that when we have gone out and provided the opportunity for viable employment for middle-aged and older workers, many who had not been able to get a job for 15 years and 10 years suddenly agreed to take a job, welcomed it, because they had given up hope of ever getting a job again.

It is very hard, therefore, to draw a line in a way that would respond specifically to your question. It may very well be there needs to be some relationship between age and past attempt to seek employment, but we have not found any period of time as a clear line of demarcation in our own work with older people over the

last number of years that would dispel the notion that given a chance to take the job, the worker who really wanted that job did not do so.

CHAIRMAN LEVITAN: Dr. Ossofsky, we will look forward to you supplying us with the technical information on how to better count older workers. I am sorry we cannot do anything about providing jobs for them.

DR. OSSOFSKY: Well, at least you can start by giving us some hard data to maybe make some changes in our perceptions.

CHAIRMAN LEVITAN: We will do our best. Thank you very much.

DR. OSSOFSKY: Thank you very much.

CHAIRMAN LEVITAN: Our next witness is Professor Edward Kalachek from Washington University in St. Louis, Missouri.

Professor Kalachek has already done yeoman's work for the Commission by preparing an excellent paper on the subject which he is going to address right now. Professor Kalachek, you have 12 to 15 minutes to summarize whatever you want to say.

EDWARD KALACHEK, PROFESSOR OF ECONOMICS,  
WASHINGTON UNIVERSITY

DR. KALACHEK: Thank you very much and let me thank the Commission for the opportunity of expressing my views before them today.

Most of our employment and unemployment statistics are cross-sectional and were devised as monitoring devices. They were created to answer questions about levels and incidence. Questions like: What is the unemployment rate? How does it differ between whites and blacks, between the young and the old, and between factory and office workers?

Over time, these cross-section series have been expanded and improved. As a result, they have measured labor market performance with increasing detail and precision, thus facilitating the identification of problem groups and problem areas.

This very success in identifying problems, together with continuing efforts at treatment by the federal government, have accentuated the need for new and different types of information. The key questions have gradually changed from "what" and "how many" to "why" and "how" and "does it matter?"

The construction of public policy has increasingly required inferences on the stability of populations, on the impact of processes, and on behavior responses.

For example, how many of those who are poor or unemployed today are likely to be poor or unemployed tomorrow? What is the impact of persistent unemployment or nonlabor force status as a teenager on employment stability and wages as an adult? What is the impact of training on subsequent employment and wages? How will labor supply change if wages or nonemployment incomes are altered?

The traditional cross-section series have been used in ingenious and invaluable ways to seek answers to such questions. However, they were created to measure, not to explain. As tools for explaining labor market behavior and outcomes, they have often proven inefficient or inadequate.

As a result, government agencies, beginning in the mid-1960s, have sponsored a number of special purpose longitudinal series specifically designed to facilitate the investigation of change and the uncovering of causal relationships.

These longitudinal series or panels involve repeated interviews over time with the same sample of people. They permit observation of the experiments continuously being conducted in the real world where wages, income, training, job opportunities, health, and age are continuously altering.

Our experience with this panel data has been quite limited; tapes from the National Longitudinal Survey and from the Income Dynamics panel containing three successive observations on the same individuals have been publicly available only for the last five years. The research and policy analysis done during this brief period is impressive in both amount and significance, however, particularly given the problems of early users.

The promise shown by this analysis is sufficiently

great that it can support the following assertion: if significant advances are to be made during the next decade in our knowledge of how the labor market operates and of how it responds to policy initiatives, that knowledge will most likely come from work utilizing longitudinal data.

The special purpose panels have already demonstrated their high priority place in the system of employment and unemployment statistics. Their creation has moved the portfolio of statistics in the right direction, but has not moved it far enough.

The special purpose panels have a small sample size and they reinterview infrequently. They consequently are not optimal for fully investigating problems which during any time period affect only a small portion of the population or which persist for only modest time intervals; problems like job turnover or unemployment.

Happily the instrument for analyzing these problems is readily at hand. It is the Current Population Survey (CPS). The CPS is clearly the most promising frontier for the further extension of longitudinal analysis.

While CPS is a cross-section survey, its sampling format felicitously creates subpanels of 16 months' duration. CPS thus collects longitudinal data as a byproduct of an ongoing cross-section survey. All that is required to open this seeming treasure house for exploitation is the quite modest effort of regularly matching observations across survey periods creating what are called matched or gross flows tapes.

Since the duration of the CPS panel is short and the length of the CPS questionnaire is limited, the gross flows tapes will not be substitutes for the special purpose panels. They will be complements. A large sample size and eight interviews within 16 months makes CPS the ideal instrument for investigating short-run labor force dynamics.

Given the strong and continuing interest in the causes and repercussions of unemployment, it is ironic that the most powerful vehicle for analyzing the unemployment experience has long been readily at hand, but has been virtually unexploited.



Let me enumerate just a very few of the questions CPS panels can be used to investigate: What is the impact of the seasonality of industry on labor force participation and unemployment? Where do seasonal industries obtain workers in the boom season? How much unemployment is due to industry-specific cycles? How much unemployment is due to tight production management closing down or laying off workers for brief periods when production seems to be outstripping sales?

How many workers who enter unemployment through layoff return to their original employer? What differentiates workers who return to the same employer from those who find jobs elsewhere? What types of workers, by age, sex, race, education, do expanding industries hire?

Does it vary depending on the size of the expansion and the stage of the business cycle? Such topics are only the tip of the iceberg. The recurring CPS interview schedules can periodically be supplemented by special questions. This capability for supplementation is perhaps the most attractive aspect of CPS viewed as a panel.

It means that the CPS gross flows tapes can be used in a timely and flexible fashion to investigate questions of immediate policy concern. As an example, let me cite the work currently being done by matching replies to the Job Search Supplement of May 1976 with interview data from subsequent months.

As you are aware, the responsible government agencies have long been reluctant to make gross flows data publicly available. Limitations and biases in the data have been cited as the reason for this reluctance.

However, all statistical series inevitably have limitations and biases. Work already accomplished at BLS and elsewhere make it quite clear that the biases in the gross flows data can be readily circumvented by skillful analysts.

Developing controls and corrections for these biases is not an unsurmountable task. Indeed, it is not even a particularly difficult task. The task would have been accomplished long since if the motivation were present. I would strongly urge the Commission to recommend a high priority for the regular preparation of matched CPS tapes for public use.

CPS has evolved without any thought being given to longitudinal analysis. If it begins to be used as a panel, it should be possible to make a number of small changes which will greatly augment its potential.

One such change, also useful for cross-sectional analysis, would be to collect information on hourly earnings three or four times a year rather than once.

Finally, if gross flows tapes are generated, the absence of adequate information experienced at work and on the employer would be the major remaining gaps in our portfolio of longitudinal data. Panels like cross-sectional surveys have concentrated on the individual and on the household as isolated units, as sole sources of information, and as information sources primarily on demographics, family background, labor market status, wages, and earnings.

However, understanding labor market actions and outcomes requires information on the work site as well as on the worker. Our knowledge of wage determination, of the labor supply decision, of the retirement decision, of job turnover, and of the determinants of unemployment would be greatly enriched if we knew more about the characteristics of the work place and of the employer.

NLS and others have obtained some pertinent information by directly asking respondents work-related questions.

However, the typical respondent may know little about the size of the establishment or firm, its turnover rates, production processes, personnel policies, or comparative wage levels. Even where he is quite knowledgeable, as in the case of working conditions, responses could be better interpreted if we had a number of separate judgments.

The closing of these data gaps will not be a simple and straightforward matter like the generation of gross flows tapes. Rather, it will require ambitious and innovative planning. What is needed is a two-stage sampling format in which establishments are the first stage and workers the second stage sampling unit.

Information could then be obtained from the worker, from his employer, and from his union and matched onto one record. A two-stage probability sample is not unprecedented.

The National Longitudinal Survey of the high school class of 1972 sampled first schools and then students chosen from those schools. This procedure enabled it to match the student's school record with information obtained directly from the student by interview.

CHAIRMAN LEVITAN: Thank you, sir.

MR. MOSKOW: Professor Kalachek, I am not sure if you were here this morning, but I believe it was Marvin Kosters who discussed longitudinal surveys a bit, and I believe--if I am correctly quoting him--his view was that he believed in longitudinal surveys and expanding them, but he thought before any steps were taken that we should have a thorough review of all of the existing longitudinal surveys, the Ohio State University data, and others that have been constructed, and the work that has been done on these.

Do you share that view now, that we should have a thorough review of all of these before we make any recommendations, such as the ones that you have mentioned in your paper here?

DR. KALACHEK: Let me differentiate my response in the following fashion. When I am talking about creating matched tapes using CPS data, what in effect is true is that the information already exists. The surveys have already taken place.

What I personally would regard and have long regarded as one of the great treasure houses of potential information on short-run labor force dynamics is lying there virtually unexploited. Given that for 20 years economists have been recommending the exploitation of this data and given my own strong belief that nowhere in the whole area of statistics would the rate of return on expenditure be higher, I would very strongly urge the Commission to recommend that the responsible government agencies proceed immediately with the process of matching.

Now, I am not out of sympathy with Professor Kosters' desire for a thorough review of existing panels as a means of providing guidance for future

developments. Over the past decade we have created a number of panels. Only two have been operative long enough and generated enough data to permit a significant quantity of analytic work.

Given these two panels and others which are now becoming more available, there is very little question in my mind that knowledge of what is going on in the labor market and policy relevant research is increasingly going to be based on panel data.

This creates a strong case for a continuing examination of the merits and limitations of panel data and for coordination between panels. I tempered my language carefully on this issue in my recommendations to the Commission. The thought of recommending a small government section or committee to review and coordinate panels simply bothers me.

I believe, on the basis of long personal experience--though it is a matter I cannot document--that if we had created a central statistical agency back in the mid-1960s to coordinate the development of panels, we would not have experienced the rich and productive flowering panels which has occurred.

Nonetheless, I think that it would be a highly advisable thing while minimizing bureaucracy to take a really serious look at the nature or biases which arise in panels, at the differences in results between panels, and at comparisons between panel and CPS results.

I think that far too little methodological work has been done in this area. It would now be useful to have someone responsible for analyzing potential biases in panels, and for coordination between panels. I would depart from Professor Kosters mainly in believing that review coordination and contemporaneous action are all feasible and desirable. Thus, I see no reason to delay the matching of CPS tapes, or the recommending and creation of a two-stage employer-employee survey.

MR. MOSKOW: If I could return just to the matching of the CPS for just a minute, I assume this is something you would like to see done on a regular basis.

DR. KALAHCHEK: Yes.

MR. MOSKOW: Like a quarterly basis or twice a year or something of that sort, once a year?

DR. KALACHEK: You should understand that once the mechanism is established, matching this will not be a terribly expensive or complicated operation. I would like to see continuous matching.

Each rotation group should be matched throughout-- first month, second month, third month, fourth month, and then picked back up the 13th, 14th, 15th and 16th month.

This would be an enormous source of potential information on labor force dynamics. If we matched with some of the special supplements, the information base becomes even larger.

My own feeling is that complete matching across rotation groups is the desirable outcome. It will give us the most experience with this data and the ability to learn most quickly. Clearly, I would be quite content with some lesser degree of matching. Something is always better than nothing.

My impression, however, is that the difference in cost is not enormous and the difference in benefits might be.

CHAIRMAN LEVITAN: What is your concept of enormous?

DR. KALACHEK: Once you establish the program, it is a mechanical matter of matching observations and creating files, which would be quite inexpensive.

CHAIRMAN LEVITAN: In other words, what you are saying is that it is a question of hundreds of thousands and not millions or multimillions of dollars.

DR. KALACHEK: It is cheaper than that. To create and publish gross flows tables, a highly desirable objective, you will need a research program for obtaining forced consistency between the gross and the net flows, for deriving hypotheses as to these relationships, and for correcting rotation group bias.

This would involve a large one-time expenditure for research of hundreds of thousands of dollars. The matching of CPS tapes is a far simpler matter. I do not pose as an expert on computer costs, but costs here on an annual basis are way below \$100,000; possibly below \$10,000. Matching CPS tapes will be one of the great statistical bargains.

CHAIRMAN LEVITAN: Ms. Wills?

MS. WILLS: See if I am correct in what I think I am learning. What you are suggesting does not require any new legislation. It does not require redefinition of the statistics. It does not require the development of a hardship index.

In other words, we do not need to create something new. Now, if I am correct on that, I am curious to know, quite frankly, what kind of power you think this Commission would have to recommend back to the Census and to BLS that this kind of matching take place, if indeed we are talking about a small amount of money? And I think under \$100,000 in this case is a small amount of money.

I do not know enough, quite frankly, to give back arguments to the bureaucracy that they do not want to make that information available. I am not saying that I do not think this is not important. I do not know what we think that the Commission can do to highlight this.

Do we want to recommend it? Because it seems to me that if you have \$100,000 laying around, you could do it tomorrow. It is obviously not that simple, but we do not need to change laws or concepts. Is that correct?

DR. KALACHEK. That is right.

There are numerous economists, technicians, and other trained personnel within the Bureau of Labor Statistics who would be highly enthusiastic about the recommendations which I have made and who would sort of concur fully with them.

This Commission surely has an immense amount of moral prestige in this area. A strong recommendation

from this Commission would greatly stimulate work on matching.

Your predecessor, the Gordon Committee, made recommendations on gross flows tables. The Department of Labor and the Bureau of the Census accepted the recommendations and said "We will proceed to do this." Instead, over time they proceeded to enunciate a series of technical defects requiring research and correction as a prerequisite to making the data publicly available.

The serious importance attached to these defects boggles the mind. Don't misunderstand me, the defects are there. They are quite troublesome if one is seeking to create cross-tab tables. Matched tapes are another matter. They will be used primarily to explain and predict the behavior of individuals over time. For example, the special Job Search Supplement indicated differences in the techniques and intensity with which unemployed workers searched for jobs. Matching would allow us to follow these workers for a number of months and to determine the impact of search time and technique on the length of unemployment.

In dealing with an analytic problem of this sort an econometrician could control for gross flows biases in such a fashion as to emerge with reasonable results.

In summary, given the usefulness of matching and the full awareness of this usefulness by many analysts in the Department of Labor, a strong recommendation by the Commission could have a quite beneficial effect.

MS. WILLIS: You also mentioned--and I am not sure that I caught what you were saying--that if we had a simple agency, a statistical agency, that you think that we would have or would not have a movement forward in this area?

DR. KALACHEK: In response to Dr. Moskow's question, I expressed my opinion that the development of panels since the mid-1960s has shown verve and imagination. My suspicions are that if we had a central bureau directing things back then, we would not be as far along as we are today.

Having said that, I am going to have to agree that there is need for more coordination between panels and for an organized research program on the characteristics of panel data.

CHAIRMAN LEVITAN: Do you think that longitudinal studies, national surveys, should be taken over by BLS or should they be kept independent?

Yes, no, or maybe?

DR. KALACHEK: Are we talking about the NLS?

CHAIRMAN LEVITAN: Well, I just wondered if it pertains most directly to our work?

DR. KALACHEK: I would say the following: I would see, at this stage of the game, no reason whatsoever for changing the sponsorship or direction of NLS.

CHAIRMAN LEVITAN: Thank you very much. I hope we will have a chance to continue talking about it in the months ahead.

DR. KALACHEK: Thank you.

CHAIRMAN LEVITAN: Thank you for the excellent paper for the Commission.

Professor Motley, welcome to the Commission. Thank you very much for coming to testify before us.

BRIAN MOTLEY, PROFESSOR OF ECONOMICS,  
UNIVERSITY OF KENTUCKY

DR. MOTLEY: Thank you for giving me this opportunity of appearing before you this afternoon to discuss the role of the unemployment rate as an indicator in federal-state fiscal relations.

In recent years a number of federal programs have been enacted under which federal grants to states and localities are allocated on the basis of local rates of unemployment. The Comprehensive Employment and Training Act (1974) and the Local Public Works Act (1976) are prominent examples.



Presumably, Congress selected this criterion because it assumed (i) that the unemployment rate is an accurate indicator of local economic conditions and of the need for federal assistance, (ii) that the concept of "unemployment" is capable of precise definition and that this definition is well-known and widely-accepted, and (iii) that a statistical methodology exists for consistently measuring the incidence of unemployment at the local level. However, since the enactment of this legislation, each of these assumptions has been challenged and the use of the unemployment rate as a guide for regional economic policy has come under increasing criticism. The critics have argued that (i) the concept of unemployment is less precise than is commonly believed and the definition currently in use may be inappropriate to present day conditions, (ii) even if the present definition is accepted, the measurement of the local unemployment rate is subject to a substantial margin of error, and (iii) the local unemployment rate is an inefficient indicator both of the level of economic activity and of the need of states and localities for federal assistance.

This paper seeks to examine these issues. Section I discusses the concept of unemployment while Section II briefly looks at the measurement methods currently in use. Section III considers the appropriateness of using unemployment as a guide to the allocation of federal grants. Section IV concludes.

## I. Unemployment as an Economic Concept

To an economist, "unemployment" implies disequilibrium in the labor market. When households wish to supply more manhours of labor than employers are willing to hire at the current wage rate, the excess represents unemployed labor. For policy purposes, however, this theoretical construct must be translated into a measurable statistic. Thus, according to the present Census definition, a person is unemployed if he is not working, is able and willing to work, and either is actively searching for a job, is on temporary layoff or has accepted but not yet begun a new job. This definition seeks to measure the extent to which the amount of work being offered by employers falls short of the amount households are willing to supply. How-

ever, for a variety of reasons, it fails to capture precisely the theoretical concept.

Part-time work is one such reason. The theoretical definition is in terms of "manhours," whereas the empirical measure is in terms of "individuals." Thus a person who is unemployed but seeking only part-time work should be treated as partly unemployed and partly not in the labor force, whilst one who is employed part-time but would prefer to work full-time should be treated as partly employed and partly unemployed. The present definitions make no such distinctions: all individuals are classified as employed, unemployed or not in the labor force. Moreover, although data on part-time employment and job-seeking are available at the national level, no such information is collected for states and local areas.

A second problem associated with the concept of unemployment arises from the existence of "discouraged workers." These are persons who are not employed, but are not seeking work because they believe that no jobs are available rather than because they do not want a job. This seems to imply that these persons would take a job if one were offered and thus would be classified as unemployed according to the economist's definition. Hence, it is frequently argued that discouraged workers should be added to the unemployment total in computing the jobless rate.

On the other hand, the definition of discouraged workers makes no mention of the wage rate they are demanding. In some cases, the reason they were unable to find a job may be because they were requesting a wage which was higher than the market was willing to pay. Moreover, many such workers probably do not fit the usual picture of a discouraged worker as a person who is suffering considerable hardship as a result of joblessness, because the reason they have withdrawn from the labor force is that their families have adequate resources and hence they can be more "choosy" about the type of work they will take and the wage they will accept. It is of interest to note that although more men than women remain unemployed for long periods of time, the number of women who report that they are not seeking employment because they could not find a job or believe no jobs are available is much greater

than the number of men making that statement.<sup>2</sup> Apparently women become "discouraged" and leave the labor force sooner than do men. Although this finding may be partly due to the scarcity of job opportunities for women, it probably also reflects the fact that women are less often the sole breadwinners for their families and hence there is less pressure on them to find jobs.

The implication of the above discussion is that "discouraged workers" probably should not be lumped in with the unemployed since, although some are genuinely unemployed in the economist's sense of the word, the status of others is quite different. On the other hand, the number of persons who are out of the labor force because they are "choosy" probably does not vary too much in the short-run, so that any sharp increase in the total number of "discouraged workers--especially if it is accompanied by an increase in long-term unemployment--does indicate a deterioration in the overall economic situation and an increase in the degree of hardship attributable to joblessness.

Popular discussions of unemployment commonly assume that any and all joblessness is undesirable. This assumption is incorrect. In a dynamic and changing economy, many workers change their jobs in the course of a year. Frequently, job changing involves a period of unemployment because workers must go through a period of search when moving from one job to another.

This "search unemployment" is beneficial both to the individual--since it enables him to find a better job--and to the society at large--since it helps to ensure that workers are placed in the jobs for which they are best suited. An economy in which workers rarely changed their jobs would be less responsive to the changing demands of consumers. In most cases, moreover, the duration of unemployment is not long so that the income loss suffered by the worker is not large. Also, the worker himself has some control over the duration of his unemployment and the amount of his income loss, both through the diligence with which he searches and the wage which he demands.

For these reasons, this type of joblessness is referred to as the "natural rate" of unemployment. Only when unemployment exceeds the natural rate does it

represent a problem demanding government action. In practice, however, there is some controversy over the amount of unemployment which should be regarded as "natural." At the national level, most estimates are between 4 percent and 6 percent. However, at the local level, the natural rate may vary considerably between regions. For example, unemployment will tend to be higher in areas experiencing rapid economic change than in those with a more stable and mature economic structure. Also, it will probably be greater in sparsely populated rural areas than in metropolitan centers. Finally, states with generous programs of unemployment compensation are likely to experience higher rates of joblessness since workers can afford to remain unemployed for longer periods before accepting a job.

Given these difficulties of definition, an alternative procedure would be to focus on long-term unemployment as an indicator of the general level of economic activity or of the hardship associated with joblessness. Whereas most short-term unemployment reflects the normal search period accompanying job-changes, longer spells of unemployment usually imply that job-seekers are experiencing greater difficulty in finding jobs and as a result are suffering significant losses of income. Although state and local data on the duration of unemployment are not at present available, such estimates probably could be developed either from the Current Population Survey or from the records of the unemployment compensation system in each state.

However, before adopting the long-term unemployment rate as an economic indicator, two other points need to be made. The first is similar to one already discussed in connection with discouraged workers. The duration of unemployment depends not only on the availability of jobs (the demand for labor), but also on the wages and the types of jobs which the unemployed are willing to accept (the supply of labor). Some workers may remain unemployed for long periods of time either because they demand wages higher than the market is willing to pay or because they are "choosy" about what types of work they will take. As in the case of discouraged workers, one suspects that this type of behavior may be more common among workers who are not the sole earners for their families. If this is true,

we would expect the average duration of unemployment spells to increase over time, as the number of families with two or more members in the labor force rises and as the growth in household resources makes workers more willing to sustain long periods of unemployment.

Second, the fact that a spell of unemployment is of short duration does not necessarily mean that it imposes no hardship on the worker and his family. The reason is that a single worker may sustain a series of short spells of unemployment, so that over the course of, say, a year, the aggregate amount of unemployment is quite large. Unfortunately, no regular data on the frequency of unemployment spells are available at either the national or state levels. It appears that it would be a relatively simple matter to obtain information on the amount of time spent employed, unemployed, and not in the labor force over the previous 12 months from the Current Population Survey since households remain in the sample for 16 months.<sup>3</sup> Such information would be a valuable supplement to the data on the duration of unemployment.

Before ending this discussion of the definition of unemployment, one final point needs to be made. This is the individuals' decisions on how long to remain unemployed before either accepting work or withdrawing from the labor force are sensitive to government policy on unemployment compensation and other transfer programs. In deciding whether to accept a particular job offer or to continue searching, an unemployed worker must compare the costs and benefits of remaining jobless. The principal benefit from further search is that he may later receive a better offer, while the main cost is the fact that his income will remain lower than it would be if he accepted the offer. Unemployment compensation, welfare, and similar transfer programs reduce the costs of search and so increase the incentive to remain unemployed and continue searching.

However, even if it is true that the existence of these programs operates to increase unemployment, this is not necessarily undesirable. Adequate job search is socially beneficial since it promotes a more efficient allocation of our labor resources. Transfer programs may induce some individuals to remain unemployed for longer than is socially optimal, given the social costs

and benefits of search. However, in the absence of these programs, other individuals might end their search too soon and accept jobs for which they are unsuited. For these persons, programs of unemployment compensation, etc., may induce additional search which is socially desirable because its social benefits exceed its social costs. On balance, therefore, it is uncertain whether government transfer programs induce an amount of unemployment which is greater than the social optimum.

It has been suggested that some government transfer programs increase joblessness because they require that recipients register with their state employment service in order to remain eligible for benefits. It is argued that in the absence of these programs, these persons would leave (or not enter) the labor force, and hence the programs add to measured unemployment.<sup>4</sup> Even if true, this argument does not imply that all (or even most) of this increase unemployment is fictitious. In order to remain eligible for federal transfers, some persons may "go through the motions" of job search when they have no real intention of accepting a job. On the other hand, some (many?) others may be unemployed in the economist's sense, but would report themselves as discouraged workers in the absence of regulations which require them to continue searching for work, even though it is clear that no jobs are available. In the case of this second group, the effect of the transfer programs is to cause them to be correctly classified as "unemployed" rather than as "not in the labor force." Thus the regulations actually lead these persons to be classified correctly rather than incorrectly.

## II. Measuring Unemployment

State and local estimates of unemployment are prepared from two separate bodies of data: the Current Population Survey (CPS) and the state counts of claimants for unemployment compensation.

The primary purpose of the CPS is to generate monthly labor force data for the nation. However, this survey is also used to make monthly estimates of employment and unemployment in ten densely-populated states and two SMSAs. In the remaining states, the

sample size is insufficient to yield statistically reliable monthly data and the survey is used only to benchmark monthly estimates derived from the unemployment compensation count.

In these states, data generated by the unemployment insurance (UI) system are used to develop preliminary monthly estimates of employment and unemployment by what is known as the "Handbook method."<sup>5</sup> Prior to January 1978, these Handbook estimates were then used to extrapolate forward from a benchmark established for the preceding December. These extrapolated figures were the estimates published monthly by each state. At the end of each calendar year, these monthly estimates were revised by the Bureau of Labor Statistics to be consistent with the CPS "annual average" estimates and the revised estimates for December then became the benchmarks for the following 12 months. Since January 1978, the preliminary Handbook estimates, rather than being used to extrapolate from a benchmark, have been adjusted every month by the ratio between the six-month moving averages of the CPS and Handbook data. It is hoped that this new procedure will reduce the size of the end-year revisions by BLS.

This estimating procedure has been widely criticized because the initial Handbook estimates often differ sharply from those derived from the CPS. In Kentucky, for example, the Handbook estimates of unemployment have for many years substantially exceeded the levels shown by the survey.<sup>6</sup> Many state and local officials argue that the Handbook estimates--being based on a more-or-less complete count of UI claimants--provide a truer indicator of the extent of unemployment in the state than do those from the CPS which covers only a minority of Kentucky counties.

This divergence between the CPS and Handbook estimates might result from the CPS estimate being "too low" or from the Handbook estimate being "too high." Ali has shown, for example, that the CPS estimates are likely to be biased if the age-sex-color structure of a state's population differs significantly from that of the nation as a whole.<sup>7</sup>

The Handbook estimates of unemployment are built up in a series of stages. First, the UI claimant data are used to develop estimates of unemployment in

"covered" industries. Second, estimates of joblessness in "noncovered" industries are constructed by assuming that economic conditions in these industries parallel those in covered industries. Finally, unemployment among new entrants and reentrants to the labor force is estimated by assuming that job opportunities for these individuals vary in line with those for persons previously employed.

The most obvious possible source of error in this procedure is that the criteria for obtaining unemployment compensation may differ from the definition of unemployment used in the survey. Thus, it seems at least possible that some individuals are receiving UI benefits and yet are not "actively seeking" work as the CPS definition of unemployment requires. Seasonal workers, for example, often receive benefits during the off-season, but do not seek jobs during that time. On the other hand, it should be pointed out that the CPS definition must be interpreted and applied by a fallible human being: the Census enumerator. In practice, it seems quite unlikely that an enumerator would classify a UI claimant as anything other than unemployed, since there is no objective way for him to judge whether a respondent is truly willing to work and actively searching, rather than merely "going through the motions" in order to satisfy the UI law. Thus, although the critics of the Handbook method may be correct in asserting that the number of claimants exceeds the number who are genuinely unemployed according to the official definition, this need not imply that it also exceeds the number of persons whom the enumerators will identify as unemployed.

Even within "covered" industries the count of claimants does not include all those who are unemployed. Estimates also are required of those who have exhausted their benefits, who are disqualified from receiving compensation and who delay or never file claims.

Estimates of unemployed exhaustees are built up by applying a constant "survival rate" to the weekly number of persons receiving their final benefits. This method ignores differences over time and between states in the availability of jobs. When jobs are scarce, the true survival rate will be greater, so that the estimate of unemployed exhaustees will be biased



downward. For disqualified claimants a similar method is used: in this case it is assumed that these claimants find jobs at the same average rate as those whose claims were allowed. However, to the extent that disqualified claimants are those who were fired for misconduct, they probably in fact take an above-average length of time to find a new job, so that the estimate of the number unemployed will be "too low." The estimates of the number of delayed and never filers are made by the use of relationships developed from national studies made in the 1950s. However, it seems likely that workers' knowledge of and attitudes toward unemployment compensation have changed since that time and that fewer persons delay or never file claims today than did 20 years ago.

For workers in industries not covered by unemployment compensation, no regular data on joblessness are available. In these industries rates of unemployment are estimated by assuming they are proportional to the rate in covered industries. These rates are applied to the estimates of employment in these industries to calculate the numbers unemployed. The proportions used were derived from national studies of the incidence of unemployment by industry. These studies may be outdated and do not necessarily reflect conditions in individual states. Thus, these estimates are subject to unknown and possibly large errors.

In 1976 Congress adopted legislation requiring states to extend UI coverage to agricultural workers, domestics and employees of state and local governments. Once this legislation is fully implemented, the non-covered sector of the labor force will be quite small (comprising only self-employed workers, unpaid family workers and employees of nonprofit institutions) and the validity of the Handbook estimates will be correspondingly improved.

The final category of unemployed consists of persons without recent attachment to the labor force, including both new entrants and reentrants. This category is also used as a "catch-all" to include persons missed by the other categories.

National studies showed that unemployment in this group varies with the proportion of young persons in the population (since many new entrants are young

people), with the season (most young persons enter the labor force in the summer months) and with the amount of unemployment among experienced workers. On the basis of these studies, an equation predicting entrant and reentrant unemployment was developed. This procedure is subject to the same criticisms as those developed earlier with regard to other stages of the Handbook method. The studies were made many years ago and may be outdated. Also they do not reflect the special circumstances of each individual state. One piece of evidence which suggests that the equation is no longer valid is the fact that when applied to 1976 national data, it greatly underestimated the amount of entrant unemployment.

So far the discussion has focused on the estimation of unemployment at the state level. The method used for counties is analogous. The basic data are the counts of UI claimants. These counts are used to develop preliminary county unemployment estimates by essentially the same Handbook method used at the state level. Hence, these estimates are subject to similar sorts of biases as the state totals. In particular, the argument made earlier that relationships derived from national studies may be unreliable at the state level applies with even greater force in the case of individual counties. These estimates then are uniformly adjusted upward or downward so that they sum to the state estimates. When the latter are revised to conform with the CPS data, all county estimates are correspondingly adjusted. In Kentucky, this has occasionally led to cases in which the final estimate of total unemployment in a county is less than the number of UI claimants.

### III. Unemployment as a Grant-Allocation Criterion

As mentioned earlier, one important policy use of the unemployment rate is as an indicator for determining the eligibility rate of state and local governments for federal assistance. It is, however, not the sole criterion in use: general revenue-sharing funds, for example, are allocated on the basis of per capita income levels. In this section, the objectives of federal grants are reviewed briefly and related to the grant criteria in use.

Broadly speaking, grants from higher echelons of government to lower echelons may be justified on three principal grounds:

(i) The Efficiency Argument: According to this argument, there are economies of scale in tax collection, so that it is more efficient for higher levels of government to levy taxes and pass the proceeds down to lower levels than for the latter to have their own tax collection systems. In such cases, no reallocation among lower levels of government occurs and hence no issues of eligibility arise.

(ii) The Geographical Redistribution Argument: It is argued that in a federal system, rich states have an obligation to assist poor states. Hence, rich states should pay more in federal taxes than they receive in federal grants, while in poor states the reverse should be true. This appears to be the main purpose of the general revenue-sharing program: revenue-sharing funds are allocated on the basis of a formula in which the principal component is the level of state per capita personal income.

(iii) The Temporal Redistribution Argument: The federal government also reallocates resources over time in order to mitigate the effects of the business cycle. States and local areas suffering an economic slowdown become eligible for federal assistance through a variety of programs. This system is analogous to similar programs (unemployment compensation, for example) which seek to moderate the impact of the business cycle on individual citizens.

In practice, the federal grant system does not distinguish between the geographical and temporal reallocation motives for federal assistance. The Congress has enacted a whole series of programs for channeling funds to lower levels of government which need assistance. However, most of these programs make no distinction--except implicitly--between needs which arise because of a business cycle downswing and those which are of a more permanent nature.

Nonetheless, the distinction between geographical and temporal redistribution is an important one for a variety of reasons. First, the criteria to be used for allocating funds presumably should be different in the two cases. In distributing countercyclical funds, the

emphasis should be on indicators which focus on the current economic situation, whereas geographical redistribution requires that we pay attention to longer-run measures of economic well-being. Hence, although the Congress has in most cases not spelled out the objectives of each program in detail, we may infer those objectives from the eligibility criteria used. Thus, it seems reasonable to suppose that programs which base grant payments on a cyclical indicator, and which make an effort to use the most recent data available, are intended primarily as countercyclical programs, while those which employ longer-run indicators to determine eligibility are intended to deal with more fundamental disparities between states.

Second, recognition of these two distinct motives for federal grants implies that a state or locality might receive grants when its level of economic activity declines even though it remains more prosperous than other areas which are not experiencing a recession. Thus, a rich northern state might receive federal assistance during a business downturn even though its living standards remained above those in a poorer southern state which was still prosperous by its own historical standards. Although such a situation might appear unfair, it may be justified on the ground that if the government of the rich state is compelled by a temporary decline in its tax collections to reduce its spending on ongoing programs, this may not only cause hardship to the consumers of those programs but also may lead to a great amount of waste as programs are "switched off" and later "switched on" again.

On the other hand, poor states are entitled to argue that in many cases their position is permanently at or below that of the rich states (even when the latter are experiencing a recession), and hence that their taxpayers should not be required to subsidize those of the rich states. If we could be sure that the extra taxes which each state pays in the boom exactly balance the countercyclical assistance it receives in the recession, this argument would have no merit. In that case, each state would, in effect, be insured against the effects of the cycle, but in the long run the benefits it received during recessions would be financed from the higher taxes which it paid during booms. In practice, however, it is difficult to devise

a program under which net flows to each state balance out over the business cycle. As a result, the complaint of poor states that they are subsidizing rich states may be justified.

One way of dealing with this complaint would be to establish a "means test" for countercyclical funds. Eligibility for these funds could continue to be based on a cyclical indicator, but the amount of federal assistance would depend on longer-run considerations. Under such a system, a rich state would continue to receive funds if it experienced a recession, but the amount of those funds would be less than the amount received by a similarly-depressed poor state.

A simple way of implementing such a scheme would be to link the countercyclical programs to general revenue-sharing so that the onset of a recession in a state or local area would promptly trigger an increase in its revenue-sharing allocation. By specifying that the amount of countercyclical assistance should be a certain proportion of the revenue-sharing allotment, states with below-average levels of per capita income--and hence above-average revenue-sharing allocations--would also receive larger countercyclical grants.

Although the adoption of such a reform would go a long way toward meeting the needs of poorer states, attention should also be paid to the eligibility criteria used in the countercyclical programs. At present, the unemployment rate is the main criterion used; as detailed in the earlier sections of this paper, this indicator is subject to a number of definitional and measurement problems. However, even if the concept of unemployment could be defined precisely and measured accurately, there are reasons to doubt its usefulness as an indicator at the local level.

First, the extent to which unemployment reflects the ups and downs of business almost certainly varies between states. In areas with a large amount of factory employment, the jobless rate is a good indicator of business conditions. By contrast, in agricultural areas a recession may have little effect on employment since farmers must continue to tend crops and livestock even when the demand for and price of their products are depressed.

Second, as argued in Section I, the "natural rate"

of unemployment may vary between states. This makes it difficult to select a single unemployment rate which will serve as a nationwide indicator that a state is experiencing a recession. In one state a 6 percent unemployment rate may represent prosperity, whereas in other states the same rate may signal recession.

An advantage to using the unemployment rate as a grant criterion is that it responds promptly to economic conditions and that data are available rapidly. Hence, a deterioration in local economic conditions will quickly trigger increased federal grants. However, although it is clear that a statistic which is subject to a very long time-lag is of little use as a cyclical indicator, this does not mean that promptness should be an overriding consideration.

The problem here is that an indicator which triggers "on" promptly will also trigger "off" rapidly as conditions improve. The resulting frequent changes in the flow of federal money cause serious budgeting problems for state and local governments that find it difficult to forecast future revenue. In particular, governments which cannot predict the size and duration of federal grants are likely to use them for projects which can rapidly be cancelled if the flow of funds dries up. Such projects may not be optimal in the sense of having the largest or most long-lasting impact either on the local economy in general or on local employment in particular. For example, such a government may use federal funds to make a one-time purchase of equipment rather than to develop a continuing program of training the unemployed. Thus, the use of triggering indicators--such as the unemployment rate--which respond rapidly to changes in local conditions may produce such uncertainty for state officials that they lead to a wasteful use of federal resources.

In selecting the unemployment rate as a grant criterion, the Congress probably was also influenced by its concern over the availability of "jobs." Two points are relevant here. First, as was argued in Section I, some unemployment is socially optimal. That argument suggested that long-term unemployment might be a better, though still imperfect, criterion. Second, it may be argued that we ought to be more concerned with the availability of "good jobs." This would imply

that we should seek an indicator which includes all persons with substandard earnings. One such indicator is the Employment and Earnings Inadequacy (EEI) Index constructed by Levitan and Taggart.<sup>10</sup> This index includes not only unemployed persons, but also discouraged workers, involuntary part-timers and persons who are employed at very low wages. However, it excludes members of these groups who are not in dire need. Thus, it attempts to count all members of the extended labor force who are in poverty even though they are not unemployed by the narrow Census definition.

Use of such an indicator would probably make it easier to specify a single nationwide standard of eligibility. In addition, its adoption would reduce the extent to which poor states find themselves subsidizing rich states during business downturns in the latter. Finally, as a cyclical indicator, the EEI would capture situations where recessions lead to more involuntary part-time work and reduced earnings rather than to actual joblessness. At present, however, the problems of implementing such a measure at the local level are immense, since it requires labor market and income data which are presently available only at the national level.

Consideration of the EEI index suggests the use of some kind of income measure as an indicator. Since federal grants are designed to make up for a lack of income in a given area, it seems logical to base them on income levels rather than on an income proxy such as the unemployment rate.

At present, income measures are used in the allocation of general revenue-sharing funds; that is, for programs which are directed at geographical redistribution. The suggestion here is that these same measures be used as indicators in programs which are concerned with temporal or countercyclical redistribution. The principal advantages of such a change would be that inequities between states which result from differences in their economic structure (e.g., rich vs. poor or industrial vs. agricultural) would be largely eliminated. However, the distinction between geographical and temporal redistribution could be retained by, for example, basing countercyclical grants on quarterly measures of income, and revenue-sharing allotments on average income over a two or three year span.

The main problem with the use of personal income as a criterion would be in obtaining data promptly. At present, quarterly estimates of personal income for states are available with a lag of about 15 weeks which is probably short enough for countercyclical purposes. However, for counties, only annual data are available with a lag of 15 months. Clearly this lag-time is too long for a countercyclical program. Possibly, an indicator based on tax withholdings could be developed. Alternatively, federal funds could be allocated to states which could then adopt their own criteria for their intrastate distribution.

#### IV. Conclusion

This paper has been mainly concerned with the role of the unemployment rate as a criterion for the allocation of federal funds among state and local governments. In the first two sections it was argued that there are a number of conceptual and measurement problems associated with the use of unemployment as an indicator of local economic conditions. However, in the third section it was suggested that even if these problems could be resolved, the jobless rate would be an inefficient criterion for redistributing resources. If it is to be employed for this purpose, its usage should be restricted to programs which seek to offset cyclical fluctuations and care should be taken to ensure that these programs do not have the side effect of reallocating resources from relatively poor, non-cyclical states to relatively rich, cyclical states.

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<sup>1</sup>The use of the unemployment rate as a national economic indicator has also been criticized. See Stewart Schwab and John J. Seater, "The Unemployment Rate: Time to Give it a Rest?" Business Review, Federal Reserve Bank of Philadelphia (May-June 1977).



<sup>2</sup>For 1976 and 1977, the relevant data were as follows:

	1976		1977	
	Male	Female	Male	Female
Total unemployed	3968	3320	3588	3267
Long-term unemployed (over 27 weeks)	822	514	618	396
Discouraged workers	216	417	205	490
Long-term as proportion of total unemp.	20.7%	15.5%	17.2%	12.1%
Discouraged as proportion of total unemp.	5.4%	12.6%	5.7%	15.0%

<sup>3</sup>However, households are not interviewed every month but are "rotated."

<sup>4</sup>See Kenneth W. Clarkson and Roger E. Meiners, "The Spurious Increase in the Unemployment Rates," Policy Review, 1, Summer 1977.

<sup>5</sup>So-called because the method was originally described in the Handbook on Estimating Unemployment (Washington, D.C.: U.S. Department of Labor, March 1960).

<sup>6</sup>In 1976 the annual average of the Handbook estimates of Kentucky's unemployment was 101,444, whereas the finally-revised figure estimate by BLS was 81,000, representing a downward revision of about 20 percent.

<sup>7</sup>Mukhtar M. Ali, "CPS Estimate of the State of Kentucky Unemployment Rate," KCEA Policy Papers Series, No. 4, Lexington: Center for Public Affairs, University of Kentucky, 1977.

<sup>8</sup>A survival rate of 94.7 percent is assumed. Thus if  $x_{t-s}$  is the number of persons receiving final benefits in week  $t-s$  and  $X_t$  is the number of unemployed exhaustees in week  $t$ , then

$$X_t + 0.947 x_{t-1} + (0.947)^2 x_{t-2} + (0.947)^3 x_{t-3} + \dots$$

<sup>9</sup>Further details are given in Motley, "The Unemployment Rate as an Economic Indicator at the State and Local Levels," KCEA Policy Papers, No. 3, Lexington: Center for Public Affairs, University of Kentucky, 1977.

<sup>10</sup>Sar A. Levitan and Robert Taggart, "The Hardship Index," Across the Board, Vol. XIII, No. 11 (November 1976).

CHAIRMAN LEVITAN: Professor Anderson.

MR. ANDERSON: Professor Motley, I want to commend you on a very thoughtful paper which I think deals quite well with a number of critical issues involved in the question of what types of indices should be used to allocate federal funds.

I would like to press you a little bit though, if I may, on your discussion of unemployment rates as an indicator of varying business conditions in communities, suggesting that perhaps the variation in unemployment rates reflects a difference in the degree of local labor demand in that community.

Is it not the case that very often one may find a high unemployment rate in a community which is essentially a reflection of market forces? That is to say, high wages in a community being an inducement or an incentive for persons to come to a city like San Francisco, for example ---

DR. MOTLEY: Simply because it is a nice place to be.

MR. ANDERSON: I beg your pardon?

DR. MOTLEY: Simply because it is a nice place to be and because it pays high wages.

MR. ANDERSON: Because it pays high wages essentially, but attracting individuals who then come, and if they are employed, would be economically better off than they would be had they remained in another community. If unemployment rates are to be used to allocate funds, they may be misused, as your paper indicates, if they are sent into places like that simply because of the unemployment rate being high.

But would you comment on the appropriate indexes which, in your view, might be used for allocating funds for the purpose of getting at structural imbalances in labor markets as compared with cyclical variations in unemployment.

Most of your comments seem to be directed toward the cyclical variation in economic conditions, but it

was not clear to me in your comments and in the paper that your recommendations would permit an appropriate distribution of funds for getting at the structural problems.

DR. MOTLEY: I guess the feeling that I had was that the programs which are currently on the books which use the unemployment rate as the criterion for allocating funds seem to be mainly aimed at some sort of cyclical problem. When I first wrote this paper, I thought to myself, "Well, the reason why the Congress chose the unemployment rate was simply because it is a visible indicator; everybody knows about it; it is easy to get people to agree to an allocation based on an indicator like that rather than some slightly more esoteric indicator."

And that sort of bothered me for a while because it seemed to me that maybe we should give Congress a little more credit. So, it occurred to me that maybe by some sort of revealed preference notion, one could say, to the extent that they chose the cyclical indicator, they are aiming at a cyclical problem.

That may not be right. There may be other reasons why they have chosen the unemployment rate. I think it also had something to do with the fact that the Congress is always concerned with the availability of jobs. It seems to me, however, as an economist, that we should be more concerned with income than with jobs. If a community does not generate income, even when everybody in the community is employed, it has a low unemployment rate but a low level of income, too. Then it seems to me that that is a community which needs federal assistance.

MR. MOSKOW: On this income point, which is a very interesting one, I would say, too, you did not discuss at all any problem with different levels of income in different parts of the country for a variety of reasons. Prices are different; inflation is at different rates in different parts of the country.

As you point out, job markets differ. Some states are more agricultural than others. Do you want to expand on that issue a little bit?

DR. MOTLEY: Well, I think, clearly, if you are going to use income, then you had better be a bit careful about prices. You certainly would not want to use the same income criteria for Alaska that you use for Iowa, for example. The cost of living is probably 50 percent higher in Alaska.

One possibility would be to base yourself on some measure of the rate of change of income. Perhaps countercyclical assistance payments should rise when income falls rather than when it falls below some level. Look at the rate of change of income.

However, my main point is that I think we should find an indicator of eligibility, to begin with, which would click on when a community fell below its historical standards of income levels or prosperity.

And then base the amount of federal funds that a community receives on some sort of indicator that measures its well-being compared with other communities. Presumably, the revenue-sharing funds are adjusted for differences in the cost of living. If they are not, then they should be.

MR. POPKIN: Just following on to what Mike asked you: Are you making the argument that areas like Kentucky or the area I grew up in in northern Wisconsin, where everybody works, or most people seem to work but do not do very well when they do, is getting a substantially different amount of CETA money or federal money than they would be under a different index? Are the differences large or is this your feeling?

DR. MOTLEY: The state government in Kentucky certainly argues, to the extent that their CETA money is based on their unemployment rate which puts them 14th in the nation when by per capita income they are down at the bottom decile, that they are certainly getting less than they feel they are entitled to.

MR. POPKIN: Even when this is corrected for cost of living?

DR. MOTLEY: No, the point is that at the moment it is not.

MR. POPKIN: If you corrected the other for cost of living, would there still be the major discrepancy?

CHAIRMAN LEVITAN: I think what Mr. Popkin is asking is: Are there real differences in income or are they just based on ---

MR. POPKIN: Because a hardship index would supposedly take account of differences in the cost of living so that, do you think a hardship index as opposed to the actual measure of income levels would reflect as big a difference for Kentucky on the unemployment versus hardship index as on the per capita income versus unemployment measures?

DR. MOTLEY: It seems to me that the hardship index and per capita income are both aimed at getting at the same thing. Only if the distribution of income is substantially different in two states would differences between the means of the distribution differ substantially from differences between the tails.

The hardship index tries to measure how many people are down at the bottom tail. The median measures where the mean of the distribution is. If all states have a similar distribution of income, about their mean, whatever that is, then presumably an index that focuses on one tail should move up and down in the same way as an index that focuses on the mean.

MR. POPKIN: I do not think that is what I meant to ask. I meant to ask: If a hardship index took account of standards of living, which per capita income does not, would Kentucky do much differently on a hardship index than on an unemployment index?

DR. MOTLEY: Well, if the hardship index was correct, I would argue, yes, Kentucky would do better.

MR. POPKIN: Okay, that is what I wanted to find out. I am sorry. I meant cost of living, not standard of living. I am sure that is the source of confusion.

DR. MOTLEY: But the point that I had was that the unemployment rate, the cross-state distribution of unemployment rates does not indicate the cross-state distribution of hardship whether measured by per capita income or by some hardship index.

CHAIRMAN LEVITAN: Ms. Wills?

MS. WILLS: Let me ask a question. Professor, your paper obviously recognizes the capacity to collect statistics at the national level a little bit more easily than at the state and/or local level. But your paper also only talked about state allocations, ignoring one of the critical problems of area and local statistics.

In your last sentence in the paper, "Federal funds could be allocated to states which then could adopt their own criteria." There are some people who would advocate that that is a marvelous idea. I am not sure that Congress and our friends at the state and local levels would buy it though.

If we assumed for a moment that there might be some distrust on that basis, have you given any thought to making recommendations of things that could go into a national hardship index and/or some other kinds of criteria that could be used for federal allocations to the state level, and then making recommendations for statistics within a state that could be used to assure a fair and equitable distribution of funds within the state?

Because we have often heard people in testimony and in many of the papers talk about the critical problems of getting statistics down to the lowest level possible and the standard rate of error, you know, all of the horror stories and good economists saying, "Go tell Congress not to allocate money that way."

I think some of the same people have already told Congress that.

DR. MOTLEY: I have heard a lot of horror stories about Congress passing legislation that says to distribute funds on the basis of some criteria and then some poor bureaucrat has the job of developing the data

for that criteria and maybe it is pretty impossible to develop such data.

And then the problem arises that nobody is happy. Congress feels that its mandate is not being carried through; the local community feels that it is not getting its fair crack; and the bureaucrat feels that he is being imposed upon.

I imagine that since the hardship index is based on data that comes out of the Current Population Survey, a similar index could probably be constructed for each state. It might require an increase in the sample size, but it could probably be done.

Within states, I really do not see any way in which that could be done. One of the big problems, for example, that happens within a state, and I am sure it happens in other states, too, is that you have a county that does not have any respondents in the CPS and it shows that it had, on the basis of its UI claims, an unemployment rate of 10 percent.

MS. WILLS: But it does have administrative data.

DR. MOTLEY: Yes. It has an unemployment rate of 10 percent and then the Department of Human Resources says, "Well, we have to lower everybody's unemployment rate in order to make the state total add up to the Current Population Survey," and this local county says, "We do not have anything to do with that Current Population Survey. Why should our data be adjusted on the basis of data that does not even come from our county?"

Now, you can explain, "Well, that is because that is the way the statisticians do it," but that does not make the local officials very happy.

CHAIRMAN LEVITAN: Professor Motley, if I may continue with Ms. Wills' question. Apparently, she likes giving money to governors--but, what would be your answer to this question: What knowledge would the governor have for distribution of these funds that is not available to a bureaucrat in Washington?

What knowledge would the governor have, even if it is held by Ms. Wills?

DR. MOTLEY: He probably would not have any additional data that the bureaucrat in Washington does not have.

CHAIRMAN LEVITAN: Isn't it a "cop-out" to just say, "Well, let's leave it to the governor, since we do not know how to do it, and let him distribute it"?

DR. MOTLEY: Well, if the people in Washington do not know how to do it, then maybe they should not be doing it, that is to say, distributing the funds among counties.

CHAIRMAN LEVITAN: Yes, you see, I can buy that, but on what basis would you then give it to the governor, Dr. Motley?

DR. MOTLEY: On the basis of the average position of the state as a whole.

CHAIRMAN LEVITAN: Well, if there is any data that is available to the governor, presumably the bureaucrats in Washington--some of them are very bright--might find it, too.

DR. MOTLEY: No, there is data available for the average of the state, but not for its constituent counties; that is the point that I am making, so that we may be able to decide how much of that should go to county A and how much of that should go to county B.

MR. POPKIN: But Sar is asking: Why is the governor better than his friend the bureaucrat?

CHAIRMAN LEVITAN: Than our friend the bureaucrat.

DR. MOTLEY: I am not sure that he is any better.

MR. POPKIN: I am not from Washington, Sar. My governor may not be my friend either.



MR. MOSKOW: Well, there is a different conceptual basis for distributing the funds. On the one hand, if you turn it over to the governor, you are saying that it should vary by state, depending on the wishes of the people of that state, and presumably the governor is representing the wishes of the people of that state. It is a different concept.

DR. MOTLEY: He is politically responsible to that state. I mean, some governors might just hand it out to their friends and buddies, that is true. But if they do it too often, then they will not be reelected.

CHAIRMAN LEVITAN: I would never suspect any governor of doing that.

Ms. Wills?

MS. WILLS: Dr. Levitan, I think I need to come to the defense of the governors on this, and my question really was not a political question. We have had a lot of testimony and again this morning two different people have talked about the need to improve administrative data within states. And, invariably, in the background papers that we have had talking about improving administrative data and, Dr. Levitan, you asked one of the questions: Do we want federal criteria for unemployment insurance as a standard that we would want to promote to improve our administrative data?

My question, frankly, was much more simple: Is there any possible way, or have you thought about any possible way, Professor, to use some criteria of administrative data that is within states? Let me cite an example. Public aid within the State of Kentucky is public aid within the State of Kentucky. It does not vary county by county. That is not true, though, with respect to one of your neighboring states. Your criteria, your eligibility standards, for public aid or unemployment insurance are different from your neighboring states.

Have you given any thought to taking a look at administrative data within states, assuming that you could find some kind of consensus at the national level

for what kind of criteria to allocate to states and then--since some of my friends up here do not trust government--allocate within state based upon, I would assume, improved administrative data?

I have been told again and again on this Commission that it is going to cost too much to improve administrative data across-the-board. I do not know what it is going to cost.

DR. MOTLEY: The criterion that I originally suggested was something on the basis of tax withholdings, and I made a very innocuous statement which simply said, "Surely the Kentucky Department of Revenue knows how much taxes it receives from each county."

And this should be some sort of proxy for income levels.

MR. POPKIN: As a point of information, is that true, before we go any further?

DR. MOTLEY: Well, the problem is that the Department of Revenue then tells me that that in fact is not true. And I could not believe that that was not true, and it seems to me that it should be possible to get hold of, to find out that sort of thing.

The main problem with tax withholdings data is that taxes are withheld at place of work, or even worse, at the home office of the firm that you work for, rather than place of residence.

But that is analogous to changing establishment employment data onto a residence basis and apparently we know how to do that, so we ought to be able to do something similar with tax data.

CHAIRMAN LEVITAN: Dr. Motley, I appreciate your very stimulating testimony. I wish we could continue with this, but Dr. Bergmann is right in back of you and we would like to hear from her, too.

Thank you very much for coming all the way from England and from Kentucky to testify for us.

DR. MOTLEY: I came from England a very long time ago.

CHAIRMAN LEVITAN: Thank you very much.

Professor Barbara Bergmann, University of Maryland. Since I do not know what the subject of your testimony is, Barbara, just proceed in your own good way.

STATEMENT OF BARBARA BERGMANN,  
PROFESSOR OF ECONOMICS,  
UNIVERSITY OF MARYLAND

DR. BERGMANN. Thank you, Sar.

We are just entering the age of the computer and more and more business records will be on the computer; more and more administrative records will be on the computer, and what would have been extremely costly in the pre-computer era will be relatively cheap when we fully get into the computer era.

This has great relevance to the work of the Commission because I think it is in the hands of this Commission to ask for a lot more information than ever has been asked for before, possibly more geographic detail, possibly the melding of data from various sources and things of that sort, which really would not have been possible before.

Now, it is not just the computer that will make things possible, but some degree of standardization. And I would like to see the government get far more into the provision of software to industry, to local and state administrative bodies, and that provision would go far towards insuring uniformity, and then that kind of uniformity would make it possible to collect more data, to do it more expeditiously, and to tie in various forms of data.

We have heard talk of a central statistical agency. I do not know if it is within the province of your Commission to advocate that, but certainly it is something you ought to think about advocating.

We now have a lot of these data on many different bases with inconsistent definitions, and this not only makes research difficult, but I would say it makes knowing the truth difficult.

So, I would urge the Commission to be bold in its recommendations and not to worry too much about the expense.

You have a very important task because on your report will depend, to a great degree, a lot of happiness and unhappiness, and I do not just mean happiness and unhappiness of politicians in localities or states, but rather the happiness and unhappiness of millions of American citizens.

There was an item in today's New York Times about a man in Youngstown who was unemployed and his unemployment insurance, probably untaxed, was not that much lower than his pay, but he says, "I cannot stand this. I do not sleep well at night. I look at my children and I think: Where are we going?"

And what he said, I think, struck home to me the fact that employment is a way of life in this country. It is not just a way of making a living; it is a way of life, and it is a way of life that many more people want to get in on and cannot get in on, particularly, women.

They want to participate more; they want a better chance at the jobs which are fun and offer advancement. Blacks want a better chance at jobs which pay better, which are on ladders which might lead up to the top, and so on.

And we have to go back to a situation where the desire of people to join this way of life can be accommodated better than we have been accommodating it recently, and I would hope that your Commission will lean in the direction of making that more possible.

I have heard some noises, particularly from the Chairman, which lead me to worry, and I will discuss those below.

Despite many of the comments that you may hear from economists, the labor market is not well understood. There is a great deal of research. Many millions and possibly billions have gone over the dam for research grants, but the labor market is not well understood.

Much nonsense passes for fact if it comes from the right source. A lot of the nonsense is quite pernicious and one of the reasons we need data, and better data, is so that those of us who do not write nonsense can puncture some of the nonsense.

In fact, I sometimes think I could devote full-time to writing--in fact, that might be the best use of my time--instead of trying to discover the truth, to write articles which poke holes in other peoples' nonsense, stuff which is nonsense on the face of it.

Now, the data needs for research are very unevenly filled. In particular, we have half-way decent data on stocks of people, that is, where people are at some moment. Whether they are unemployed, employed, or out of the labor market. I will go into a little bit of the problems of those data later.

But I want to emphasize here that data on flows is very poor and it is in the flows that the real drama of the labor market takes place. It is the hires, the separations, the movements in and out of the labor market, the promotions, the movements from one industry to another and one occupation to another and one status to another that is the real drama of what goes on and provides the real, you might say, the business end of the labor market.

So, one great need is data on flows. I particularly would be interested from my own work in flows which relate to occupations because I think that many of the pathologies of the labor market relate to the fact that certain groups are barred from certain occupations or have a very hard time in entering certain occupations, particularly women, particularly blacks, particularly older people.

One potential source of this information is the data which are collected monthly by the Census Bureau for the BLS for the monthly report on unemployment. People stay on the panel and you can ask them questions about--or you could follow them as to where they were this month as compared with where they were last month.

Now, it has been known to me personally since 1961--and I am sure that people knew it before that--that there is terrible trouble when you look at those data, and I do not believe those troubles have been ironed out.

MR. POPKIN: Which data now?

DR. BERGMANN: These gross flow data in which peoples' movements are compared from one month to another for people who remain in the sample. And there have been very severe problems with these. They are not published.

DR. POPKIN: This is just asking people each month, what is your job, and then looking at the changes?

DR. BERGMANN: Okay, let me start from the beginning.

DR. POPKIN: We should not count this as part of her 15 minutes.

CHAIRMAN LEVITAN: If you would not interrupt, then it wouldn't.

DR. BERGMANN: The way the unemployment figures are collected is: You knock on the door and you ask the person who is there: What is the labor market status of all the people in the household?

Now, they do not take a random sample each month. What happens is they locate a household and the household stays in the sample for four months.

So, it is possible to compare what individuals say the first month with what they say the second month, with what they say the third month. And, assuming that you have asked the questions correctly and that they have given the correct answers, you can plot the amount of movement in that sample from one status to another, from employment to unemployment, from occupation to another occupation, and so on.

Now, these are potentially extremely valuable data for research. They are not published and the reason that they are not published is that they are in shocking shape--or they were when I last saw them. Even the column and row totals, the last I saw, did not match, and there are other problems with them I am sure Sar knows about very well.

These data represent answers to questions which are the underlying basis for all the employment and

unemployment figures that are published and the fact that there are these problems with them is to me rather shocking.

Now, the story is given that somehow or other, the mistakes will all cancel out so don't worry. But these data would be extremely valuable for research. You can now get them on an informal basis, but they are so bad that you have to devote a lot of time and effort to editing them and you may not be doing it the right way.

So, I would urge that these data be cleaned up and published. Now, I just saw--I did not see it in the daily papers, but I saw it in the Chronical of Higher Education--that Aaron Gordon died last month. Now, Aaron Gordon, of course, was the chairperson of the previous Committee on Employment and Unemployment Statistics and he was interested in this issue, and I may say that he has not managed to live to see this matter reformed. I hope you do.

This is an example of the kind of data that would be excellent for research and it would probably improve the published data if these problems could be reduced.

It would be good, in my view, to have a central statistical agency which would coordinate establishment data, household data, and administrative data and come out not with five and ten disparate series, but one set of data for the whole economy which match; where the GNP accounts match the labor force stuff, and so on.

Now, my major interest in research and also in policy relates to the labor market problems of blacks and women and other unfortunte minorities who do not do well in the labor market. Here, I would urge on the Commission the motto, which the medical profession allegedly goes by, which is "do not harm."

MR. POPKIN: I thought it was "heal thyself."

DR. BERGMANN: That is the motto of the lay people, or it should be.

That is, make sure that nothing you do hurts groups which are bad enough off already. Now, why would you do anything like that? I will tell you why.

When you are in the government, or possibly even when you are a member of a government commission, but

certainly when you are in the government, especially when you are in the White House, there is a tendency--and this is regardless of Republican and Democratic administrations--to try to say, "Well, there are problems and perhaps they are serious, but they are not quite as serious as they look and they are getting better."

An exemplar of that tendency is the chapter on women's labor market issues in the Economic Report of the President published by the Council of Economic Advisers in 1973. It was a very credible review of the data, but the purpose of publishing that chapter was to say, "don't worry too much. Most of their unemployment is their own fault and most of their wage problems are their own fault."

Now, a lot of what was in that chapter was specious. A lot of things which have been said about blacks are specious. I have heard say that the reason blacks have high unemployment rates is that a lot of them do not understand English, for example. They do not learn good language when they are kids, things of that sort.

But what I would urge you is to be careful and always to lean on the side, especially where there is a doubt as there is in all of these things, in terms of making sure that your recommendations do not hurt these groups.

I would certainly pay particular attention to the way possible undercount of black males affects black unemployment rates. With respect to females, the structure of the questionnaire may very well limit the estimate of their unemployment rates to below what they actually are.

I understand that, for example, different questions are asked concerning females than males. Of males, it is asked: Were you working or doing something else last week? And of females, it is asked: Were you keeping house or doing something last week? And I would suggest that differences of that sort should be viewed with a very fishy eye.

Now, getting down to your Chairman's suggestions, namely, that there be some sort of a new unemployment index where the bodies, instead of each person counting



as one, are rated fractionally, depending on the hardship which the body is feeling through unemployment. I will not dismiss that out of hand.

I would say that is a great research subject for universities--leave it to the University of Chicago. I am sure that they will come up with a good way to do it, and then I can devote some of my time to coming up with some other way to do it.

I think that Sar certainly has an idea. I, myself, for example, when I look at the teenage unemployment rates, look only at the number of people who were not in school, and that is along that same idea.

But I think that constructing these indexes tends to view the hardship as purely financial whereas, as I said earlier, thank God, we have employment as a way of life in this country, and these people want to get in on it. Their not being able to get in on it is serious. Even if there is no financial hardship that you would consider a real hardship, it is serious. It is something that national policy should concern itself about.

To be personal, which maybe one shouldn't be in giving expert testimony, but anyway when I got out of college I was a math major from Cornell and I graduated in 1948 and I could not find a job for three-quarters of a year because we were in a recession.

Now, I was being supported on a lovely scale by my mother and eating steak every other night, but I suffered great psychic pain and great feeling of uselessness and great psychological demoralization, and nobody would have said I was in any hardship situation.

But I think if you take a black kid, for example, who is rather tentative about his own abilities, who is leery of the way he is going to be treated and suspects discrimination around every corner, who is low in forbearance, and you put that person in as a fraction of a prime age male because the hardship does not seem to you as big as the hardship Mr. Moskow would have if he was out of work, I think that is dynamite. I would not do it if I were you.

CHAIRMAN LEVITAN: Barbara, will you leave us some time to ask questions?

DR. BERGMANN: I have one more thing to say.

CHAIRMAN LEVITAN: If you want to filibuster, fine.

DR. BERGMANN: No, I have one more thing to say. That is that we owe it, and the government owes it to finance things relating to the labor market other than pure data gathering and running regressions on government data. They ought to be financing case studies, data collection, and not just Ohio State. They ought to be financing imaginative local studies, things like the job search thing that was done by Upjohn a number of years ago. There ought to be much more of that.

CHAIRMAN LEVITAN: Thank you, Professor Bergmann.

MR. POPKIN: Dr. Bergmann, just one small thing. When you talked about the horrible shape of the gross flow data and the terrible shape it has been in since at least 1961 when you first looked at it, something occurred to me that I want to ask your opinion on: How much of the trouble do you think may be due to the fact that it is not the same person answering the same questions every month in the household?

It is starting to bother me that it may be a different person every month that is being asked, and not every person is being asked about himself. I wonder how much of the problem is classification. That this may be one example of where, when the person is home, the person says, "I am an executive metal stamper"; and when the person is not home, they say, "She is a sheetmetal worker" or something like that.

DR. BERGMANN: Well, I think that is part of it, that some people answer for other people. I have heard Mike Lovell, who is a very talented labor economist, among other things, who used to be a collector of this data for the BLS, and he has some wonderful stories.

But the reason he thinks there is this problem is that when the enumerator comes around the second time, the people say, "Hey, I gave you that information last

month." They think it is asking the same thing twice and they do not pay much attention. That is another theory, that it is not properly explained to them that they are being followed.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: Yes, I am always pleased, Barbara, to have you come and speak and I appreciate the longevity you have wished us and I hope that we all live a long time.

But I certainly share your concern about the outcome of what this Commission will do and we certainly do not want to do anything that is going to minimize the importance of the kind of problem that you have brought to our attention today and that you have been writing about over the years.

But you mentioned the gross flow data and that was also mentioned earlier, I think, before you came, by Professor Kalachek from St. Louis. Is it not the case though that the period of time during which respondents would be covered would be 16 months?

DR. BERGMANN: Well, my impression--they are in four, then they go out ---

MR. ANDERSON: They are in four, they are out eight, they come back for four, and then they are out for good?

DR. BERGMANN: Yes, that sounds right.

MR. ANDERSON: So, then you would only look at them for eight months but really over a 16-month period?

DR. BERGMANN: Yes.

MR. ANDERSON: And during that period of time, persons would be asked about their experiences and, as indicated, about the experiences and the status of other individuals in the household.

There was an interesting survey in 1967, I believe, when parents were asked about the labor market activity of their children, and later the children were asked about their own labor market activity. There was a wide gap between the two, especially on employment, labor force, and so forth.

What I am wondering, given the concern you have about occupational mobility, really how much of that is likely to be revealed in any significant way in a period of 16 months? Don't you really need longitudinal data over a much longer period of time than that to really get at the kind of issues that you have raised about mobility?

DR. BERGMANN: Well, obviously more is better. More longitudinal data would be desirable. I am really not an expert in terms of what, for example, is being done at Ohio State. I know that rather vaguely. I certainly think that ought to continue and that that is one of the best investments the Labor Department has ever made, in funding those studies.

I do think, though, that the monthly--month-to-month things--forget about following a person eight months, just for four months following their transitions is very valuable. I am particularly interested for example, in discrimination. And, to me, the act of discrimination occurs when a person is denied an opportunity to go from the state he is in to a state he or she applies for and is competent to fill and yet cannot make that transition.

MR. ANDERSON: But is it not the case that there is absolutely nothing in the current CPS questionnaire that would reveal that?

DR. BERGMANN: Well, if you look--let's take something like managers. The CPS questionnaire does have occupation and let's assume that this problem we spoke about earlier is not a serious problem and people answered it correctly. You could estimate for each month how many people were entering the state of being a manager and/or administrator.

Presumably, it would be some blowup of all of the people who reported themselves this month as manager or as administrator and something else the previous month. You could then look at that by race and sex and you would have a very good ability to monitor the extent to which these jobs were being filled on a nondiscriminatory basis.

So, I think that kind of information potentially is valuable; it is valuable in terms of what I consider the most important labor market policy there is, which is reforming the labor market so that it is much fairer than it is now.

If you will look at our domestic problems: if you look at welfare, if you look at bad housing, if you look at crime, if you look at almost anything you can name--and I might throw in inflation--there are very few of these problems that would not be significantly relieved if we could get rid of race discrimination and if we could get rid of the bad situation with women in the labor market.

Maybe some new problems would arise if we did, but I think we can see that a lot of these problems would be alleviated and so what I am mostly interested in is developing a data base so that we understand, first of all, that these problems exist and are not the fault of the victims, which is what you get out of a lot of these pernicious researchers I was speaking of, and that you can monitor the progress so we can be needling the government to do better, do more.

MR. ANDERSON: I would only add one comment there, Barbara. I certainly share your concern for that. I just wonder how many of those very valuable objectives you have enunciated can be accomplished simply by reporting the gross flow data versus doing other things.

DR. BERGMANN: Oh, no. I do not say the gross flow data or ---

MR. ANDERSON: Did you in your paper discuss this fully? I have not yet received a copy.

DR. BERGMANN: Nobody has yet received my paper.

MR. ANDERSON: I look forward to receiving it and reading it with great care. I hope in your paper that you give specific attention not only to the gross flow question, but the other changes in the current system which you think are necessary to give us the information you need to better understand what is happening in the labor market with respect to discrimination.

DR. BERGMANN: Well, I think--my talk today is not really concentrated on discrimination. By the way, I did neglect to say one thing that I want to say. There used to be a vacancy series. Gross as it was, it was useful. It was discontinued and I understand the gossip is that it was discontinued because there were so few of them, they were hardly worth counting.

Well, this is like saying that murder is not important because there are very few living people who are the victims. It used to be that people said, "Well, there are millions of jobs around; it is just these people are no good to fill them."

And then for a while they published the vacancy data, and people could not say that. But I think it is coming back.

So, not only is that useful in research, it is also useful in policy discretion.

CHAIRMAN LEVITAN: Mr. Moskow, I would like it to be a short one.

MR. MOSKOW: All right. On the hardship index, you mentioned it was an interesting idea that should be left to people in universities at this point to explore further and do some research on. Could you give us some ideas about the different elements, criteria that you would think should be explored by researchers before a decision is made on a hardship index.

DR. BERGMANN: Do you mean any decision made by the government?

MR. MOSKOW: Yes.

DR. BERGMANN: Well, I confess, I was trying to be polite. I mean, I am not saying it ought to be a major focus of university research because I do not have any very good ideas about it. I mean, I know what some people would put in, and I am against them.

MR. MOSKOW: What types of things are those?

DR. BERGMANN: Family income, income of other members of the family, marital status, sex. I am against all of those.

MR. ANDERSON: Not in that order, though.

DR. BERGMANN: No.

I mean I am against them as ingredients of the hardship index; I am not against them in other areas of life.

MR. MOSKOW: How do they put sex in the hardship index?

DR. BERGMANN: George Perry at Brookings computed one a while back and he counted women as six-tenths of a man. That was not exactly a hardship index. That was a productivity index. He said anybody who gets low wages is just not productive. That is another way of looking at it.

But there is a theory that all of the women are really being taken care of by the men. Maybe that is true in Morocco, but it is not true here.

CHAIRMAN LEVITAN: I am sorry that we are rushed, but Dr. Yee is waiting. I do hope that we will have a chance to discuss what you would want to put in the hardship index more carefully.

MS. WILLIS: Yes, I would like to hear more. He will not let me ask questions now because we are running late.

DR. BERGMANN: I will be glad to talk to any of you over the telephone who would like.

CHAIRMAN LEVITAN: We will call you soon, Barbara. There is a motion to take a break. It is being seconded. It is unanimous. We will take a break for ten minutes.

(Whereupon, a brief recess was taken.)

CHAIRMAN LEVITAN: Thank you, Dr. Yee, for coming to help us out on a subject in which the Commission has little expertise and one to which we should pay greater attention.

STATEMENT OF ALBERT YEE  
CENSUS ADVISORY COMMITTEE ON ASIAN AND  
PACIFIC AMERICANS POPULATION FOR THE  
1980 CENSUS

DR. YEE: Thank you. I appreciate your invitation. You should know that I come here as a member of the Census Advisory Committee on the Asian and Pacific Americans Population for the 1980 Census, which had its first meeting in August 1976. I served as the committee's first chair, and I am its current chair-elect. Ms. Tania Azores of New York will serve as the present chair through June.

However, and I should make this clear, although I have this kind of background and more knowledge concerning labor statistics than perhaps the average person, I appear before you as a concerned citizen and cannot represent the advisory committee.

On January 27, 1977, Dr. Joseph Duncan, deputy associate director for statistical policy, Office of Management and Budget, appeared before our committee to discuss many concerns on federal statistical policies which tend to overlook Asian-Pacific Americans and to assume them under general categories such as "other" or "Asian and Pacific Islander."

Dr. Duncan informed us that this Commission was being formed and urged our views be made known to the Commission. We had hoped that a member of the Asian-Pacific Committee might be appointed by the President, or someone from the black or Spanish Committee, to the Commission.



What we discussed with Dr. Duncan and the Census Bureau 15 months ago remains essentially the same. In the short time I have I would like to highlight some of my concerns.

First, the Current Population Survey, which is conducted for the Bureau of Labor Statistics, primarily for unemployment data, is useless for labor and social statistics concerning Asian and Pacific Americans. This is because the CPS sampling has not been made reliable for such population groups.

To indicate the demand for fair and equitable treatment of Asian-Pacific Americans, I have presented to Dr. Rosenblum copies of resolutions from the legislatures of Hawaii, Guam and California in support of Senate Joint Resolution No. 47, introduced by Senator Matsunaga, and House Joint Resolution No. 588, introduced by Congressman Mineta.

Because of this lack of unemployment statistics, the \$15 to \$20 billion of major legislative programs are difficult and may be impossible to obtain to properly address the labor needs of Asian-Pacific Americans. We surely need reliable and accurate unemployment statistics, since Asian-Pacific community agencies continue to tell us that they are forced to use the undercount figures of the 1970 census and patchwork data, such as from the local schools, to seek CETA funds.

However, it is much more complex than simply having unemployment statistics. The debate between the Bureau of Labor Statistics and others, such as the U.S. Conference of Mayors, does not carry full relevance for most of our concerned populations because of the practice of Asians to suffer underemployment and not appear in unemployment compensation claims data, if I understand what the Bureau of Labor Statistics is proposing.

I strongly urge the Commission to give full and deliberate attention to the need for underemployment statistics.

According to an analysis of the 1970 census by Urban Associates, underemployment characterizes the Asian-American situation, especially for the foreign born, and I quote, "Despite the highly skilled background of a majority of Asians who have immigrated to

this country, due to factors which include discrimination, noncitizenship status, licensing requirements or lack of ability in English, many former professional workers have been forced to shift to lesser skilled, nonprofessional occupations."

The educational level of Asian-Americans is typically greater than other Americans at comparable positions of employment. Now, I think that hypothesis should be tested. Asian-Americans tend to feel it, believe it. But I do not think it has been tested by groups such as the Commission.

Third, I regret that the federal statistical process continues to make use of the term "race" instead of a more up-to-date concept such as heritage, as proposed in Congressman Lehman's House Bill No. 10386.

I think it is high time that we replace the stereotypic and historically malignant concept of race, the chief source of prejudice, discrimination and inhumanity in the past and still today.

South Africa's apartheid policies may be the most familiar example of racial bigotry today and Nazi Germany the key example of the past. But our nation has had a tragic history of racial conflict and bigotry which continues today to some extent.

The Congress and the courts have attempted to overthrow the past through law, and I should not have to emphasize their great need to eliminate the source of hatred and disunity still among us.

Having said all of that, which could be elaborated upon in volumes, I regret that the Census Bureau and the federal statistical system continue to use the term "race," as can be seen in the printed questionnaires for the Richmond Dress Rehearsal under item number four.

Although I do not have sufficient information on this matter, item number seven of the latest questionnaire is an ethnic origin item for the Spanish. First, I note with confusion that enumerators are instructed to list Spanish as "white," while Mexican-American, Mexican or Chicano, Puerto-Rican and Cuban are to be listed as "other."

Second, I wonder if people will not be counted twice and even lost in the relevant categories through confusion between items four and seven, such as the example which makes the classification of Cuban-Irish and other such combinations as "not Spanish."

Lastly, having two items for all individuals, one phrased as "race," and the other as "Is this person's origin or descent," as well as item 13, which asks "What is this person's ancestry?" The strong suspicion can be raised that the American people, regardless of education and intelligence, will be confused and frustrated.

We should not make the work of the people and the census enumerators any harder than it is. I, therefore, support House Bill 10386, stipulating that there be one questionnaire item for the single heading of "heritage." A single item can be designed to be more comprehensive, error-free, and easier to understand without taking any more space than the three items, four, seven, and thirteen, take at present.

It is high time that the federal statistical system have languages and processes designed which accurately enumerate and portray the true pluralism of this great land, greatness which stems from the diversity and blending of heritages from across the world.

With data processing systems available a quarter century ago or more, this pluralism could be reliably enumerated with an item which allowed multiple responses and would help overcome the undercount and statistical neglect of smaller population groups.

Thus, a Cuban-Irish would be counted as such rather than white at present. Obviously, nonwhite minorities are not the only Americans with multicultural heritages. All Americans have roots elsewhere, even the native Americans when we look back tens and thousands of years to their migration from Asia.

The Commission should direct the Census Bureau and the Office of Management Bureau to fulfill this objective of reliable and accurate enumeration and classification for functional and vital philosophical purposes. The present system was archaic some censuses back and we are proceeding with the same mistakes for 1980.

Beyond data classification and enumeration, the Congress should develop consistency in legislation which, in the past, has forced usage and perpetuation of the archaic concepts such as race.

I recommend that a study be made to see how our laws can be revised to eliminate anachronisms which make white synonymous with American and those who are nonwhite as "other."

Such changes are needed now to develop effective governmental programs and modify attitudes and policies aimed at the characteristics of population centers. In California, Los Angeles County, with a population of about 7 million today, has had a drop of 81 percent Anglo to almost 50 percent today and an expected decline to 44.4 percent by 1980.

With 1,484 census tracts in the county, the Anglo tracts are declining from 1,398 in 1950 to a projected 729 by 1980. While there was only one Asian-Pacific census tract identified in 1950, 54 are projected by 1980, which would be on the order of about 170,000 people.

By 1980, three out of every ten persons in Los Angeles County will be Spanish. Statistical policies and techniques must become more systematic and sensitive to the rapidly changing population characteristics of California and Los Angeles County, places that are hardly insignificant.

We should not have to trade gross and oversight processes in terms of state-local concerns, the real needs of the people, for the sake of national statistics. Needless to say, what good are national statistics which are used to generate federal policy and programs, such as CETA, and make it typically burdensome for local sources to obtain proper allocations and to address unmet problems, such as underemployment. We need some changes and we urge the Commission to help bring them about.

And I thank you for this opportunity to testify before you.

CHAIRMAN LEVITAN: Thank you, Professor Yee. One point of information. Of course, you stressed the point about revising the census. You suggested the Commis-

sion should direct OMB or the Census to do things differently. The Commission cannot direct either OMB or the Census. We can recommend, but realistically ---

DR. YEE: We recommend to the Bureau, too.

CHAIRMAN LEVITAN: --- Well, realistically, our report is not going to be out until about the fall of 1979. At that time, the census questions, as you well know as an advisor to this census, are going to have been locked in. They will, in fact, be locked in sometime this year.

Therefore, if you want any changes there, whatever else we might do in recommending and whomever might listen to us in the future, we will not be able to do anything about changing the questions in the census. And, therefore, that should be directed entirely to the Census and OMB or to Congress, as you suggested.

DR. YEE: Well, I appreciate that. We are continuing to recommend changes to clean up the census. I made a very strong pitch at our last meeting on their decision to classify anyone that insists their race is American, classifying American as white. I think on purely a philosophical matter that should be changed to "other."

But you are right; I do not think that item four, seven, or 13 will change. We were able to get the Bureau to agree ---

CHAIRMAN LEVITAN: I am not saying it would not; I really do not know. I just say that the Commission will be of very little help to you on that particular matter.

DR. YEE: Well, we appreciate that.

CHAIRMAN LEVITAN: Ms. Wills?

MS. WILLS: Recognizing the Commission cannot do anything officially about that, I am curious to know the response as to why they are unwilling to change. Is it because of the state of continuity of the statistics?

DR. YEE: Well, I think Dr. Duncan was right--he did not say this, but I thought he was saying, "Don't pick on the Bureau; pick on us and the commission, when we form a commission."

Now, I told Dr. Rosenblum that he and the Commission should become subscribers of our minutes, and these are the minutes for January 27, 28, 1977, when Dr. Duncan appeared and we discussed the CPS and other concerns.

I do not know where else to go, but I feel especially strong on the heritage point I have made. I do not see why we cannot have a questionnaire item which is much more complex than it is. This can be designed to make use of our data processing systems.

The Bureau is not responsible. I think that you have to get at somebody--maybe OMB--that says we are going to have these racial categories. That is it.

MS. WILLIS: Some other questions. You mentioned underemployment as a critical concern and also noted that in terms of CPS, the information is not reliable, particularly as it relates to natives of Hawaii where I note in the CETA legislation you have to prove heritage, I think, from 1790, I believe.

DR. YEE: Right.

MS. WILLIS: Could you speak to two things: One, how would you suggest you define underemployment and are you suggesting funds be allocated in a variety of programs based upon some concept of underemployment? And, two, what do you think this Commission and the Bureau of Labor Statistics can do to help this process, which I am familiar with in the CETA legislation, of identification of heritage?

DR. YEE: Well, I appreciate that question. It is not just Asian-Pacific. There are many Americans that are underemployed. I am thinking that perhaps there are better spokesmen than I am for the women who would say many, many women in this country are underemployed and people with Ph.D.'s, for instance, that would not be professors but maybe doing work that is underemployment.

Maybe that point has already been made here, but I think that statistics should be gathered on underemployment status. That could be done, and then I think there should be programs such as CETA that would help to overcome handicaps such as I described in quoting from Urban Associates, language problems, lack of licensing.

We have had a recent example of this with the entrance of the Vietnamese, the refugees, and the government has provided some help for Vietnamese MD's and dentists but ---

CHAIRMAN LEVITAN: Professor Yee, let me interrupt. As I understand Ms. Wills' question, how would you count underemployment? Would you count it in terms of income, in terms of hours of work, or in terms of the classic Ph.D. who drives a taxicab? How would you count it?

What would you suggest the Commission do about it? What kind of an approach should we take?

DR. YEE: I would not do it on income. I would not advise that. I would do it on a professional level.

CHAIRMAN LEVITAN: How would you have the census, the CPS, or the census count it? Would you have to make a judgment in each case whether that person is fully employed?

DR. YEE: Well, my guess would be that you would ask the person what they think their professional desire is and then you ask them what it is at present.

CHAIRMAN LEVITAN: Do you think you could do a count that way, then, Professor Yee?

DR. YEE: Yes, you could also ask: Do you feel that your present employment is adequate to your educational experience and background and is this satisfactory to you? And if a person was a Ph.D. driving a taxicab, that would tell you something. Maybe he likes it, I do not know.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: Yes.

Dr. Yee, you mentioned the 1970 undercount. What was the undercount for the groups that you are discussing in 1970?

DR. YEE: That is a good question, Mr. Anderson. We do not know. There has only been a special study conducted for the black Americans and, as you know, that was 7.7 percent undercount. We feel that for the Asian-Pacific Americans and surely for the Spanish-Americans, too, it must be as bad or worse.

MR. ANDERSON: When you say "we," do you mean the Census Advisory Committee?

DR. YEE: No, I am speaking today as Al Yee.

MR. ANDERSON: I see.

DR. YEE: But I am pretty sure that the Committee would agree with me.

MR. ANDERSON: I would also like to ask whether you have any idea of how serious the problem of undocumented aliens might be among the Asians and Pacific Americans? Is there any idea what that problem might be?

DR. YEE: I do not have any idea. I do not think that is a great problem. There is, though, the issue of language and cultural problems, barriers to enumerators that look different from others in the neighborhood. This comes from a number of reasons and illegal immigrants long past might have been a part of that.

MR. ANDERSON: I think that your testimony here is very interesting. Perhaps the Commission would benefit if you would make available some papers that might have been developed by the advisory group that explain in somewhat more detail the nature of these problems, especially as they relate to the census and perhaps the recommendations that you have made over time.



I realize that you have there a copy of the minutes of the meeting, but if you have something that is in the form of a report of your committee, it might be useful for the Commission to have that.

CHAIRMAN LEVITAN: Professor Popkin.

MR. POPKIN: Professor Yee, just a few small things. A lot of your heritage discussion was directed toward the census forms. I gather that there is exactly the same problem with the CPS forms?

DR. YEE: I have only seen the CPS forms one time and that was at the same meeting that Dr. Duncan came to. Unfortunately, he was not there when we got into it, and I just put it on the agenda item for information. But the more we heard, the more we were amazed. The form has--I can read to you from the minutes what heritage or racial groups are listed, if you want.

MR. POPKIN: I will check later. I do not have a copy of the form.

DR. YEE: Okay.

MR. POPKIN: Do you have any idea of how often it occurs that an Asian-American is interviewed by a person with whom there is a language barrier on a CPS or census?

DR. YEE: I have no idea.

MR. POPKIN: Do you have any sense as to whether this is a small or big, a growing or declining problem?

DR. YEE: Well, with the Administration allowing more refugees to come--I read the other day that 10,000 more were being brought in from Thailand--this gets to be over 150,000 now, but in the Chinatowns, you have many recent immigrants and you have many people that were born here that only speak Chinese or Korean, whatever it is.

To give you real firsthand information, I am fourth generation, but both of my grandmothers did not know English and they did not go to school because this was part of the guile of Chinatown. You did not go out; you were not welcome and you stayed in the Chinatown community.

MR. POPKIN: Did your committee in relation to these problems discuss whether or not you feel that there is an underenumeration as opposed to a misclassification based on bad words, like "race" instead of "heritage"? Did your advisory committee develop any sense as to whether or not there was undercounting of Asian-Americans?

DR. YEE: We have what we think is adequate for the 1980 census because the Bureau agreed with our committee to have our major groups listed on a 100 percent numeration basis. And they are listed there, including some of the smaller ones like Guamania and even Gaudescemo and --- on there.

MR. POPKIN: Let me rephrase the question. I am not talking about proper classification; I am talking about finding everybody. You are satisfied; you think there is no problem now?

DR. YEE: Well, we have made many recommendations on using bilingual enumerators. I do not think the Bureau is convinced that we are right. They say their tests show that it does not make a difference, bilingual questionnaires. Then, they point out that the Spanish in Travis County did not make use of them.

SPEAKER: That is Texas, what can you do?

DR. YEE: I think that use of bilingual questionnaires, bilingual enumerators, having them ready--I thought there was a good compromise in the Oakland pretest where an enumerator would show a card and ask the person to identify the language that they could understand. >

Then, the person would report back to the headquarters and they would send out a bilingual enumerator for that language. But we think that the questionnaire itself is adequate, satisfactory, but hardly in keeping-and this is Al Yee speaking now--hardly in keeping with what we need to know.

The Asian-Pacific Islander category was brought out in 1977 and it bombed out in Oakland as we predicted because our people did not identify with that concept. There is no such race as Asian or Pacific Islander. So, Chinese were checking "other" and writing in Chinese instead of checking "Asian" or "Pacific Islander."

CHAIRMAN LEVITAN: Well, Dr. Yee, unfortunately, the clock ---

DR. YEE: Is that the gong?

CHAIRMAN LEVITAN: --- has pushed us to the next witness from whom we want to hear. Thank you very much, Dr. Yee, for coming down.

Professor Cardenas, come here and have a seat please.

DR. CARDENAS: Thank you.

CHAIRMAN LEVITAN: I see you have a prepared statement.

MR. CARDENAS: Yes, sir.

CHAIRMAN LEVITAN: Well, Professor Cardenas, proceed in your own manner if you want to summarize it. If you want to read it, you know what the bell is going to do to you.

So, you are on your own.

STATEMENT OF GILBERT CARDENAS,  
PROFESSOR OF ECONOMICS,  
PAN AMERICAN UNIVERSITY

DR. CARDENAS: Mr. Chairman and members of the National Commission on Employment and Unemployment Statistics. I am Gilbert Cardenas, Associate Professor of Economics at Pan American University. I have done extensive work on the manpower problems and issues of the Hispanic population in the U.S.

I would like to thank the Commission for the invitation to comment on the implication of P.L. 94-444 on the Hispanic community. I would like to congratulate the Commission for the work they have been doing since the creation of the Commission.

For many years the federal government has published and collected population, employment, and unemployment statistics to serve the various policy and programmatic needs at the federal, state, and local levels. The uses of these data sources have not been limited to planning, policy, and research development and the distribution of federal funds under programs such as the Comprehensive Employment and Training Act of 1973.

Statistics on employment and unemployment have been traditionally published for blacks and whites, but comparable statistics for Hispanics have not been readily available as for the others.

The Hispanic population in the U.S. has been estimated to be 11.3 million in 1977. The Hispanic population is a diverse population residing in different regions of the country and experiencing different employment and earning trends in the U.S.

The Hispanic population, which includes Mexican-Americans, Puerto Ricans, Cubans, and other Latin Americans, is the second largest minority group in the U.S. Hispanics primarily reside in the rural and urban labor markets of the southwestern U.S., but there are also very large concentrations of Hispanics in labor markets like New York, Chicago, Detroit, and Boston.

The problems of the Hispanic population have been traditionally considered regional in focus. However,

in 1978 with the population growth, the needs and concerns of this population require national attention. The Hispanic population is relatively young and characterized by high rates of unemployment, low educational attainment, and high incidence of poverty.

Many of them are subjected to discrimination in employment, housing, and education. The Hispanic population is expected to continue to grow in this country and it is anticipated that by the year 2000 the Hispanic population may become the largest minority group.

The dimensions of this expected population increase are enhanced by the constant flow of legal and illegal immigrants from Mexico and other Latin American countries.

The federal government in the past has not been responsive to the manpower and data needs of the Hispanic population, despite the fact that this group represents the second largest minority group. Prior to 1973, the federal government collected very limited information on Hispanic employment.

Current data collection efforts on the Hispanic population have been rather limited. Moreover, available data on Hispanic employment and unemployment are far from being adequate in reflecting the actual needs of the Hispanic population.

Many of the problems of the lack of adequate employment and unemployment statistics on Hispanics have been associated with the lack of sensitivity of agencies such as the Bureau of Labor Statistics and other agencies to the data needs of this population.

The lack of sensitivity is further attributed to the lack of Hispanic professionals in these agencies. In 1976, Congress criticized the various federal agencies for the absence of adequate data on Hispanic unemployment and that such lack of data had contributed to the inadequate distribution of federal funds to the Hispanic community.

This led to the passage of P.L. 94-311 by which the Department of Labor, in cooperation with the Department of Commerce and other federal agencies, was to develop methods for improving and expanding the collection, analysis, and publication of unemployment data on Hispanics.

Since the passage of this law, efforts among the various federal agencies to improve the data collection and dissemination continue to be rather limited.

The manpower dilemma and problems of the Hispanic population in 1980 are more likely to worsen with the current state of the economy and persistent unemployment and population growth of this group. Persistent unemployment and the high incidence of poverty may contribute to the waste of human resources.

In terms of the policy implications to address these problems, the lack of adequate data may have far-reaching consequences on the Hispanic population.

In the past, the lack of adequate data has contributed to the inequitable distribution of manpower funds under CETA to the Hispanic community. Extensive research on the labor market problems of the Hispanic groups has been generally lacking because of data limitations. Perhaps we could come to better grips in solving the serious issues confronting Mexican-Americans and other Spanish-speaking groups if we only had accurate data describing the dimensions of their problems, but we cannot because the data problem exists.

If we had accurate data on the Hispanic population, we would be able to proceed with policy recommendations to alleviate their plight, but we cannot because such does not exist, so their severe problems persist.

Under the mandate of the National Commission on Employment and Unemployment Statistics, in accordance with P.L. 94-444, there is an urgent need for the Commission to assess and evaluate the availability of data limitations and issues of the Hispanic population to ensure an equitable distribution of funds for the Hispanic community. There is a need for the Commission to address conceptual issues concerning methodologies on the enumeration and definitional problems of the Hispanic population.

Among the issues that the Commission should address is the lack of common definitions on Hispanics, Mexican-Americans, migrant farmworkers and illegal immigrants. There is a need for the Commission to study the feasibility of expanding the data base to collect more employment and unemployment statistics of

Hispanics in specific labor markets not necessarily limited to the Southwest.

These efforts may contribute to further manpower research on this population as well as more effective manpower planning and programming under CETA.

Despite the many problems in the collection of statistics on this population, some labor market statistics on Hispanics are available today. In many instances, such data is subject to limitations associated with enumeration and methodologies. The most comprehensive source of information on Hispanic employment and unemployment data at the federal, state and local level has been that of the decennial census.

Among the major problems of this data source are the concern for the population undercount of Hispanics in 1970. Additionally, the fact that the data is published every ten years reduces the reliability of this source. Hispanic unemployment data is being collected under the Current Population Survey and the Bureau of Labor Statistics.

Employment and unemployment data for blacks and whites is published on a monthly basis. However, unemployment estimates for the Hispanic population are only collected on a quarterly basis. Hispanic employment and unemployment statistics are limited to the aggregate population in the U.S. Unemployment data on Hispanics is also not available by specific groups, such as Mexican-American, Puerto Ricans, or Cubans.

Data on the specific characteristics of the Hispanic unemployed in this country are also not available. Hispanic unemployment statistics are not available by state and local areas, despite the fact that the Hispanic population resides in the largest metropolitan areas of the country.

In some southwestern labor markets along the U.S.-Mexico border, such as the McAllen-Pharr-Edinburgh SMSA and the Laredo SMSA in Texas, the average annual unemployment rates in 1977 were as high as 13.0 percent, compared to the state average of 5.7 percent. These unemployment statistics underestimate the reality of unemployment of the Hispanic population.

Hispanic unemployment rates in this area are estimated to be as high as 30.0 percent and much higher for

specific groups such as youth and migrant and seasonal farmworker population. Nobody really knows the exact unemployment rate because no real unemployment data for this population group exists.

Another problem that exists in Chicano labor markets is the high incidence of hidden unemployment. In some rural and urban areas the manpower problems of the Hispanic population associated with the lack of labor force skills and discrimination have contributed to many of them being dropped out of the labor force and not being counted in the unemployment statistics.

Manpower administrators and prime sponsors throughout the Southwest have been required to develop plans and programs for the Hispanic population under CETA. Efforts have met with limited success because no available data on the Hispanic population other than the decennial census exist.

Employment and unemployment data is also lacking in terms of migrant and seasonal farmworkers as well as on illegal immigrants. Millions of dollars are spent on migrant and seasonal farmworkers by the Department of Labor and various federal agencies. Yet, nobody really knows how many there are throughout the country.

Current population estimates on Hispanics in this migrant and seasonal population in this country are extremely limited and do not contain detailed information on the employment and unemployment characteristics of the population. Data collected on the migrant and seasonal farmworker population is based on the Current Population Survey and the data is not published for states and localities.

In terms of the illegal alien problem, there are current efforts by the Carter Administration to develop legislation to curb the flow of illegal aliens in the absence of adequate data to measure the employment impact in the labor market. There is yet no conclusive evidence that this population has a severe impact on the labor market because no real data on employment and unemployment statistics of this population exist.

Given the data problems and implications of these problems on the Hispanic population, it is important that the Commission in the spirit of P.L. 94-444 give careful consideration to the benefits versus the costs



in expanding and improving data collection efforts on this group to ensure equity in our society for the Hispanic population.

The Commission should give careful consideration to the following recommendations:

First, the Commission should assess the data sources on Hispanic employment and unemployment with special consideration on methodology, definitions, adequacy and availability of data.

Second, the Commission should appoint a task force or staff to study the problems of definitions including but not limited to Hispanics, migrant farmworkers and illegal immigrants.

Third, the Commission should develop alternative methodologies to improve data collection instruments on Hispanic employment and unemployment in specific labor markets and states not limited to the Southwest for manpower planning purposes. Special consideration should also be given for research problems such as the hidden unemployment issues as related to the Hispanic population.

Fourth, the Commission should study the feasibility of expanding the Current Population Survey to improve the representation of the Hispanic population. It is also recommended that Hispanic employment and unemployment be published on a monthly basis and be expanded for specific subpopulation groups such as Mexican-Americans and Puerto Ricans. The availability of the characteristics of this unemployed population should be made available.

Fifth, the Commission should include Hispanic representatives on its organization as well as on its staff.

Sixth, the Commission should appoint an advisory task force comprised of academic scholars from the Hispanic community and others to assist the Commission in the improvement and expansion of the employment and unemployment statistics for the Hispanic population.

Seventh, the Commission should give careful consideration that Hispanic available employment and unemployment data and more detailed information be expanded or included in national data sources such as the Handbook of Labor Statistics, Economic Report of the Presi-

dent, and the Employment and Training Report of the President.

Lastly, the Commission should study the impact on how current available employment and unemployment statistics contribute to the inequitable distribution of CETA funds and other federal funds to the Hispanic community.

CHAIRMAN LEVITAN: Thank you, Professor Cardenas. Ms. Wills.

MS. WILLS: I guess I am going to take my frustration out on you.

DR. CARDENAS: Okay, go ahead, shoot.

MS. WILLS: For example, your last point on the distribution of funds under CETA, and we can talk about it in terms of other programs also. Think for a moment, if you would, about the possibility of why we would need more data--and I happen to believe we do need more data and we need improved data--but if we did not have CETA, which is the formula grant allocation, would you still really need that data?

Be very honest about it. It seems one of our problems is--we have listened to the concerns of older workers; we have listened to the concerns of women; we will soon be listening to the concerns of blacks; we have listened to Spanish-speaking--it is a net sum ball game. There are only "X" amount of dollars available.

And the assumption which is implicit in your paper is that if we only had more and better data, we would have more and better programs. I do not know where we find that to be a fact. Now, that is my personal frustration and I urge you to tell me I am wrong.

DR. CARDENAS: Well, I think the major problem you have--and I think some of the speakers earlier have commented on it--the nature of the problem that you have is you are doomed with a national problem and it is a national commission, so you have to listen to everybody and it is impossible.

My problem with CETA, for example, my problem--and again, it is impossible to develop an accurate estimate of everything on the Hispanics nationally, but what I was wondering is if there would be a way--especially, there is a recommendation on developing alternative methodologies as related to the southwest for example--basically, what I am saying is that if CETA funds are allocated on the number of unemployed and in the case of the southwest the majority of the unemployed may be the Spanish-speaking population.

How would that kind of data contribute to better, effective planning? Well, right now most of our manpower planners and administrators in the southwest are planning programs for this particular population. They do not know exactly what their dilemma is. We just know that it is very, very serious.

MS. WILLIS: I recognize it is a very serious problem and I recognize that there are national implications, but the allocation fund methodology is different than the statistics used to allocate the funds ---

DR. CARDENAS: That is right.

MS. WILLIS: --- are different than the statistics that I hear that you are asking for in terms of more detailed information. For example, I think--correct me if I am wrong--the correct terminology is you are asking for publication of cells in the BLS reports on Hispanics.

I mean, if indeed part of the problem is that there is inadequate sampling in terms of sizes of the cells, I want to be very, very helpful.

DR. CARDENAS: Okay. Well, what is the benefit from your perspective? I guess--is that what you are after to a certain extent? Why should we need it?

Well, my concern really stems from the fact--for example, the Wall Street Journal and the New York Times came out with an article in the last two or three months alluding to the fact that by the year 2000 the Hispanic population will be the largest minority group.

And that is what bothers me in terms of the fact that we do not have adequate data. We should be getting ready if that is the case because we have done it for blacks, we have done it for whites. The fact that Hispanics are lumped in with whites does not help at all because this is a special group that merits special consideration in terms of special problems.

For that matter, it might even be better for us to be lumped with blacks. I think our allocation of resources might be better that way than if we were lumped with whites. That is one of the basics.

MR. POPKIN: I would just like to leave you with a little something to do as a favor for us. All your suggestions, I think, on presentation and sorting out of data, there is no problem as far as I can tell with any of that for the future, but I would like you to think, when you go home, about two things you could send to us in a memo.

One, a list of any specific changes whatsoever that could be made in collection procedures to deal with underenumeration. Secondly, a list of the names of any people you know who have suggestions for us on how to deal with those problems.

We now have one paper being done for us by Leo Estrada, who has worked on the problems. If there is any other person that you think is competent to make suggestions to us on methodological issues related to this, I personally--and I am sure the whole Commission--would be exceedingly grateful if you would tell us about them.

MR. ANDERSON: One quick question, Dr. Cardenas, what was the size of the undercount for Hispanics in 1970?

DR. CARDENAS: Well, you have me on that. I have a problem with that. It depends on who you talk to, as usual. They talked about 8 percent, 7 percent.

MR. ANDERSON: Has the Census Bureau studied that? I know they have a reporting ---

DR. CARDENAS: No, they talked about the idea. They talked about a lot of things, too. But what I am saying is in reality, they have not really done so. They claim that it is closer to the black undercount to a certain extent.

MR. ANDERSON: What planning is being done for the 1980 census?

DR. CARDENAS: Well, Professor Estrada has been working with this thing. I know I have been working with Mr. Hammel at BLS, and Leo Garza from the Commission on Civil Rights, and several other people that are addressing these kinds of things.

But, apparently, that is supposed to be improved, likely, you know. In other words, the undercount problem is supposed to be reduced to a certain extent.

MR. ANDERSON: I would like to end with this final comment. On page 7, I think you made a statement with which I would certainly agree. That is, that there is no conclusive evidence that the illegal aliens have a severe impact on the labor market, but I think that your problem of counting would be very difficult with that group.

The very fact that they are illegal would seem to suggest that it would be extremely difficult to count them, and in the memo that Professor Popkin has recommended that you send to us--and I hope that you do--please give specific attention to how you think we could go about getting a real count of the illegal aliens.

It would seem to me that if the Hispanic population is going to be the largest minority group, it may well be because this group is a very large part of the ---

DR. CARDENAS: Well, part of this--and there are a variety of reasons--but one is definitely that flow, but more interesting is that the rate of growth for Hispanics has gone down in the 1960s and 1970s relative to other groups in this country. But, still, the families are large. We are talking about three or four, as

compared to families that used to have seven, eight, or 10 children, and so on.

CHAIRMAN LEVITAN: Well, Professor Cardenas, I hope that when you have a chance to read Dr. Leo Estrada's memo that you will supplement it, in particular, along the lines that Professor Popkin has asked you. That, I think, would be extremely helpful to the Commission.

DR. CARDENAS: Definitely.

CHAIRMAN LEVITAN: As you know, this is a very important problem, one that we have to struggle with. Particularly, personally, I think that is implied in Mr. Popkin's request to you. We are talking about, let's say, changing the CPS. You are our technician. What would you want from the 56,000? What would it involve? Would it involve doubling it, tripling it?

DR. CARDENAS: Well, you see ---

CHAIRMAN LEVITAN: I do not expect an answer now, Professor Cardenas.

DR. CARDENAS: Because we talked about that and it was an expensive issue.

CHAIRMAN LEVITAN: Well, I am just asking you if you would think about that. Also, if you want subpopulations as you do again in your fourth recommendation, would you be satisfied only for your recommendation for Puerto Rico for New York State? Or would you also want Connecticut, New Jersey, and Delaware?

Then, I do not have to tell you--you know better than I--what does that do to the sample that you would want? Would you still want to buy a CPS sample if it comes out 300,000, 550,000? I do not know exactly what your number was, but I would like you to give consideration enough to that. How much would you want to go by CPS data, not for Hispanics for a total only, but also for the subtotals?

Thank you very much, Dr. Cardenas, for helping us and we are looking forward to your additional help.

DR. CARDENAS: Thank you very much.

CHAIRMAN LEVITAN: Our final witness for the evening is Lewis Carter, national labor director for the National Association for the Advancement of Colored People. Welcome and thank you very much, Mr. Carter, and proceed again in your own way as long as it is 15 minutes.

STATEMENT OF LEWIS CARTER, NATIONAL LABOR  
DIRECTOR, NATIONAL ASSOCIATION FOR THE  
ADVANCEMENT OF COLORED PEOPLE

MR. CARTER: As indicated, my name is Lewis Carter and I serve as the national labor director of the NAACP. I would like to say on behalf of Ms. Margaret Bush Wilson, our chairperson, and Benjamin Hooks, executive director, of the NAACP, it is my pleasure to present concerns through verbal testimony at this point in time on the continuous national problem of high rates of unemployment, particularly as it affects blacks and other minorities and disadvantaged citizens.

The current administration has sought through manpower programs and other initiatives in the public and private sectors to reduce unemployment. As of May the rate was down to 6.1 percent which to many appears as a positive indicator of the future. Nevertheless, there are some troubling factors associated with the rate.

In some economic and political circles the notion of 6 percent might constitute a broad notion of movement in the direction of full employment. We question, however, just how significant this figure is as it relates to the continued higher unemployment rates of the American black community.

It is this question, along with questions about current governmental measures outlining unemployment statistics, that I wish to examine. Given, for example, the May 8th article in the New York Times, reporting on a study by the Rand Corporation in which CPS statistics showed a narrowing of the wage gap between the races,

one has to constantly examine the extent of the surveys and their statistical determinations.

The authors showed a time series of earnings ratios among blacks and whites which showed increasing parity among females. The assumption is that employment and earning trends are favoring an upgraded black community both in job preparedness, and I assume awareness, coupled with supposedly increased educational opportunities.

At this point in time, not having an opportunity to access the procedures of data collection base for the Rand study, I will not dwell on the study, but only suggest that they themselves admit to some potentially controversial conclusions that may or may not be consistent with current thinking and/or data of civil rights groups and organizations.

Obviously, well-thought-out research of this study will eventually bear out the validity of their statistical wage parity inferences.

No doubt, tomorrow, you will hear from my former colleague, Dr. Robert Hill, research director of the National Urban League where I spent some 15 years, who will discuss in measurable terms the hidden unemployment index that we have used for many years and other variables that make us suggest that new and innovative measures must be initiated by the government to insure realistic accounting of the true unemployment posture of the black and disadvantaged labor force in America.

There are several points which I feel the Commission should consider in its discussions of employment and unemployment statistics and their policy implications. These include: new and different interpretations of what is currently defined as the discouraged worker; reinterpretations of the subemployed, particularly in those areas where the cost of living scale exceeds minimum averages, and the census undercount in the black community, which impacts on the first two factors. Much of these concerns require going back and dusting off old concepts. The discouraged worker framework was discussed in the late 1960s, and the problems of subemployment are widely known.

The census undercount is especially serious. It is obvious to me that there are extreme variances



associated with the population count at this point. Therefore, until this problem is remedied it is beyond me how a true employment count is determined. There is needed some way to pull together the sensitive population estimates which are now used for revenue-sharing and other programs, with a realistic employment-unemployment count.

It is our feeling that employment policies can be significantly enhanced by examining as close as possible, data on the actual number of unemployed persons. Since seasonally-adjusted data are continuously subjected to revisions, it is also our policy to use the originally unadjusted BLS statistics.

We are well apprised from even the Commissioner of BLS that certain seasonally adjusted figures are somewhat unreliable. We have to always keep in mind the changes in the labor force, and that actual employment and unemployment data from one period to another are often better reflections than net changes.

We know, for example, that actual changes in statistically-cited data can be in excess of what is indicated in terms of a net change. We should use absolute figures as much as possible to explain the dynamics of unemployment fluctuations. This is especially true of those groups whose attachment to the labor force is less stable, such as women and teenagers.

In conclusion, at this particular point--and I have indicated to Mike that we will have a thoroughly prepared document to bring to the Commission--we will suggest that there is currently no real economic recovery in the black community and unreliable unemployment and census data does nothing in reality to improve our unemployment conditions.

Despite the fact that aggregate unemployment has declined since 1975, it is well known that the black community remains in an economic crisis. It is our feeling that the job market is still so bleak that in fact the number of discouraged workers continued to rise, not even counting those among us who are not even counted as related to current census-taking procedures.

Our obvious concern is that this Commission, in the serious manner in which it has been mandated, continues to work toward specifying a set of data criteria

that accurately reflects a realistic estimate of black employment and unemployment. The reasons are clear. Data on employed and unemployed workers determine vast amounts of public funds and private decisions on expansion. Both have direct influences on black communities, and we are only beginning to understand the true impact.

In our opinion, a charge of this Commission is and should be to see that more accurate data and concepts are considered. I have outlined these concepts previously, but I will mention them again. These include better definitions of the discouraged worker; a more accurate picture of underemployment; and an immediate step to adjust the census undercount and make census estimates for the black community consistent in all federal programs.

I thank you.

CHAIRMAN LEVITAN: Thank you.

MS. WILLS: I am not sure you were here earlier this morning when the people were talking about the need to maintain some kind of continuity and some definition of the unemployed, and that obviously then raises the question about what we do about the underemployed.

Posing the idea that this Commission may not want to change the concept of unemployed to count the underemployed in one statistic, then how do we address this? I would like you to do some thinking about this when you are giving us some more material because it is partly to help me; I am very concerned about this.

Can we begin to flush out more of what underemployment really means? How can we translate that into social policy and the allocation of funds?

MR. CARTER: I was not here this morning as you indicated when there may have been discussion on that, but I did hear the reference to the Ph.D. who might drive a taxicab.

My concern would be along the lines of the underemployed who in some instances, from my perspective, might well be added to the unemployed, and that becomes not an easy thing to say.

What I am really saying is that for whatever their particular wage they could well be unemployed. It has to be defined in a manner of, one, underutilization of talent, skill, educational background, etc., or the acceptability in some instances of the work only because there is no alternative.

I think, and I feel very strongly, that there is a segment in this community who is talented, and I am not putting this particularly in a race bag. I am suggesting, whether they be white, black, or blended, there are people whose talents are being usurped because of lack of alternatives.

And I suggest even further some of those who are in another train of thought would suggest that there are many elements in our community, again, minus the connotation of race, who do not want to work.

So, what I am saying is that there are many in the black community who have certain kinds of skills and talents but do not have opportunities that match their skills, and may be considered by some as employed, but, in reality, I do not think they are.

The question that you raise is obviously a very intriguing and complicated one. We want to set about a notion that there is a substantial amount of under-employment in this country. There has to be some kind of determination that suggests, it seems to me, that this has to be looked at not in the sense of what is entertained as fully established wage earners.

I do not know quite how to put that in words, but we are going to find a way to do it. They are in fact counted among the employed but, in reality, we are probably suggesting that they are not, even though they may have a job and it may be even a job that contains them during the period of a year.

We will try to come up with an answer on that. I think it is significant and I think it has to be addressed, and it is sort of-I will not say hazy; it is not even hazy in my mind-but it is sort of a gray area, but I think it is an area that needs to be looked at and sort of dealt with.

It is sort of like an underdeveloped country that has all the potential in the world, but is not given an opportunity to exhibit all that potential, and I do not know if it is fair to say that it is really developed.

MS. WILLS: I will just ask you to do one thing when you are thinking about that. When you are thinking about that, also consider whether those kind of concepts, dealing with the problems of the underemployed, could be molded into a hardship index.

MR. CARTER: Okay.

CHAIRMAN LEVITAN: Professor Anderson.

MR. ANDERSON: Yes. Of course, Lew Carter and I have discussed this issue many times in the past. I am pleased to see you here, Lew. In the paper that you present to the Commission, I hope that you will give specific attention to some of the explanations that have emerged in an attempt to make clear the real nature of the unemployment problem in urban ghetto communities.

One of those issues seems to be the existence of something called the social and economic underclass. If you would comment in your paper on the extent to which you think the availability of certain transfer payments and other forms of income generated through a variety of mechanisms contributes to the lack of labor market participation, that might be helpful to the Commission.

Also, if you could indicate specifically some of the ways you think that CPS procedures might be modified to get a better handle on how many people might be unemployed, that would be helpful.

My plea would be that in the kind of papers that are being presented by groups like the NAACP and others, that the main emphasis would be on the methodology and concepts of accounting rather than the nature of the unemployment problem itself. This is, after all, a commission on employment and unemployment statistics and not a commission on employment or unemployment.

We really do not have any authority to recommend what should be done about unemployment from a manpower program standpoint. But what we are most concerned with is the question of how you go about getting a good fix on the number of people who are really without work, want to participate, and that sort of thing.

How should these methods be modified? What should we do to get a clearer understanding of just what the magnitude of the problem is?

CHAIRMAN LEVITAN: Mr. Carter, if I may add to Bernie's point and to add some more to your homework--you are dealing with professors, you see, so we all assign homework--and that is, you questioned the study that was cited yesterday in the New York Times. Now, my understanding is that the Rand figures are actually based on census data. In other words, I do not think Rand did anything special; they looked at census data, like some of us did before, and according to that census data, black females are earning similar average wages to whites. Two percent is close. It is 75 percent for black males who are working. When I looked last it was 73, 72 percent. In other words, the point I am making is: it is not a question of Rand, a reputable institutional organization, but it is a question of the census.

It then comes back again to the questions that Joan and Bernie raised: if you are questioning the census data, then I hope, as you prepare background data for us, that the NAACP and other groups will show where census has gone amiss and why it is that you cast doubts about the conclusions of the census data. Because those are the only data that we have, and if those data are incorrect, then we are really in trouble as far as measuring is concerned. Where are the weaknesses of these data? That is what we really are concerned about.

MR. CARTER: We will obviously be prepared to do that because, as the previous speaker representing the interests of the Hispanic community said, in fact there was no quantifiable data in terms of the undercount but, as far as they were concerned, they were undercounted by 7.7 million in the last census.

We are aware of measures that are being taken by the current administration to improve upon the quality of resources, delivery, and a more accurate assessment of their efforts.

We want to be sure that their evaluation systems measure accurately what is intended, and that inferences are not incorrectly drawn. I go back to the earnings ratio considerations between blacks and white males. It is something like 77 percent by weekly median wages, and by these indexes there has been improvement. By the same token, median salaries were only 60 percent. These differences can be accounted for by statistical and sampling procedures; however, they have real policy implications.

So, what I am simply saying is how you look at it and the manner in which you want to create policy frameworks, since in my judgment, these sometimes create some illusions. We would not necessarily criticize the brain power at Rand, but we would have some question as to the realism associated with those figures, predicated again upon a realization of what that data base is.

So, we are going to be prepared obviously to answer the questions that Bernie raised and that Joan raised, and I will do my homework.

CHAIRMAN LEVITAN: Thank you very, very much. We have learned a great deal today.

Thank you again for coming and we will quit a half minute ahead of time. We will meet tomorrow at 9:30.

(Whereupon, at 5:00 p.m., the hearing was adjourned.)

## TRANSCRIPT OF PUBLIC HEARINGS

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WEDNESDAY, MAY 10, 1978

### NATIONAL COMMISSION ON EMPLOYMENT AND UNEMPLOYMENT STATISTICS

Washington, D.C.

The Commission met, pursuant to notice, at 9:30 a.m., in room 5437, 200 Constitution Ave., N.W., Sar A. Levitan, Chairman, presiding.

Present: Bernard E. Anderson, Michael H. Moskow, Samuel L. Popkin, Rudolph A. Oswald, and Joan L. Wills.

Also present: Arvil V. Adams, executive director; Marc Rosenblum, staff economist; and Wesley H. Lacey, administrative officer.

#### OPENING STATEMENT OF CHAIRMAN LEVITAN

CHAIRMAN LEVITAN: Today, during the second day of the hearings, we will turn our attention to a major issue that the Commission will have to face, namely, state and local data. As was mentioned yesterday, the federal government last year distributed some \$17 billion to states and localities on the basis of presumed random state and local labor force numbers.

Obviously, this is a matter of concern to the Labor Department, BLS, state and local leaders, and many others. In saying that these numbers are very frequently random, I was quoting the Commissioner of Labor Statistics, who is forced to release estimates for thousands of communities on the basis of very inadequate data.

The resources are not there, and also the technology possibly is not there, to give adequate or reliable data for either small communities or smaller areas and sometimes even for larger cities.

We will start this morning's hearings with a statement from one of the best managers of a local manpower, employment and training program.

We are delighted, Ms. Marion Pines, that you could come and that you are willing to share your thoughts with us about state and local data. Ms. Pines, you have the floor for 15 minutes or less.

STATEMENT OF MARION PINES, DIRECTOR,  
BALTIMORE METROPOLITAN MANPOWER CONSORTIUM

MS. PINES: Mr. Levitan and members of the National Commission on Employment and Unemployment Statistics, I thank you for this opportunity to testify before you on an issue of critical importance to the nation's cities. My name is Marion W. Pines, Administrator of the Baltimore Metropolitan Manpower Consortium, a CETA prime sponsor.

I am sure you understand that in order to do our job properly, we need adequate tools and adequate dollars. One of our most important tools is accurate and reliable information, information about the degree of joblessness we face, information about the demographic and occupational characteristics of the unemployed, information about the occupational output from technical and vocational schools and training programs, information about employer needs.

Since the most current legislation with which we are concerned ties dollars to that information, you can see how important the accuracy, the timeliness, and the methodology for collecting that information can be.

My testimony today touches on these concerns. Most recently, President Carter's urban policy statement emphasized that in the past "insensitive and inconsistent federal actions 'have contributed to the problems of our distressed urban areas.'" The President urged cohesive federal policymaking and a reexamination of the impact of all federal administrative actions on urban areas.

We are very concerned that the current procedure used by BLS to estimate unemployment will have substantial negative impacts on the ability of the nation's major urban areas to combat their economic problems. It would not be an overstatement to say that unemployment statistics have become one of the most important factors in measuring urban distress and in channeling



federal resources to financially distressed urban centers.

In the CETA program alone, the distribution of \$6 billion in federal funds for job creation ride on the unemployment numbers. It comes as no surprise therefore that major cities, including Baltimore, are insisting that the definitions and methodology for determining the extent of unemployment should reflect the most sophisticated and accurate data base possible.

In my view, the present BLS data system fails to adequately represent the true degree and magnitude of the unemployment problem, especially in the major cities.

At the most elemental level, I believe that the BLS definition of unemployment is inadequate and that this inadequacy is most apparent in urban areas.

The present definition excludes from the unemployment count all those individuals that see the prospects of finding a job as so dismal that they have abandoned the effort. Recent data on labor force participation shows a significant drop in the rate of participation among the most disadvantaged segments of our population, black males, for example.

These statistics imply an increase in the number of discouraged workers now discounted in computing unemployment. Given that these discouraged workers are most often found in central cities, one begins to see the possibility of a systematic undercount of the unemployed, especially in urban areas.

The undercount has serious implications not only for national macroeconomic policies, but also to cities that rely on federal resource allocations keyed to the unemployment rate. Any effective data system must be able to identify these discouraged workers. Without this, we can be seriously misled about the scope of the unemployment problem or the resource outlays needed for meaningful impact.

Beyond this problem with the definition of unemployment, we have identified a number of fundamental flaws in the newest methodology used to estimate the number of unemployed in local areas. These methodological flaws compound the systematic underestimate of the rate of unemployment in our urban centers. I would like to put this development into historical context.

In 1973, recognizing the inadequacy of its estimating procedures in metropolitan areas, BLS began using the Current Population Surveys to supplement and adjust its estimates of unemployment in major cities and the largest SMSAs. BLS recognized that old procedures had failed to capture certain groups of the unemployed, particularly those in the secondary labor market.

It missed those people with the most limited labor force experience, including youth, minorities, women, the undereducated, and the low-skilled. This occurred because the pre-CPS method relied so heavily on data about unemployment insurance claimants.

As you know, to be eligible for unemployment benefits, individuals must have had a reasonably stable attachment to the labor force and must have worked in an industry covered by that system. The most disadvantaged members of the work force, typically attached to the secondary labor market and living in the urban areas, are the very same people least likely to apply and qualify for these benefits.

By instituting the CPS methodology in major metropolitan areas in 1973, BLS was attempting to estimate the number of these disadvantaged workers and adjust its unemployment estimates accordingly. Since 1973, the CPS system has been improved and has consistently recognized the growing number of unemployed in major urban areas.

However, late in 1977 we learned that this system of estimating unemployment in major cities was to be abandoned principally in the interest of creating a nationally "homogenized" system that would minimize the needs for post hoc adjustments, and utilize more recent information, for example, UI claims data.

This standardized system is less accurate and less reflective of the scope of unemployment in urban areas. Although the changes tend, I believe, to create a system capable of producing good numbers for states, there are a number of sources of bias in the new method which tend to overestimate the economic health of large cities and thereby threaten their continued receipt of needed federal funds.

One of the chief sources of bias in the new methodology is caused by the abandonment of SMSA-level CPS samples. In the past, handbook estimates for 30 largest SMSAs were adjusted by the ratio of their annual average CPS to the handbook 70-step method.

This has consistently raised the estimates of unemployment for the Baltimore area, for example, above the level of the pure handbook method. The new methodology abandons this adjustment. We believe that the use of CPS adjustments helped to better measure the true unemployment picture in Baltimore and its abandonment distorts the picture.

For example, under the new BLS procedures the rate of unemployment in Baltimore was estimated at 17 percent less than the estimate made with metropolitan area CPS data included. Philadelphia and Atlanta experienced the same "paper" reduction in unemployment rates.

It appears that most cities and metropolitan areas once covered by the CPS methodology find the same undercounts of unemployment when this new methodology is applied.

One of the explanations is that the new procedures rely largely on unemployment insurance claims to estimate local unemployment rates. Even with adjustments for youth and reentrants, the new procedures based on UI claims tend to undercount the most disadvantaged among the unemployed, those with a limited labor force attachment, who tend to cluster in central cities.

Second, the new method for estimating employment levels for the individual jurisdictions comprising an SMSA is perhaps more suspect. Each jurisdiction within an SMSA is assumed to have exactly the same percentage of the area's total employment as it has of its total population.

In effect, then, the ratio of total employment to total population is seen to be constant throughout a given SMSA. Examining data for seven of the largest SMSAs which had CPS data for both the SMSA and central city, we find that the "employment to population ratio" is consistently higher for the suburban areas and the SMSA as a whole than it is for the central cities.

This assumption will tend, therefore, to overestimate employment in the central city and underestimate employment in the suburban jurisdictions.

January and February 1978 statistics represent the first products of the revised Local Area Unemployment Statistics methodology and our concerns are confirmed. The figures show a dramatic and untenable shift in the distribution of unemployment among the state's jurisdictions. They imply ballooning unemployment rates in the rural areas of the state in contrast to the metropolitan areas.

We believe this is the result of dropping the CPS sample for the metropolitan area. We further believe that the CPS-based figures for the metropolitan area more accurately reflect actual conditions than do the figures derived under the new methodology.

For example, sample comparison of December 1977 and revised January 1978 unemployment rates for non-metropolitan Maryland, the Baltimore SMSA, and the State of Maryland.

As I stated at the outset, antirecession funds, CETA formula funds, discretionary job creation funds, and economic development funds ride on unemployment estimates. We must be assured that funding allocations intended to alleviate urban distress are made on the basis of data which realistically reflects the nature and extent of that distress.

Given the stakes, data must be as accurate as possible and must be free of the systematic biases that undercount urban unemployment. I urge you to recommend the readoption of the CPS method in urban areas. Further, this CPS-enriched method should be expanded, not eliminated.

But there is another aspect to the statistical shortfall. Even if the funding allocation inequities engendered by present estimating procedures were to be completely offset by revised formulae, which is doubtful, there are still serious inadequacies in data systems currently available for economic development and manpower planning purposes. We desperately need a versatile and timely body of data related to local labor market conditions.

Information currently available is woefully inadequate. The administrative data made available through the SESA/BLS cooperative data systems concerning demo-

graphic and occupational characteristics of the unemployed relate only to persons covered by unemployment insurance.

We in Baltimore, like other major urban manpower planners, have found that the largest group of our job-seeking clients, over 75 percent of those we serve, are not receiving unemployment insurance benefits. As Dr. Harold Goldstein has so ably discussed in his paper prepared for this Commission, it is highly unlikely that the most disadvantaged jobseekers would be adequately described by data relating to UI claimants.

The success of locally administered policy is tightly intertwined with the availability of a body of locally relevant data that describes occupational shortages and labor force supply with reasonable accuracy. Millions of dollars in public monies are being appropriated and expanded in the hope that adequate and reliable local labor market information is available to guide local economic and community development and manpower policy.

I think that those in this room recognize that is not now the case. We urge the Commission to make the federal government aware of the serious shortcomings of the present data systems.

I would like to submit several recommendations for consideration by the Commission:

First, revise estimating procedures for local unemployment statistics by reinstating and expanding the use of the CPS methodology in those large cities and SMSAs where it was previously used.

Second, within reasonable resource constraints, expand the CPS methodology to other SMSAs and LMAs.

Third, use an expanded local-level CPS to adjust for the statistical inadequacies of UI claims data in describing the characteristics of the unemployed.

Last, encourage the rapid implementation and effective utilization of current improvements in occupational forecasting such as the Occupational Employment Statistics program and the work program of the National Occupational Information Coordinating program.

Thank you again for the opportunity to address the Commission on this matter of critical importance. I hope that I have been able to convey to you some of our concerns at the local government level.

FOR EXAMPLE:

Sample comparison of December 1977 and Revised January 1978 Unemployment

Rates for Non-metro Maryland, the Baltimore SMSA and the State of Maryland.

	<u>December 1977</u>	<u>Revised January 1978</u>	<u>Percent Change</u>
<u>Western Maryland</u>			
Allegheny	6.8	14.5	113 %
Frederick	3.4	8.1	138
<u>Southern Maryland</u>			
Calvert	7.1	11.2	58
St. Mary's	4.0	8.6	115
<u>Eastern Shore</u>			
Caroline	7.0	13.2	89
Dorchester	5.7	14.9	161
<u>Baltimore SMSA</u>			
Baltimore SMSA	6.8	7.5	10.3
Baltimore City	8.9	9.3	4.3
Anne Arundel	5.8	5.3	( -8.0)
Baltimore County	5.5	7.4	34.5
Carroll	5.0	7.2	44.0
Harford	7.1	5.6	(-21.1)
Howard	4.1	4.1	0.0
<u>State of Maryland</u>	5.4	7.0	29.6

## ATTACHMENT 2

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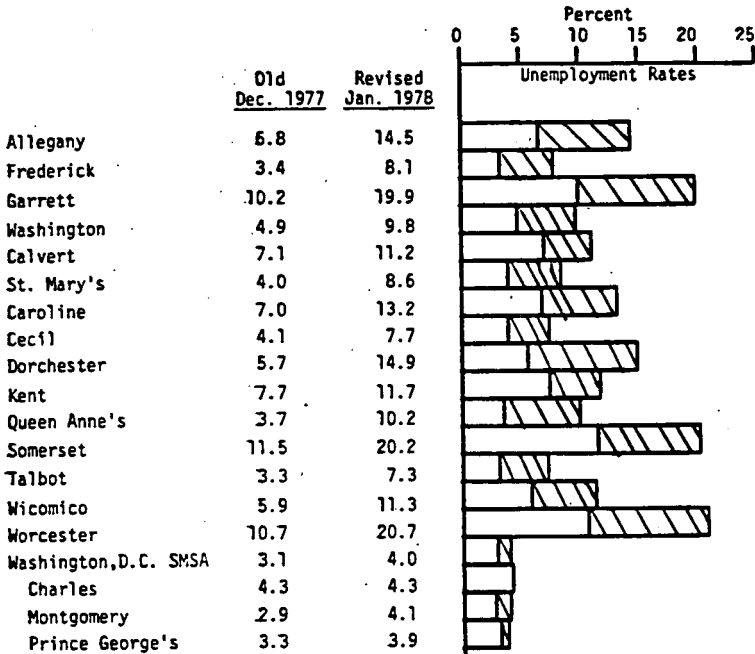
**Employment to Population Ratio Using 1975 CPS data; SMSA, City  
and Suburban Areas**

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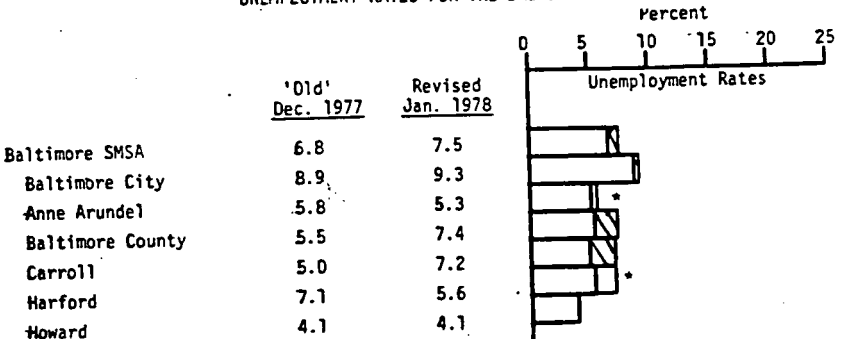
	<u>SMSA</u>	<u>CITY</u>	<u>SUBURB</u>
Baltimore	40.0	36.0	42.7
Chicago	41.6	37.7	44.7
Cleveland	41.6	36.8	43.9
Detroit	37.0	32.3	39.0
Milwaukee	43.3	41.0	45.3
Philadelphia	38.4	35.0	40.5
New York	38.2	37.1	42.0

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A COMPARISON OF 'OLD' DECEMBER 1977 AND REVISED JANUARY 1978  
UNEMPLOYMENT RATES FOR MARYLAND OUTLYING COUNTIES AND  
WASHINGTON, D. C. SMSA (MARYLAND PORTION)



A COMPARISON OF 'OLD' DECEMBER 1977 AND REVISED JANUARY 1978  
UNEMPLOYMENT RATES FOR THE BALTIMORE SMSA



Prepared by:  
Maryland Department of Human Resources  
Office of Program Planning and Evaluation  
Research and Analysis Division  
April 17, 1978

An asterisk (\*) means that the unemployment rate was lower in January 1978 than it was in December 1977.

Shaded area represents increase in unemployment from December 1977 to January 1978.



MS. PINES: Mr. Chairman, I am quite willing at this time to try to answer questions which the Commission may have.

CHAIRMAN LEVITAN: Thank you. I wish you would take out the reference to academic discussion, and insert relevant discussion at the end instead.

MS. PINES: Please delete that from the record.

CHAIRMAN LEVITAN: Mr. Popkin.

MR. POPKIN: Thank you for a very valuable presentation. Let me ask a few questions. First, for your own planning use within your programs now, aside from all the uses of the statistics for giving you money, you talked about the need for data on the non-UI part of your clientele.

How often do you actually need data for your own use?

MS. PINES: At the minimum, we are supposed to have it once a year, when we submit a plan to the Department of Labor. We are in the process of developing that data now. We must submit a plan once a year in order to get the CETA grant. The plan must describe the characteristics of the population and must justify the decisions that local governments make for selecting certain client groups for special services.

And it must be fairly discrete information. It cannot simply be the number of unemployed.

MR. POPKIN: But you are doing that now somehow. I am talking about for your internal purposes, how often do you, for your use within your program and not for use to get money out of another agency, need great data?

MS. PINES: Great data? I need data. I need good data.

MR. POPKIN: How often do you need this?

MS. PINES: At least once a year. And you need it more than that because that is only for the CETA grant. Our city is applying for UDAG grants, for the HUD special grants. For every part of the HUD special grant, the Department of Housing and Community Development asks us to describe the labor force; to give the description of the impact this may have on the labor force; to assess the job creation effect of this grant.

We do a very good job of rhetoric, a very convincing job. I do not feel comfortable with the stuff we are producing.

MR. POPKIN: If you had to pay for the data and it was only for your own use, not for use within HUD, CETA, congressmen, Labor, how often would you collect data to adjust your own programs? Once a year?

MS. PINES: Yes.

MR. POPKIN: Okay.

MS. PINES: But don't say it would not be for HUD. We are trying to do some comprehensive planning in our local areas. So, we do not just plan for manpower and ignore economic development. All of this is very interrelated data and we need a comprehensive body of data for all kinds of planning.

MR. POPKIN: Let me ask you one other question. Yesterday, one of my commissioners--I do not remember which one--suggested that it simply did not make sense to try and get separate unemployment estimates for areas within an SMSA and that there was simply no reasonable way to derive separate unemployment estimates.

And, if that is true, what is wrong with the seat-of-the-pants method of just breaking it up by population?

MS. PINES: Well, I think I have described some of those problems. I mean, at the outset we are hurt under the allocation formula, so to begin with that's a problem.

Secondly, we would be glad to pay for doing this. Many of us would be willing to conduct our own surveys. They simply are not recognized by the Department of Labor and, therefore, it is throwing money out. We can do it and we can justify it, but the data will not be accepted. Therefore, it will not be used for any kind of formula allocation process.

MR. POPKIN: Okay. Can you suggest any sort of formula way of breaking it up within an SMSA than the one that is being used now?

MS. PINES: Do you mean the employment/population ratio estimate?

MR. POPKIN: Without going through the expense of surveys, is there some slightly rigged way or some other weighted way, a fudged-adjusted proxy way of breaking it up within the SMSA that you would find?

MS. PINES: What is the problem with going back to the CPS methodology for the SMSA? What they are doing now is benchmarking every political subdivision to the state, what percentage the employed population is to the state. Assuming that there is an equal business all over the place, we suddenly saw the unemployment rate for Baltimore County, which is the wealthiest county in the SMSA, increase 34 percent under the new methodology.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: Marion, you have raised in your paper the question of the discouraged workers and this has emerged as one of the major issues that the Commission is going to have to deal with. I would like to ask you about the concept of unemployment.

At the present time, we consider unemployment to be a condition under which an individual seeks a job but is unable to find it. The discouraged workers are those who, as you know, are not seeking work but say that they would seek work if they thought it was available.

The dynamics of discouraged worker numbers suggests that when more jobs become available, the number of discouraged workers declines. I think the record will also show that the number of discouraged workers declines most rapidly with expanding employment for those groups that you identified as being the most disadvantaged.

What I would like to have you comment upon is a specific definition of discouraged workers that you would like to see included in the survey methodology in order to indicate how many of those persons should be, perhaps, added to the count of the unemployed.

What I have in mind here is the question of whether we should include all persons who say they want a job but are not looking for it, without regard to the period of time in the past that they might have searched for a job, or whether we should try to maintain some sense of timing for job search.

For example, should an individual who searched within the last six months be counted as unemployed? Within the last year? Within the last two years? What if an individual has not searched for a job in five years but says he is interested in a job? Should that person be counted as unemployed?

MS. PINES: How are we defining "search"?

MR. ANDERSON: To be engaged in some activity directed toward finding a job.

MS. PINES: Does that mean having registered at some point of intake that we can count?

MR. ANDERSON: It might include that.

MS. PINES: That becomes an important consideration. If we are saying that you must have stopped at point A, put your name down and said, "Yes, I am looking for a job," and that is how we constitute search, or if search means I am walking down the street and I am talking to my neighbors and say, "Hey, have you heard of anything that is available?"

This morning it was announced in Baltimore that Westinghouse may be opening up 1,000 jobs next year. Does that mean that that information is going to get out and all discouraged workers are going to say, "Hey, now we know there are 1,000 jobs."

Or, there are going to be 1,500 summer jobs and the word gets out, and all the kids decide they are going to go out and look for it.

The definition of search becomes, it seems to me, an important factor here. I agree with you. As soon as jobs are announced, it seems to pull people into the job market. When there is a perception that there are no jobs, people have a sense of alienation and hopelessness. There is no point in looking. There is a kind of mythology. There isn't anything out there, so what is the point of going out and looking.

That is why I want to get semantical with you and duck your question, but I am not sure what "search" means. We have found that when we announce a large number of public service jobs, when we announce a large number of summer jobs, a lot of people start searching who had not before.

And, when the jobs are not available, the search does not take place.

MR. ANDERSON: If, then, you know that when the jobs are available individuals who are not in the labor force come into the labor force, would you then not be able to adjust your unemployment figures in some sense to take account of the possible expansion of the labor force with expanding job opportunities?

MS. PINES: Yes. I am just not quite sure what the methodology should be. I do not think I am enough of a technical expert to know how to do that.

I think what we have to look at, though, if we are going to be counting, is perhaps to consider every person 18 and over who is out of school as a person that is looking for a job. I think that is a population that we are pretty much ignoring, the population that is not working, is not in school. I think we can make an assumption that if work was available, most of those people would be working.

That is what we are finding as the population is coming into the job creation market.

MR. ANDERSON: Then you would have the survey methodology make assumptions about the individuals' willingness rather than expression of activity on the part of the individual.

Let me ask you another question, Marion, on this. There are a number of recommendations that you have included here that I think most people would regard as desirable. Obviously, there is not an unlimited amount of money available to do all of the things we might like to do with labor statistics.

What would be your top three priority items for revising the local unemployment data to provide the kind of information you need for your planning purposes?

MS. PINES: Well, first of all, we would like to go back to the CPS-enriched methodology--we would like to have a larger CPS metropolitan sample, number one, and a better analysis of that sample so that we have more information about the characteristics of the people in that sample.

I think, second--and, of course, if all the things that NOICC is supposed to do really come true, it would be great--we need much better occupational input and output information. We do not have good data now on the output of all of the occupational training facilities within the state.

We do not have good information on the characteristics of the unemployed in any given occupational area. Dr. Popkin asked before how we do our planning and how often we do it. In addition to knowing whom we are serving, the question is: For which occupations should we be training people?

It is very useful to know how many unemployed welders we have, as well as whether Bethlehem Steel is going to need welders next year, before we undertake a responsibility of developing new trainees in the welding field.

We do not have that data now. When we try to get it from the state, they say it is very inadequate and very unreliable.

Now, that is basic stuff that we should have to do sensible labor market planning instead of just coming out with the strategy, talk to a few employers and hope for the best.

CHAIRMAN LEVITAN: Ms. Willis?

MS. WILLS: Marion, I have an observation. You said that 75 percent of the people that you were servicing basically are not participating in the unemployment insurance system. I guess in one way that proves that you are serving significant segments or making at least an attempt to because, as I recall, one of the background papers pointed out that all but approximately 17 percent of the people in this nation can participate in the UI program.

Youths and new entrants, obviously, the population that I assume you are servicing, do not participate. So, the reason I make that point is, with the exception of the CPS, how do you envision or how would you see getting more information on that part of the population, if that is what you really think you need? The new entrants, the reentrants into the labor force.

MS. PINES: Well, what we are using, Joan, is a lot of data from other administrative files. We are using Health Department data. We are using Department of Education data. We are aggregating a lot of administrative files and we are using our own administrative files. We have 80,000 active cases in our own CETA metropolitan area files.

So, we have very large administrative files of our own that tell us who have been looking for work and a lot of information about those people.

MS. WILLS: That was a beautiful answer. What do you think that we can then do to increase the utilization of administrative files?

MS. PINES: What can we do to increase them?

MS. WILLS: For example ---

MS. PINES: I have a feeling you know the answer to that.

MS. WILLS: For example, it seems to me--and I think we all have to recognize there will be some kind of limitation on the CPS--unemployment insurance files have a purpose unto themselves. There are limitations in terms of what you do with unemployment insurance files. How does that relate--and I think what Sam was trying to get at--what other kinds of information do we need? And we do have a wealth of other information through the administrative files of other agencies.

Part can be used in terms of program design, but, could you step back for a moment and recognize how pregnant the questions of resource allocation and the new methodology are right now?

You did not mention in your testimony any recommendations or any considerations for other kinds of factors that could or should be included in allocation of funds. Have you given any thought to a hardship index and, if so, what do you think it should look like? What kind of factors need to be considered and should it be used in the allocation of funds?

CHAIRMAN LEVITAN: You will have some time to present your answer later.

MS. PINES: Well, shall I borrow from Dick Nathan's hardship index? I think that some of the distressed area formulas that are being talked about now in terms of the urban strategy and certainly in terms of the new block grant formulas are the kinds of factors that have to be used in an allocation formula; income, as well as unemployment, as well as the density of unemployment--the actual numbers of people rather than the rates--housing, age of housing stock.

And I think something very critical and something we are not looking at is the tax structure of urban areas vis-a-vis their surrounding areas. We are very conscious of that in the older urban areas. We are



very conscious of it in terms of what it does to us in our efforts to put together economic development strategies that are going to work.

For example, the City of Baltimore has a tax rate that is almost double that of all the surrounding counties. We are competing with all of the surrounding counties for economic development, for new companies to come in, for old companies to stay. It is very hard to develop any kind of incentives for them to do that when we have a less skilled work force, a less educated work force, a higher tax rate and an eroding tax base.

I think these are some of the factors that have to be looked at when we are talking about allocation formulas for urban areas.

CHAIRMAN LEVITAN: I do not believe in working you overtime, Ms. Pines, but one thing--well, two or three questions. One, is it possible that your surrounding counties did not get a fair share of the federal dollars prior to January of 1978, and the January 1978 changes corrected an old wrong rather than created new wrongs?

MS. PINES: When you say "possible," I have to say anything is possible.

CHAIRMAN LEVITAN: No, I think on the face of your examination, you looked at one side of the issue.

MS. PINES: Right, exactly.

It is interesting because Arnold Packer brought up the very same point when we discussed this with him, and he said "Isn't it possible the populations have all shifted out there and that is really where all of the distress is?"

I don't think you can walk through, ride through or live through any of these areas and measure distress on a windshield index, through a health index, through a housing index, or through any other kind of index and say this [suburban and rural area] is where the problems have gone, certainly not in the proportions that this data would indicate.

CHAIRMAN LEVITAN: In other words, it is very probable, or certainly possible, that what BLS did was to correct an old wrong rather than create a new one?

MS. PINES: No, I do not agree with you, but that is possible.

CHAIRMAN LEVITAN: Two: In response to Dr. Anderson's question, you rejected the current activity concept of BLS. What kind of an activity concept would you want, Ms. Pines? How would you count it--just on the basis of this very nebulous feeling that we announce 1,000 jobs for Westinghouse and there are 2,000 applicants? Is that what activity means?

How would you measure activity for the purpose of CPS? To say that it is a semantic problem will not be enough for the Commission.

MS. PINES: I understand.

CHAIRMAN LEVITAN: Could you ---

MS. PINES: Yes, let me give it some thought.

CHAIRMAN LEVITAN: I really would appreciate that because, as Bernie said, discouraged workers are a problem, obviously, that we will have to consider. Everybody tells me that the activity test BLS now uses, in terms of the monthly interview, is inadequate. But nobody has told us yet what would be an adequate test, and how we would arrive at that kind of a test.

MS. PINES: Okay. Let me give that some thought.

CHAIRMAN LEVITAN: And would you also give some thought to Joan's question about what kind of hardship index you want? You answered in terms of the city. I think what Joan might have thought--if she did not, I would want to-- was, do you want it in terms of the individual?

MS. WILLS: Individuals, that is correct.

MS. PINES: Individual--okay, fine.

Let me make one closing comment. I presume you all are aware that we have gone through a massive job creation effort in the last nine months in this country. That is a federally subsidized job creation effort. Various people who are now employed in federally subsidized jobs are no longer counted as unemployed, which is bringing down our unemployment rate artificially and bringing it down in urban areas that received large blocks of this money last year.

Now, it is bringing cities down in sort of a "Catch-22" situation, so they have artificially reduced their unemployment rates, which then makes them less eligible for new funds under the new formula. It is a rather bizarre development.

CHAIRMAN LEVITAN: From the viewpoint of the Administrator of the Baltimore City ---

MS. PINES: From the point of view of national policy, Dr. Levitan.

CHAIRMAN LEVITAN: I see.

I thought you would put this into the record. Thank you very much, Ms. Pines.

MS. WILLS: While you have a job assignment, if I may, Sar--Mark, you objected to the Census share method for the allocation of funds within the SMSA area. Could you do some creative thinking and come up with recommendations other than that?

MS. PINES: He'd like to do all your work for you.

MR. POPKIN: While we are at it ---

CHAIRMAN LEVITAN: The next time you will not attack academics. You see, you get homework for doing that.

MR. POPKIN: Yesterday, a representative of the Kentucky Council of Economic Advisers suggested as a data source that would allocate money on a hardship basis to areas to look at taxes, to look at--I do not know--did he talk about total corporate taxes or did he just mean individual W-2s?

MS. PINES: Do you mean tax rates?

MS. WILLS: His paper lists individuals.

MR. POPKIN: It looked at individual withholding taxes by areas, if you can get that, if in fact you could get it by areas by breaking out main plants and subsidiary plants. If one could get withholding data by SMSA--I would just like you to think about this when you send us your letter--would that data source perhaps reflect more favorably, fairly or equitably the needs for monies for the different areas than the current new CPS methods?

CHAIRMAN LEVITAN: Mark, we will give you a copy of Dr. Motley's statement because Dr. Popkin is basing his question on it. So, you will have it in front of you.

MR. HOROWITZ: I'd appreciate that. Thank you.

CHAIRMAN LEVITAN: Thank you very much. Before you get any more homework, thank you very much, Marion.

MS. PINES: Thank you very much.

CHAIRMAN LEVITAN: Thank you, Mark.

We will not look at it from the point of view of one city, but rather from the point of view of many small cities as well as large urban areas.

Alan Beals is the Executive Vice President, National League of Cities. We are delighted to have you, Mr. Beals.

STATEMENT OF L. ALAN BEALS,  
EXECUTIVE VICE PRESIDENT,  
NATIONAL LEAGUE OF CITIES

MR. BEALS: Good morning. I am Alan Beals, the executive director of the National League of Cities.

The National League of Cities, through its direct member cities and the affiliation of state municipal leagues represents approximately 16,000 American cities. I have an informal statement to make this morning and additionally would like to submit other materials for the record.

I am interested in making a number of points, the first of which is to say that the National League of Cities has for many years supported congressional and executive efforts to rationalize federal statistical policy and to control the expansion of the federal government's appetite for and role in collecting data and information.

Historically, the federal government's attempts to deal with the problems of a growing demand for data and information have been piecemeal and uncoordinated. Two attempts to deal with this problem were the Federal Reports Act of 1949 and, more currently, the executive reorganization of statistical functions in the Office of Management and Standards within the Department of Commerce.

The ever-increasing volume of federal statistical activity has made it apparent that the impact of these and other efforts to curb the uncoordinated proliferation of federal statistical activities is still a problem.

I offer these remarks to let this Commission know that we are concerned with the cost of collecting data for both the public and the private sectors of our country as well as the need for data. These are remarks similar to those I made to the Subcommittee on Census and Population just a month ago in consideration of the Federal Statistical Activity Control Act of 1978.

But I am also here this morning to say that we do have a problem with data gaps. And it is our belief

that some of these gaps must be closed, even though the collection of data is very expensive, because such action is crucial to enhance and improve decisionmaking in the cities of America and for the people who live in those cities.

Poor decisions cause inefficient use of resources, far greater than the cost of better data. Thus, the National League of Cities welcomes the work of this Commission as being both timely and critical to the interest of the American cities.

Currently, employment and unemployment are major city problems. The data which we now have to measure the dimensions of this problem are woefully inadequate.

However, the problems are so urgent that we are forced to use existing statistics to design programs, allocate resources and evaluate our efforts. Because unemployment and employment are major political issues, the intensity of the interest in better data has placed great pressure on the Bureau of Labor Statistics to improve its collection.

This Commission's work is timely because the dialogue with the Bureau of Labor Statistics over collection techniques and definitions has become strained. Currently, BLS is embarking on improved collection techniques which they assert, without empirically demonstrating, will produce more accurate, local unemployment and employment data.

Neither we nor the BLS can be sure that these new methodologies will produce more accurate data; however, the one thing we can be sure of is that these changes in the estimates of the city unemployment rates and the numbers of unemployed persons in cities has had the effect of moving massive amounts of federal dollars from one jurisdiction to another.

These shifts are extremely disruptive for local governments across the country, and we hope that as its very first act the Commission will request that the BLS refrain from changing its methodologies for collection until the Commission has completed its deliberations and has made its recommendations.

It is reasonable to expect that Commission recommendations will affect the definition of employment and unemployment and require major changes in the col-

lection and dissemination of this data. Therefore, the changes in employment and unemployment estimates that BLS is currently implementing may be, at best, wasted effort or, at worst, extremely disruptive to the implementation of important federal programs.

A major problem with existing federal government statistical practice has to do with disaggregation. Employment and unemployment data simply must be disaggregated to the level of local jurisdictions that are the basic political unit in our federal structure.

Increasingly, federal government response to problems in our society is being focused on areas of "need." Identification of areas of need is being accomplished by an analysis of their variations from national averages. It is thus important that these national averages be disaggregated to the city level.

In central cities a 6 percent national average unemployment rate hides a 40 percent unemployment rate among black teenagers; a 25 percent unemployment rate among black women, and many other variations. It also hides a 2 to 3 percent unemployment rate among white, married males.

Disaggregation is now more important than ever before because this data is constantly being put to new uses. The President's urban policy emphasizes the importance of employment and economic development as crucial to the revitalization of America's cities.

Indeed, scholars have repeatedly agreed that unemployment in cities is the single, more important cause for the fiscal strain that many are experiencing. Our ability to correct this problem is, I think, contingent upon our understanding of it and our recognition of its magnitude and dimensions.

Thus, we need to know much more about unemployment, where it is and who it affects, if we are to be successful in dealing with it.

To deal effectively with unemployment it is also necessary to know about employment opportunities. We need employment data for local economies that tell us something about the skills needed, the industries in the areas, the location of the major employers, and the wage structures of those employers.

We need this data on a basis that is meaningful not only for executive federal programs, but for choosing between expanding appropriate sectors of the local economy to absorb surplus labor, or teaching appropriate skills to the surplus labor force so they can be absorbed by the existing economy.

We also need to know more about the characteristics of the unemployed, where they live, what the education and skill levels are. To plan and encourage economic development in local economies, cities need better data about those economies. Employment and unemployment data are two critical pieces.

In the recent past, as economic problems have been identified, the national programs that have been designed to solve them have been increasingly carried out by local units of government. One of the reasons underlying the use of local government is that such government is both more understanding of the particular and unique characteristics of the problem and better able to respond to those unique characteristics.

If these units of government are to be effective program delivery agents, they need better information on the character and dimensions of the problems in their particular jurisdictions. Only then can they plan specific approaches to solving those problems and evaluate the success of their efforts and solutions.

As we have begun to define problems quantitatively, we also have begun to assign resources in proportion to the magnitude of these problems. This is a rational process.

However, the results of this process currently defy rationality because the theory has become tainted by reality. In reality, we cannot measure the magnitude of local problems. Data available nationally is not available locally and the methods to divide national data down to local areas is costly, complex and uncertain.

Currently, most data for employment are collected indirectly, through the use of administrative sources. I suggest that a major question for this Commission is: At what point does the need for data become so acute that it should be collected directly?



That use of administrative sources is fraught with problems because the collection of data is the secondary purpose for a report. No amount of manipulating poor data will make it good data. Often data are improperly filled out on a report because it is not critical to the operation of the program for which the report was designed. A person with no understanding of the data elements being collected may have little interest in the report being filled out accurately.

Admittedly, limited financial resources force a tradeoff between choosing primary and secondary sources for data. Often the tradeoff is reducing the number of different data characteristics collected. For the record, NLC believes that having fewer data characteristics but having them available at the city level on an accurate, timely and comparable basis is a desirable tradeoff.

The current use of data to allocate funds makes the stability of a data series during the life of a federal program critical. As I mentioned earlier today, BLS is implementing a significant change in the methodology which it uses to estimate local area employment statistics. This change is causing reallocation of dollars from central cities to suburbs, and yet we question whether the increased reliance on unemployment insurance claims will accurately reflect conditions in our central cities.

Many of these individuals are ineligible for unemployment compensation, having never been employed or at least employed long enough to qualify for such benefits. Since it is precisely these individuals that are the target population for programs such as the Comprehensive Employment and Training Act (CETA), and since CETA funds are allocated in part based on the number of unemployed, it is critical that our data tell us accurately precisely where the preponderance of such individuals are located.

This, in our opinion, cannot be accomplished under the new BLS methodology as we understand it.

The change in the data reported, under the new BLS procedure, is the result of a change in collection procedures, not a shift in employment or unemployment. The purpose of this change, as always, is a good one, greater accuracy.

However, implementation of this change has been insensitive to the disruption caused by reallocating funds. I hope that we can look to the Commission to increase the sensitivity of federal statistical agencies to the use to which their data is put.

When changes to improve the collection of federal data are appropriate, the timing of such changes simply just reflect the use of that data, particularly when it affects the distribution of major federal resources to local government.

Two other points concerning the operation of the Bureau of Labor Statistics are worth noting. It has been the National League of Cities' experience that BLS is a rather uncooperative agency when it comes to assisting local governments in getting the data they need.

A case in point is a study we conducted on the burden of preparing round one of local public works applications. It was only through a personal contact, not organizational, that we managed to obtain the necessary unemployment data to perform our analyses. The work we were conducting was a study for a federal agency and it served a clearcut, public purpose.

Yet, the parochial attitudes within the agency saw the effort as unrelated to their main mission. Consequently, agency personnel did not respond in a timely or sensitive manner.

It is commonly the case that BLS and other federal agencies have great amounts of raw data which could be creatively analyzed if it were more readily available. In fact, the analysis might most expeditiously be conducted within BLS itself.

However, BLS has never shown an interest in using their analytic capability to respond to requests from local governments for specific analyses. It is unfortunate that those most familiar with the large data series which they have and understand could not be more sensitive to maximizing the use of that data.

In closing, I would like to make several additional recommendations which I would encourage the Commission to consider.

First, whenever changes in the technique of collection are proposed, a number of formal procedures

should occur. First, all federal agencies should run parallel series under existing and proposed methodologies. These parallel series would allow local users to evaluate the effects the changes will have.

Second, we recommend a system of consultation between the agency and the user so that the full implications of proposals can be ascertained. Officials of state and local governments must be able to anticipate effects, such as reduced funding and plan accordingly.

Clearly, if we have lived without accuracy for years, we can live with it for six months and such a procedure can be accommodated.

Third, a review board for all federal statistics, including employment and unemployment statistics, should be established. It should have responsibility to evaluate whether new methods of collections really do improve accuracy and to resolve disputes about the importance of each issue raised by interested parties.

Such a function is contemplated in the Federal Statistical Activities Control Act, and it seems to be one to which the Commission should be sensitive. A typical problem it might address would be coordinating the reporting bases for different types of federal data. Each agency in the federal government tends to report its statistics on a basis or level of disaggregation relevant for their purposes regardless of whether it is relevant to other agencies or other uses.

Therefore, limited cross-analysis of data can take place. Instead, outdated census information is often the major source for many kinds of data. The situation may be improved by the quinquennial census; however, this is not a solution to the problem.

I would like to conclude with an additional remark concerning the major concerns we have with the current BLS modification of employment and unemployment statistics estimating procedures. At no point have we been able to get a satisfactory response from BLS concerning the objections we have raised.

It is this lack of response by the agency that is most frustrating. It is not that the National League of Cities objects to improvements in collection systems; we emphatically support such changes.

However, we believe that changes can be less disruptive. The most exasperating aspect of this current dialogue or monologue, if you will, is that BLS has not produced anything that would allow governments to anticipate the effects of these changes on the funding they will receive under CETA and/or ARFA. And, yet, some cities have seen their allocations cut by more than 50 percent.

A strong argument can be made that BLS has opted for uniformity of procedure at the expense of higher levels of accuracy in the major population centers of this country. This is not a decision for statisticians to make. It is essentially a political decision. My final recommendation is that the Commission recognize this distinction throughout its work.

Thank you for this opportunity to present NLC's views and I now stand ready to answer any questions which you may have concerning the opinions of the National League of Cities relevant to employment and unemployment statistics collection and usage.

I thank you all for this opportunity to present our views.

CHAIRMAN LEVITAN: Thank you for a very succinct statement. Ms. Wills.

MS. WILLS: You suggested the review board. We have had some testimony that has suggested the need for a central federal statistical agency or a division or bureau. I assume you are familiar with those old arguments. Why did you recommend a review board as opposed to a central federal agency?

MR. BEALS: We thought that that was a more practical interim step.

MS. WILLS: Have you any particular preference as to where you would like to see it housed?

MR. BEALS: No. In our testimony to the House committee, we did not suggest a location for it.

MS. WILLS: I have two questions. You noted at least two or three times that you had some objections to the new BLS methodology. It is not clear to me what those objections were, just given the current--previous testimony.

MR. BEALS: The problems we have concern the inability of BLS to assure cities that the new methodology will improve local unemployment and employment data. Secondly, the city officials that press their individual case with BLS have not received satisfactory responses.

These problems are magnified in importance because of the tremendous impact that BLS changes have had on the allocation of funds.

MS. WILLS: Then that leads to my final question. Taking away the allocations problem, you mentioned earlier that more and accurate data is very necessary at the city level. We are not questioning that at all. What popped into my mind is: What definition of "city" are you using? Are we talking about an SMSA area or some kind of cutoff population base? And I raise that in connection with the tradeoff fiscal ---

MR. BEALS: No. A city is a political jurisdiction that has many specific responsibilities with respect to performing certain functions and receiving federal aid. Therefore, I do not mean SMSA.

Because a city has so many functions requiring employment and unemployment data, it is at a great handicap when federal data collection services do not meet those needs. Although a cost-benefit analysis would argue for a specific population cutoff, maybe 25,000 or so, there are instances when census tract level of information would be critical. For example, Houston, Texas has a low overall unemployment rate, but if we had data on a census tract basis, two or three tracts would show rates of 30-35 percent unemployment among Chicanos.

In those areas of Houston, the problem of unemployment is every bit as significant as in Hartford. And when one considers the allocation of billions of dollars of federal aid, we are not doing as good a job of getting at need as we should.

MS. WILLS: If we were going to make a recommendation and anybody would listen to us in terms of increasing the federal budget expenditures on the collection of data, where would your priorities be from the League's perspective?

MR. BEALS: Well, we would opt for higher expenditures to have more precise data and to have it desegregated to the city level.

MS. WILLS: Through the CPS and expansion of CPS as opposed to--I assume you are talking about the CPS because you talk about getting direct information, and the CPS is our only way to do that right now--administrative data.

MR. BEALS: Well, our view is--as I pointed out, we will get better program performance and better allocation of resources by expending additional appropriations to get better data. This is our primary interest. I think better public policy will result as well as greater public confidence in those policy decisions.

CHAIRMAN LEVITAN: Mr. Beals, of course, the Commission is interested in better data. In opening your statement you showed great sensitivity to cost. Has your staff ever tried to cost out what your proposals? If it has not, could we get some statement about what you would want to invest in that?

MR. BEALS: Well, there were some reports done for the Federal Paperwork Commission last year which show that the burden on state and local governments, I believe, was in the vicinity of \$5 billion a year.

Some estimates have ranged from \$20 million to \$100 million for expansion of the Current Population Survey to include more urban areas. The estimates of costs are difficult, but they do not even approach 1 percent of the amount of federal dollars going to state and local governments.

CHAIRMAN LEVITAN: You would not want to use that as a justification--that the federal government has already imposed \$5 billion--to acquire at least \$2 billion for the proper cities and counties.

MR. BEALS: My example was to give you some idea of the impact in terms of filling out federal reports and responding to federal agency needs for information at the local level. This is a tremendous burden on the taxpayers who support state and local government.

I am suggesting that the federal government can improve its procedures. They ought to be expending more resources on improvements which would be more cost-effective than the procedure we are now using.

CHAIRMAN LEVITAN: Mr. Beals. We do not want a detailed answer right now, but do you think that your staff could spell out in some more detail what you folks actually want? Let's say we buy it and then we go up to the Hill. They have to write the bill for summarizing our recommendations. So that we know that this is what the League of Cities wants and then we have the support of a very important organization, if we buy it or at least if we buy part of it.

I think it would be very helpful to the Commission if we would get something along the line of what Joan just suggested--a presentation of your priorities with another column, or it can be on a different page, what it would cost for each one of the major priorities that you would estimate.

And a third part which keeps cropping up all the time in this hearing, to what extent would you want to use administrative data that are available--usually not the cities but the counties or the states--local data in talking about needs or unemployment insurance data or other administrative data that might be substituted for the present data.

Also, connected with that, what kind of matching would you suggest could be used instead of conducting additional data that would be both less costly and also more helpful to the cities and to your constituents?

MR. BEALS: We would be pleased to take a crack at that. (See Appendix A.)

CHAIRMAN LEVITAN: Thank you very much.  
Mr. Popkin.

MR. POPKIN: On exactly that same line, I think it is imperative--at every meeting we have, I am becoming more and more aware of the fact that economic realities, theoretical realities, costs of collection realities, tell us that you cannot do things by survey for small areas, and yet we know that once it was 6,000 areas; now, it is 10,000 areas. God knows, you know, soon we will have to give estimates by census tract for the Chicano neighbors of Houston.

I think it is really imperative that you address all the possible kinds of administrative data and ways in which they can be fleshed, weighted or manipulated to do reasonably well compared to survey data because I see no way--unless we also take survey data and use administrative data--to break it down.

And, also again, as I asked the last person, if you would consider ways in which W-2 withholding data, if available by area, might also be of value.

And there are two other things: One, when you give this, I am really quite concerned that one of the most important groups of users of federal data and one of the most important clients of the federal government, the League of Cities, is having so much trouble getting the data they would like from the Bureau of Labor Statistics. I would like to hear from you very specific recommendations on behalf of the League of Cities for changes in the organization of the Bureau of Labor Statistics or whatever, that would make it easier for cities and/or the League to get the kinds of output from the now-collected data which would be of most benefit, whether it is Marion Pines in Baltimore or you doing an analysis on behalf of the whole League, or someone in San Diego who needs to know something about his population.

I am finding out more and more that we often just need to do more with the data that is there, rather than needing more data.



The last little point: I think there is a slight contradiction or tension in your testimony that I would like you to address. On one page you ask for a review board to talk about and review on an administrative basis methodology changes.

On the last page, you then point out correctly this is not a decision for statisticians to make; it is essentially a political decision. I would like you to comment on that.

MR. BEALS: There may be a little tension there. I think I agree with you on that point. The political implications, I think, are what we are most concerned about. Often changes in methodology occur with minimum political consultation. It is this kind of consultation which can bring alternative viewpoints to the table and avoid the agency's putting local officials into difficult political situations.

MR. POPKIN: Did you have any advance notice or any chance to make any impact at all?

MR. BEALS: We had notice that BLS was studying options and wanted to make changes to reduce the number of "revisions" it issued and to generally improve its data, but we did not get notice that January 1, 1978 was D-Day.

I think we all can acknowledge that the federal consultation process can be improved. The A-85 process was intended to provide state and local governments some advance warning of future changes in regulations and procedures. However, it has been an uneven process.

It has now been pretty well scuttled by this administration so that the state and local governments are pretty much left to their own devices to try to maintain some dialogue with an agency. In part, the agency has the initiative in terms of promulgating things and we are constantly playing "catch up."

There is no adequate machinery for a constructive, ongoing consultation process to occur. A letter in February 1977 from the President to all agencies establishing new procedures is not an adequate piece of machinery and an ongoing basis for carrying out that consultation process.

CHAIRMAN LEVITAN: Mr. Moskow, do you care to defend your department, or would you blame it on the new fellow?

MR. MOSKOW: I won't touch that one.

But I was concerned about your comments about the Bureau because I have always thought of it as a very professional organization that conducted its business in a very effective manner. Have you made known your concerns to the Secretary of Labor?

MR. BEALS: Yes.

MR. MOSKOW: Okay, I will not go any further than that.

Alan, could you elaborate on the composition of this review board? Would it be statisticians or would it be nonstatisticians?

MR. BEALS: We would like to have a review board that had users, collectors, preparers and statisticians. The mix of how many of each is not critical if the board had a specific charge of balancing the viewpoints represented by its membership. Such a panel would consider many nontechnical questions, e.g., the timing of a change, being sure the change will produce the desired results, as well as technical questions.

MR. MOSKOW: Let me ask you a question on something else. We had some very interesting testimony yesterday from Professor Motley from Kentucky who made a very strong argument for basing the distribution of funds for various revenue-sharing programs on income and not on unemployment, relative income in different localities throughout the country or states, whatever the unit would be.

I was wondering if the League had discussed this or had any position on it, or if you personally had any thoughts on this type of a criterion for allocating funds?

MR. BEALS: As sole criterion?

MR. MOSKOW: Well, he discussed it both as a sole criterion or as a major part of a formula that would include other things.

MR. BEALS: I think that we have had some experience with that as one element in a formula, and I think it is valid and can be quite useful. I guess I would have to know more about what he was thinking of in order to comment more fully. But I think that there is some merit to income as a component in a grant aid program to state and local governments.

MR. MOSKOW: You might want to get a copy of his testimony. It is very interesting.

MR. BEALS: Thank you, I will do that.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: Mr. Beals, on page eight of your statement you allude to the difficulties with the Bureau of Labor Statistics. I just wonder whether the Bureau's reluctance to provide the information you requested is just an example of mean spiritedness or whether it is a reflection of their concern about the reliability of the data on local areas?

You indicate here that the Bureau has great amounts of raw data which could be creatively analyzed if it were more readily available. In your response to the Chairman's homework assignment, I would hope that you would be very specific about the kind of raw data which you have in mind here. What specific raw data do you think the Bureau now has which, if analyzed creatively, would provide the kind of information you need?

Also, in looking at urban unemployment problems, I have found it increasingly difficult to use the unemployment rate alone. There is a concept that is now being used increasingly, the employment-population ratio. I wonder if you would comment on the use of employment-population ratios as a way of getting a

handle on what is happening in cities with respect to the utilization of their work force as compared with looking at the unemployment rate in those cities?

You did not mention that in your paper. I am sure that some of the city planning agencies, perhaps, are looking at that. Would you want to comment on that?

MR. BEALS: Well, perhaps we can follow up with that as part of our other assignment. I think I would prefer to do that, thank you. (See Appendix A.)

MS. WILLS: Can I add to the assignment?

CHAIRMAN LEVITAN: Are you a college professor?

MS. WILLS: I am surrounded by all those professors.

First of all, I would suggest that it might be valuable for you to also get a copy of Edwin Coleman's testimony of yesterday from the Bureau of Economic Analysis, and I think we should make sure that we make that available to you.

I forgot to ask my normal question. There has been a lot of talk--and Bernie just alluded to it--about just using unemployment statistics as a major--other people are throwing out the utilization of income--we obviously use all those right now. The concept of a hardship index, based on individual hardship, has also been discussed as a method of targeting monies to individuals. Now, I am not talking about the formula issue now at all.

It would be very helpful to me, and I am sure to the whole Commission, if you could do some thinking on this. There has obviously been material written on this by Sar Levitan, so it is readily available. We would like very much for you to do some thinking about that because it is going to be a critical issue for this Commission.

MR. BEALS: Okay. We will be pleased to do that also. (See Appendix A.)

CHAIRMAN LEVITAN: Thank you very much, Mr. Beals.

MR. BEALS: Thank you very much.

CHAIRMAN LEVITAN: And I hope we will hear from you again soon.

MR. BEALS: Yes, indeed. We appreciate the opportunity to be before you.

CHAIRMAN LEVITAN: I think we will take a 10-minute break.

(Whereupon, a brief recess was taken.)

CHAIRMAN LEVITAN: We now turn back to national data. As our first testifier or witness--whichever one we call it--we have not only a national authority on employment and unemployment statistics, but also a former commissioner of the Bureau of Labor Statistics. Since Mr. Moskow very courageously refused to defend his old department, maybe you will want to do so, or you may proceed in whichever way you want to, Dr. Moore. We are delighted to have you.

STATEMENT OF GEOFFREY MOORE,  
NATIONAL BUREAU OF ECONOMIC RESEARCH

DR. MOORE: The information on employment and unemployment that is provided monthly by the Bureau of Labor Statistics is vastly improved over what it was 10 or 20 years ago and standards of accuracy and objectivity have been strictly maintained.

At the same time, the public interest in these numbers has expanded enormously. Revisions of the seasonal adjustment of the unemployment figures attract front page attention. Discrepancies between estimates of unemployment derived by one method as compared with another create political and legal controversies because the allocation of millions of dollars of public funds rides on the difference.

This situation has various implications, including the need to devote more resources to the problem. I

shall concentrate my remarks, however, on some improvements in the presentation and analysis of the information presently available. Such improvements have the advantage, so important in these days of budget deficits, of costing relatively little, yet nevertheless yielding benefits in better understanding of the data by private and public decisionmakers.

My suggestions can be summarized under six headings:

First, employment and unemployment rates: The Bureau of Labor Statistics should publish and emphasize in its press releases and articles the percentage of the working age population that is employed, the percentage unemployed, the percentage in the armed forces, and the percentage not in the labor force.

These figures, adding to 100 percent, should be shown not only for the total working age population, but also for each major age, sex, and racial group and for various geographic areas.

Table 1 illustrates one use of these percentages, to compare different recovery periods. Looking at the unemployment percentages alone, the current recovery shows the greatest slack. But the employment percentages show that the population is more fully employed than in any previous recovery, a very different picture indeed.

The higher unemployment percentage in this recovery is not the result of a lower proportion employed, but mainly reflects a reduction in the proportion outside the labor force. The unemployment rate as ordinarily computed does not reveal this, since it takes into account only those who are already in the labor force. Many of those who are not presently counted in the labor force constitute a secondary labor reserve that may be available for work as their own personal situation changes or as conditions in the labor market change.

The percentage distributions illustrated in Table 1 provide a simple way to show the changing size of this group compared with those employed, unemployed or in the armed forces.

Second, an Employment Conditions Digest: a new report. During the past 17 years the Commerce Depart-

ment's monthly publication, Business Conditions Digest (BCD), has become one of the most widely used reports among those who follow current economic conditions. It focuses upon leading, coincident and lagging indicators, using a business cycle chronology and extensive charts to put their current behavior into historical perspective.

Although employment and unemployment data are included, there is a need for a more extensive treatment of the labor market data, which the Bureau of Labor Statistics should publish in a separate report that might be given a similar title, Employment Conditions Digest (ECD).

Many of the features used in BCD could be adopted in ECD, including charts covering a 25-year span, business cycle shading, classification of employment indicators by whether they lead, coincide with, or lag at business cycle turns, diffusion indexes, recession or recovery comparisons, and international comparisons of employment conditions.

Although the preparation of such a report would require additional resources, there would be some offsetting savings by reducing or eliminating existing publications that contain some of this information.

Third, leading, coincident and lagging labor market indicators: To aid in the analysis of labor market conditions the Bureau of Labor Statistics should develop the rationale underlying the systematic differences in the cyclical timing of employment and unemployment data, make the statistical evidence on these differences conveniently available and employ the results in current releases and other publications, including the proposed Employment Conditions Digest.

Much of this work has already been done, either at the BLS, the National Bureau of Economic Research, or elsewhere, but the results are scattered, not up-to-date, less than fully comprehensive and hence are not as available for use as they might be.

Knowledge about why and in what circumstances the average workweek leads employment or why the unemployment rate is a good leading indicator of recession but not of recovery is useful in interpreting the movements of these indicators and in anticipating what is likely to happen next.

**Table 1****Distribution of the Working-Age Population in the Thirty-Sixth Month of Five Recovery Periods**

<b>Thirty-Sixth Month of Recovery</b>	<b>Percentage Distribution of the Population Sixteen and Older</b>					
	<b>Civilian Employed</b>	<b>Armed Forces</b>	<b>Unem- ployed</b>	<b>Not in Labor Force</b>	<b>Persons Total</b>	<b>Number of 16 and Older</b>
March 1978	58.2	1.3	3.8	36.7	100.0	160,313,000
November 1973	57.3	1.5	2.9	38.3	100.0	149,208,000
February 1964	54.4	2.2	3.1	40.4	100.0	126,440,000
May 1957	55.7	2.5	2.4	39.5	100.0	114,851,000
October 1952	55.1	3.3	1.7	40.0	100.0	109,164,000

Note: A sixth recovery period, beginning April 1958, lasted only 24 months, hence is omitted.

The unemployment percentages shown above are much lower than the unemployment rates commonly used, because the latter are percentages of the civilian labor force (employed plus unemployed) rather than the total working-age population. Otherwise they show much the same pattern. Starting with March 1978 the unemployment rates in the five recoveries are: 6.1%, 4.8%, 5.4%, 4.1%, 3.0%.

Source: U.S. Bureau of Labor Statistics.



Fourth, recession and recovery patterns: To aid in appraising the state of the economy, the Bureau of Labor Statistics should publish comparisons of current changes in employment and unemployment with corresponding changes during earlier periods of recession or recovery, as the case may be. A comparative picture of the relative strength or weakness of a recovery or of the severity or mildness of recession as it develops and of any unusual features in the current situation is readily obtained by this device.

The record of what typically happens during periods of economic recovery from recessions is not widely known. There is often a long lag in public recognition even of the fact that a recovery is taking place.

How far along it is at any point, what has happened in the later stages of previous recoveries, especially the development that has operated to bring them to an end, and what factors appear to be especially strong or weak in the light of past experience are matters on which greater public enlightenment would be desirable.

The same can be said of recessions and the same comparative device can be used during recessions. For example, it is not widely known that the 1974-75 recession, which was the worst since the 1930s in terms of loss of output, was not the worst in terms of loss of jobs.

Fifth, further development of existing data: Among the types of data now presently available that are not, in my view, sufficiently exploited are the following:

Reconciliation of household versus payroll survey data: Although both these surveys provide data on non-farm employment, there are conceptual differences between them that make comparison difficult. A reconciliation table, published monthly, would make this easier for most users, would improve public understanding of why the differences exist, and throw some light on the reliability of both surveys.

Industry employment from the household survey: Although seasonally adjusted data on unemployment by industry of last job are reported monthly, the corres-

pending employment data are not published. Hence, one cannot readily determine what industries are contributing most to a given reported rise or decline in total employment. The employment figures would also help to pinpoint the differences between the household and payroll survey data, since the latter are reported by industry.

Employee hours: The household survey provides the most comprehensive current statistics on employment, since, unlike the payroll survey, it includes the self-employed, unpaid family workers, and those employed in agriculture. The household survey also collects data on hours worked per week, but no estimate is made from this survey of the total hours worked for all persons employed.

This would be the most comprehensive measure of total labor input, and it would automatically take account of the fact that many persons work only part-time. It would also help to reconcile the payroll and household employment figures because one of the chief differences between them is that multiple jobholders appear on more than one payroll, but are counted only once in the household survey. Since there is an offsetting difference in the reported average workweek, total manhours from the payroll survey should equal manhours from the household survey, apart from the differences in coverage.

Job vacancies: No comprehensive national statistics on job vacancies exist, despite their obvious importance in appraising the demand for labor and the effectiveness with which it is being met. This is one of the major deficiencies in our labor market statistics, and a serious effort should be made to overcome it.

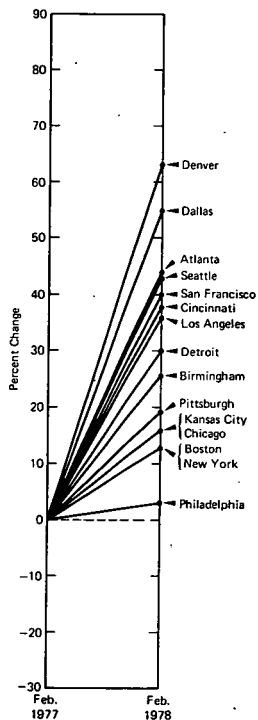
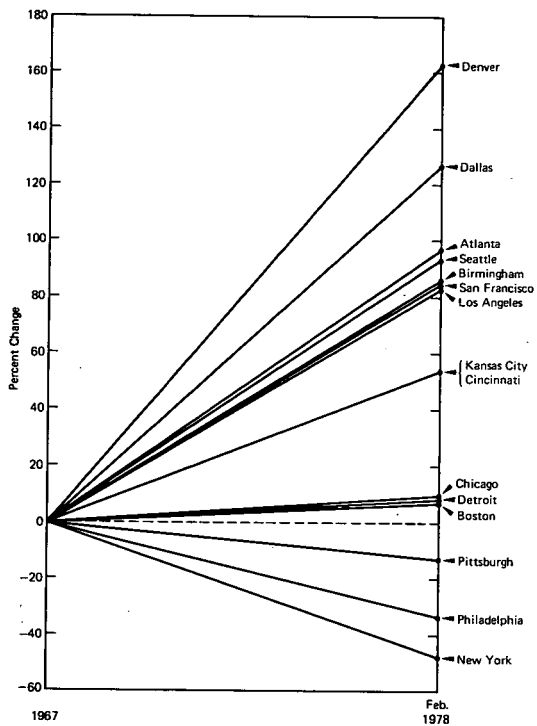
In the meantime, one of the current sources of information, the data on help-wanted advertising compiled by the Conference Board, should be exploited further. Besides a national index, indexes are obtained for 51 cities and they show plainly where the demand for labor is increasing rapidly, remaining stable, or declining.

Information of this sort, widely publicized, in areas of high unemployment, could help to draw people to where the jobs are and away from where they are not.

**Chart 1. Where the Jobs Are: Growth in Help-Wanted Ads in Fifteen Cities**

**The Long-Run Picture: Rapid Growth in Some Cities, Stability or Decline in Others**

**The Short-Run Picture: Generally Brighter**



Source: *The Conference Board Statistical Bulletin*, April 1978.

Sixth, a continuing audit of employment statistics: A continuing audit of employment statistics, conducted by an authoritative agency or group such as the National Research Council, should be established to follow up the recommendations of the present National Commission on Employment and Unemployment Statistics and to advise on the needs for new data and on problems concerning existing data as they emerge in the years ahead.

Continuity in such an auditing process is needed to insure timeliness, and to secure attention to the little problems or new ideas that can be quickly taken care of as well as to the bigger ones that take longer. Such an audit should strengthen confidence in the employment and unemployment statistics, since there would be an independent body to which questions about the data could be put, and which would publish reports on the results of its inquiries.

CHAIRMAN LEVITAN: Thank you, sir.

Mr. Anderson, as a former employee of BLS, is there anything you want to do now that you haven't done before?

MR. ANDERSON: Well, I am very pleased to see Geoffrey Moore here and I want to commend you for a very fine paper and also the larger paper from which this statement is drawn. I think you are the first witness who has come before this Commission who has something specific to say about job vacancies and I want to press you on that a bit.

The BLS used to make data available on manufacturing job vacancies, but that was discontinued. I think one of the reasons it was discontinued was that there were some problems with what that really meant and the difficulty in collecting the data.

I have three very specific questions. First of all, how would you define a job vacancy? The implication in the table on page six, of course, is that the help-wanted ads indicate the number of jobs that are vacant, but certainly at the local level we know that help-wanted lines in the newspaper really do not reflect job vacancies in a realistic sense.

So, how would you define job vacancies from the standpoint of collecting meaningful market information that could be used for employment purposes? Secondly, how frequently should that information be collected? And, thirdly, what should be the source of that information so that you could have it across a wide range of industries, not just for manufacturing, but for the work force at large?

DR. MOORE: Well, I was familiar, of course, with that earlier survey that the BLS made. I think it was during my administration that the data first began to be published and we continued it, and it was my successor who discontinued the survey, much to my sorrow.

CHAIRMAN LEVITAN: Would you care to speculate why?

DR. MOORE: Well, as I understand it, it was discontinued partly because of the funding problem. The funds came from what used to be called the Manpower Administration, and they had a particular purpose in mind, of course, in generating these data. And that, I think, was always something of a problem for BLS, who had a statistical motivation in mind, as compared with actually locating jobs in which to place people.

Naturally, the basic purpose of having the data was to help the workings of the job market. But there was always a difficulty of maintaining a statistically valid type survey and still serving that purpose.

It is almost as though, when we interview the household and find out who in the household was unemployed, the same interviewer tried to find a job in which to place that individual. That is not, of course, done and I think it would raise very considerable difficulties with the validity of the household data if it were done. The same type of problem came up in connection with job vacancies.

On the matter of definition, I really did not have any problem, as far as I can recollect, with the definition of job vacancies that was being used when the survey was being taken. It had its analogue in the survey with respect to unemployment. Some action had

to be taken by the employer with respect to filling a vacancy before it would be counted. I do not remember the details of it, but that was the principle, just as some action has to be taken by the person who is classified as unemployed.

In general, I would try to make the definition of vacancy as closely analogous as I could to the person who is seeking a job. As to frequency, unless the survey is done monthly, I think it will lose very considerable value. Quarterly surveys might be a possibility, but monthly would, I think, be preferable.

CHAIRMAN LEVITAN: Mr. Moskow, here is your chance to find out things about BLS that you could never discover when you were Assistant Secretary and Under Secretary.

MR. MOSKOW: I have three questions and, if it is all right, I will ask them one at a time. First, a very quick one: On your suggestion to publish the percentage distribution of the population 16 and over in these five categories, I assume your suggestion is to do that on a regular basis as part of the press release that would come out each month.

The table you have here looks at these data tied into recovery periods. I assume also that if this was to come out on a monthly basis, it would not be tied to the recovery ---

DR. MOORE: No.

MR. MOSKOW: But just a straight percentage. Okay. The second one is on this Employment Conditions Digest suggestion, which is a very interesting one. I can see the need for this type of analytical publication. If I were looking at it strictly from a cost standpoint right off the top of my head, I would say, rather than put out a new publication, it would be a lot easier to add 15 pages to the existing Business Conditions Digest and just expand that.

Are there any serious disadvantages to doing that if it were to cost a lot less than putting out a new publication?

DR. MOORE: Well, in my detailed paper I make suggestions with regard to the content of this new proposed publication and it would cover more than 15 pages. It would be a rather comprehensive picture of the labor market conditions as they have evolved over a period of, say, 25 years.

So, while certainly 15 pages added to BCD would be better than nothing on this subject, I really think the subject itself is worthy of attention in its own right, and there certainly is enough of fairly general interest, particularly if part of the publication were devoted to interarea differences, differences among states, or perhaps among some selected cities. So, there would certainly be enough content to warrant a separate publication, although, as you say, that would undoubtedly cost more than adding a few pages to BCD.

MR. MOSKOW: It would not necessarily have to be a few. I think it is a rather substantial document now.

DR. MOORE: It is.

MR. MOSKOW: It could be 28, 30 pages, too, if it were feasible. It just occurred to me that people who were interested in these types of data, looking at business conditions, might find it more convenient to have it all in one place rather than having to go to two different publications, but this is something that can be looked at in the future.

My last question relates to point six, a continuing audit of the employment statistics, which is a very interesting idea and it is one that I would like to give a lot more thought to in the future.

I can see the advantage to this type of group--since it is structured outside the government--this type of auditing agency, because of any area of the government's activities this is the one that should be so completely nonpolitical, first of all. All their procedures and methodologies should be completely above-board and published so that the top statisticians in the country can comment on them, give advice and suggestions, and there sometimes is a need for prodding of any agency to constantly improve their performance.

On the other hand, historically, groups like this that have been set up to audit often become lobbying groups for more of whatever it is that agency is producing; more social services, more grants, or in this case it could be for more statistics.

And, as we heard before, there is an infinite demand for statistics and everyone wants more, and it is very rare that a series ever gets cut out. I think the vacancy series is probably the only one in the history of the Bureau that has ever been cut out and because of the need for continuity and the fact that there are groups--whenever an agency tries to cut out a series, groups come out of the woodwork who want to continue it and it is very understandable.

So, I am just wondering if you have thought of the potential disadvantage of this type of a structure and if you would like to comment on it at all.

DR. MOORE: Well, I do not know how to really avoid what you have been saying. It is a problem. I do think the auditing agency should include users of data as well as experts in the statistical field on how the data should be constructed.

There is, for example, the Federal Statistical Users Conference which, in a sense, is something of a lobbying group, but, nevertheless, includes a wide variety and range of interests in statistical data. Probably that group ought to be represented in this kind of an auditing process.

I really do not have any other suggestions with respect to your general problem that such a group is very likely to generate more ideas as to new data that are needed and relatively few ideas about data that should be dropped.

But, certainly, if its mandate, as originally set up, were to include both the one and the other, I should think if it were reasonably well run, it would be paying attention to the types of statistics that may have become obsolete and the types of detail that are no longer widely used.



CHAIRMAN LEVITAN: Thank you. Ms. Wills?

MS. WILLS: We have heard primarily from statisticians and economists that continuity is a critical factor. From other people we have heard it is now time to develop new concepts. How important do you think the issue of continuity is?

The armed forces are enumerated separately and data on that group are published alone. Is there any possibility to include it in, for example, a combined total and civilian labor force? Could you also speak to that?

DR. MOORE: Well, as one who has virtually all my professional life studied data over very considerable periods of time--I even occasionally look at data going back before 1947--I feel there is a great need for continuity. I also feel that times change and that we need new data. Somebody with a good idea, that we just did not have before, may come along and it ought to be implemented.

In general, I think we can do quite well with overlaps, simply comparing the new concept for a period of time with what we had before, so we know something about how to bridge the gap from one to the other.

So, I would not hesitate about changing a concept just because it is different from what it used to be. If it is better, let's adopt it, but let's also provide some continuity, some overlap so we know what we are doing.

I think many of the relatively minor changes in concept--and I guess I would have to classify most of the changes that were made as a result of the Gordon Committee's work as having a relatively minor effect, say, on the unemployment rate--many of those changes, while possibly justified in principle, when looked at on this overlapping basis will not make a great deal of difference.

They will either raise the level a little or lower it a little, but many things will go on pretty much as they were before because they are basically moved by more important things than these changes.

Again, that is no argument for not making the changes, but it does indicate that there is a lot of continuity in the economic system that the statisticians will not obfuscate if they change their definitions in a relatively minor way.

MR. POPKIN: I will try and make this very brief because we are behind. You suggested asking about employee hours on the CPS survey and that brings to mind again a concern of mine that has come up several times in the last few days, that we are interviewing a member of a dwelling unit every month, not even necessarily a member of the same family every month.

And I wonder if you would comment on the desirability, perhaps, of two changes in the monthly CPS: One, trying to get the same individual each month and, two, trying to stay with the same family unit each month, not the same dwelling unit.

What are the qualitative differences that might make in the results of the CPS?

DR. MOORE: I think I would have to look into that before giving any responsible answer. I just do not know.

MR. POPKIN: I would appreciate very much, sir, as a former Commissioner, if you would look into that. And, since you are not going to answer that now, I can ask another question because it will not take a long time, Dr. Levitan. I am also interested in whether or not you think CPS could, without cutting the quality of the questions now in the CPS, be extended to ask the kinds of questions needed for a hardship survey or whether you think it might be desirable to use a separate survey.

And I will be glad to wait on an answer until you have had time to think about it. I would very much appreciate a response later from you on these questions.

DR. MOORE: Well, let me just make one or two remarks on the hardship survey, since I have thought about it to some extent already.

I believe there is a need for such a measure. It could be used in a variety of ways. But I also think it is important to separate both the collection of it and the estimation of it from the more--I would say really basically--more objective measures of labor market conditions, employment and unemployment, that we get presently from the CPS.

In other words, let's put it this way: We do certainly need to get information on earnings and income and I believe we need to get such measures from the CPS and use them. I have urged that in other places frequently. The hourly earnings that we get from the payroll survey are simply not adequate to measure what is happening either to the earnings of an individual or of a family unit or a household. They cannot be put together properly that way.

So, I think the CPS is a vehicle that can be used to get earnings data and income data, but I also think that we need to keep very separated the more objective labor market information from the less objective. And I would regard even the term "hardship" as a less objective kind of term. Possibly someone could invent a word that means the same thing but does not have the same implications with respect to whose feelings are being weighed and how they are being considered.

But, in general, I think you need to keep that separation very carefully in any statistical enterprise and I would be very hesitant myself in having the Bureau of Labor Statistics develop anything that could be called a hardship index because of the difficulty of making that separation within the same agency.

MR. POPKIN: Does that mean you would not want to collect it or you just would not want to be responsible for the definition?

DR. MOORE: The collection vehicle, I think, might be the same, since the CPS handles that and they could handle earnings data and income data as well, as they do to some extent now.

What I am concerned about is having the BLS define hardship and then publish an index that meets that definition.

MR. POPKIN: If someone else defines it, are you willing to have BLS publish it?

DR. MOORE: I guess my feeling is that it would be better if some other agency published it, some agency that is more concerned with what this index will be used for and, therefore, pays much more attention than a statistical agency can to its definition and whether it is valid.

MR. POPKIN: That is the important thing.

CHAIRMAN LEVITAN: Dr. Moore, we are in danger of being impolite to Dr. Ruggles and Mr. Arnold, who are supposed to follow, by keeping them waiting. But, since you are the only former BLS commissioner up here, I think they will indulge me for an observation or two and a question or two.

Number one, I do not know in what way a hardship index is impure or why it has to be isolated or kept separately by a different agency. I also do not understand from an economist's point of view why an income level, below which hardship is said to exist, is less objective than a very nebulous labor force attachment concept that is now in use.

I do not know what is objective about counting one hour of work as being in the labor force. The BLS would not have to invest any definition; Congress has done it already. We do have a hardship index, namely, a poverty level, which has already been determined. BLS would not have to make the value decisions under these circumstances.

In the past, BLS has not hesitated to define terms if it suited its own needs. Why would it be different in this case?

As I said, this is an observation, not necessarily a question. If you would care to comment, with Dr. Ruggles' indulgence, I will wait for it.

DR. MOORE: Well, let me just say that objectivity is a matter of degree and my views about it may be different from others; they are obviously likely to be. But I do think there are still differences of degree

and that we ought to recognize them in the work of a statistical agency.

I think if the BLS were to publish what was called a hardship index, no matter if the definition was provided by an act of Congress, it would be considered by most of the public to be the Bureau of Labor Statistics' determination of what was hardship and what was not.

I would say that that was something to be avoided if the objectivity of the Bureau of Labor Statistics' other activities is to be preserved.

Let me give you an illustration that bothered me a great deal when I was Commissioner. The Bureau of Labor Statistics for many years published family budgets. They are classified into three levels, what is now called a lower level, an intermediate level, and a higher level. I objected to the Bureau of Labor Statistics doing that. I did not think there was any really objective way for it to define those levels.

While I did not say that the government should not derive them, I did not think it was a function for a statistical agency, the kind that BLS is, to do it.

Well, I would still feel very much like that today, even with respect to those budget figures, and I would feel more strongly about anything that was called hardship which, of course, is not applied to those budget numbers.

CHAIRMAN LEVITAN: My next point, Dr. Moore, is in connection with recommendation number six in your brief paper. It is the one that Mr. Moskow discussed before. I always looked at NBER as a mother. You tell us exactly when recessions start, when they end, and so on. Why wouldn't NBER be a good home for your number six recommendation? Or is it because you are connected with NBER that modesty prevents you from suggesting it?

DR. MOORE: Yes, I guess I would have to say frankly that it did prevent me from suggesting it, although I do not think the National Bureau is the only possible agency. It does have the advantage in this connection of having on its board of directors a wide variety of people with very different views on economic and social questions, from labor, management, universities, and so on.

So, it has, I think, an aspect of objectivity for that reason. Hence, it might well be that the National Bureau could become an agency that would undertake this kind of an auditing function. I am not sure that it wants to. I am not sure whether the Bureau's board of directors would like this kind of job, but it is a possibility.

But I am sure there are other possibilities as well.

CHAIRMAN LEVITAN: The third question: In your recommendations, Dr. Moore, you focused more or less on the CPS, although you mentioned the reconciliation with establishment data. But you basically focused on CPS. In the testimony preceding you--and generally in the work of the Commission--analysts are considering a great deal of matching data or using other sources of data that might be both cheaper and more reliable.

In writing your paper for the Commission, what are the possibilities of using other sources of data, like IRS or social security? I know there are, of course, confidentiality problems. But to the extent that they can be matched, other administrative data might be useful for labor force statistics. It is within reach of the total system, but at the same time it is very low-cost if modern technology and confidentially would allow it.

Is that something you would care to consider for the Commission? I know it is a big job.

DR. MOORE: I would think, Mr. Chairman, that the main use of these administrative type data would be to get local or state estimates because, to do so with a household type survey is just a fantastically expensive job.

Now, I haven't in this paper really paid any attention to the problem of providing local data, although I have mentioned it a few times. I would be glad to consider that further and, particularly, the use of these administrative type data, in a revision of the paper.

CHAIRMAN LEVITAN: My final question to you--and I am not sure that it is a question--concerns your observation about continuity. I join you in sympathy for trying to get continuity. But how do you measure continuity if institutions change?

On this one, you acted like a good politician rather than your usual self. The question came up yesterday, and I would also like to ask it of you.

After 38 years with the present system, wouldn't it be time to sit down with a group like this, detached from the pressures of the marketplace, Congress or any body else, and rethink the whole system? Possibly, we might come up with something different, or something that might change definitions and concepts.

We have talked about some changes--the military, 16-17 year olds, one-hour of work, hardship; some pure, some impure measurements. After due consideration we have to come up with something. But I think continuity should not be the controlling factor in the Commission's work.

In one of the Commission meetings, Dr. Moore, we had a problem that some people--naturally economists--started to toss out phrases like cost-benefit. What is the cost and what is the benefit of a small change?

But don't you think that the task of this Commission is rather a broader one? We have to look at the total system. And I am not sure that after 38 years, and many institutional changes, whether the same system that was designed by WPA people should be considered holy and not subject to change.

The concepts and definitions--as you know better than I do--have not really changed. The methodology and technology has changed for collecting the data, but the basic concepts have not.

Again, if you want to answer now, please do; otherwise, if this is something that you would care to add to your paper, please do so.

DR. MOORE: Well, I would be glad to add a few more paragraphs, but first let me say that the WPA, after all, produced some very good work in the arts. We have to be obliged to them for that.

MR. POPKIN: I don't think you mean to make that allusion about the BLS.

DR. MOORE: Well, the BLS--I notice the editor of the Monthly Labor Review is in the audience--has produced some very good art, too, on the cover of their magazine.

CHAIRMAN LEVITAN: That is on the outside, not on the inside.

DR. MOORE: Well, on the matter of continuity, I will be glad to consider that further in my paper.

CHAIRMAN LEVITAN: Thank you very much, Dr. Moore, and we will look forward to your comments on the questions that we asked you.

Dr. Ruggles, we are sorry to keep you delayed. But, as I said, those things happen. Dr. Ruggles, if Fortune magazine is correct, you seem to be the worst "berg" of federal statisticians now operating. So, go ahead, keep your "berg."

STATEMENT OF RICHARD RUGGLES,  
PROFESSOR OF ECONOMICS, YALE UNIVERSITY

DR. RUGGLES: Few would deny the importance of employment and unemployment statistics as indices of economic activity and capacity utilization. Since the depression of the 1930s the public, the media, the Congress, and government officials have all considered the monthly release of information on employment and unemployment to be one of the most important kinds of economic information made available by the government; its only rival in the public view is the consumer price index.

There is general agreement that the available employment and unemployment statistics have served well as indicators of changes in economic activity, but there is less agreement on how well they measure the degree of capacity utilization.

In part, this reflects the fact that employment and unemployment statistics may seem to give conflict-



ing indications of what is taking place. In some periods both employment and unemployment may rise, suggesting that the increase in activity is not keeping pace with the growth in the supply of available labor. To keep capacity fully utilized, it is not sufficient that the economy grow, but it must grow enough to absorb the increase in the number of people wanting to work.

The economy is generally considered to be operating at full capacity when it achieves full employment. Insufficient physical capacity may be considered in the short run as a factor which prevents the economy from reaching its full potential, but realistically it is the available supply of labor which must be considered in any measurement of capacity for the economy as a whole.

A measure of the available labor supply, however, is not by itself sufficient for estimating the total capacity of the economy. For a variety of reasons, it is not feasible to reduce the rate of unemployment to zero. Frictional unemployment will exist as individuals enter the labor force or quit the jobs they have to look for new employment.

Structural unemployment may exist for periods of time in particular industries, regions, or groups of the population due to technological change or lack of appropriate labor skills. Within a given labor market, it is generally considered that there is a tradeoff between the level of unemployment and the wage rate. As labor supplies tighten, employers bid against each other for the limited supply of labor and the wage rate rises.

A considerable amount of literature has been devoted to establishing this tradeoff. Thus, a second element which is required to evaluate capacity utilization is a determination of how far unemployment can be reduced before a wage-price spiral is set in motion.

The tradeoff between unemployment and the wage rate, however, is dependent on yet another consideration, namely, the extent to which the wage increases are offset by productivity increases. To the extent that productivity increases lower labor costs, wage increases do not necessarily result in price increases.

Larger productivity increases permit wage increases without a wage-price spiral.

In the last few years, however, there has been growing concern that the rate of productivity increase has declined, thus lowering the rate of wage increase which the economy can tolerate without causing rising prices.

It is very important, therefore, for the measurement of both full employment and potential GNP to study the determinants of productivity changes in relation to economic conditions in both the long run and the short run. The analysis of the relation between employment, unemployment and productivity is thus the third element which needs to be taken into account in the evaluation of capacity utilization.

This statement will be devoted to an examination of these three elements. The adequacy of employment and unemployment statistics will be considered in terms of their contribution to the measurement of: one, the available supply of labor in the economy; two, the tradeoff between unemployment and wage rise; and, three, productivity change.

Measurement of the available supply of labor: The most widely used measure of the available supply of unused labor is the unemployment rate, which is based on the Current Population Survey. This survey classifies the work status of each individual 16 years and older in the sample into one of three categories: one, employed; two, unemployed and looking for work; and, three, not employed and not looking for work.

The labor force is defined as the employed plus the unemployed who are looking for work and the unemployment rate is the percentage which the unemployed looking for work constitute of the total labor force.

But for measuring the available supply of labor, the unemployment rate is seriously deficient. It does not take into account how fully individuals are employed, whether they have withdrawn from the labor force because of lack of job opportunities, or whether they are subemployed in low-paying or inappropriate jobs. A valid measurement of available labor supply should take these factors into account.

The Current Population Survey does contain some information on whether the individuals surveyed are working part-time for economic reasons and whether they are not in the labor force because of the lack of job opportunities, and estimates are made of the labor force time lost due to both of these factors.

Subemployment, however, is much more difficult to measure. In the employment data a job is a job and, if in slack times, a worker is forced to take an inferior or inappropriate job, this cannot be observed.

Studies by Sar Levitan and others have indicated that a substantial number of workers are in jobs which pay less than poverty level income. The cyclical variability in job quality can be expected to be large, and Eli Ginsberg in his studies has seriously questioned the ability of the economy to provide jobs of appropriate quality.

Finally, it should also be recognized that in periods of high employment many individuals welcome both more overtime employment or dual jobs as a way of increasing their standard of living and this should also be counted in measuring the total available supply of labor.

Although the Current Population Survey in its present form does provide much of the basic data required for such a more comprehensive measurement of the available supply of labor, additional information would be needed to cover the qualifications of the individual in terms of education or training, the nature of the job held, including its rate of pay and longitudinal information, so that an individual's employment can be evaluated in terms of his own work history.

The Current Population Survey, of course, cannot be enlarged indefinitely and increases in information are costly. But much of the needed information could be obtained on an annual benchmark basis by systematically relating the Current Population Survey to other surveys such as the National Longitudinal Survey, the Panel Survey of Family Income Dynamics, the Survey of Income and Program Participation, or even such administrative records as the Continuous Work History Sample of the social security records.

The tradeoff between unemployment and wages: The second element in the measurement of capacity and capacity utilization is the determination of the level of unemployment at which further increases in the demand for labor would primarily result in a rise in the wage rate rather than an expansion in employment.

Although from a theoretical point of view, it is apparent that at some point such a tradeoff must exist, the empirical determination of the relation between the unemployment level and wage behavior is quite difficult and a part of the difficulty stems from inadequacies in the data.

The most widely used measurement of wage behavior is the change in straight-time average hourly earnings, which is derived from the establishment hours and earnings data compiled by the Bureau of Labor Statistics. Given the methods by which this figure is computed, however, it reflects not only changes in wage rates, but also shifts in the composition of the work force.

The impact of the changing composition of the labor force on measured average hourly earnings is particularly severe in periods of changing employment levels. This means that the cyclical behavior of wage rates in response to changes in employment is obscured in the reported data by the effects of shifts in the importance of various groups receiving different levels of pay.

In effect, average hourly earnings measures the unit value of labor, rather than its price. In other words, average hourly earnings do not accurately reflect wage behavior, and their use as a measure of wage behavior results in a misleading and distorted analysis of the tradeoff between unemployment and wages.

The BLS has long recognized this problem and in 1976 introduced a new measure called the employment cost index, which was intended to measure the change in the price of labor. Average hourly earnings for specified occupations are obtained from a quarterly sample of approximately 2,000 establishments.

By focusing on occupation, the employment cost index does avoid the mix effect which normally results

from differential cyclical employment patterns among occupations. But within occupational groups the mix effect of changing distributions by age, race, sex, skill, and experience still remains and, again, the change in average hourly earnings reflects this mix. The sensitivity of occupational classification to economic conditions also raises serious questions in interpreting wage changes within occupation.

Instead of collecting hours and earnings for occupational groups of employees, it would be preferable to collect data for individual employees over time. This could be accomplished by asking employers to provide information on the hours and earnings of each worker whose social security number ends in a specified set of digits, the same system now used in sampling the social security records. This would provide a continuing random sample of a panel of employees. Employers could also provide information such as age, sex, occupation, overtime earnings, and fringe benefits.

As individuals change jobs or enter or leave the labor market, there would, of course, be turnover in those found in any given establishment. The problem is directly analogous to that which arises in the collection of price data when the products available within the retail outlet change, and the same techniques can be used.

For individuals, however, there are also other sources of information which can be used to determine whether the individual has moved and whether he is unemployed or has withdrawn from the labor market. Thus, for example, the Continuous Work History Sample available from social security records could be used in conjunction with the sample of individual employees' hours and earnings reported by establishments.

The collection of individual employee hours and earnings from establishments could serve as a direct substitute for the data now collected for the employment cost index. If the occupation of individual employees were reported in addition to their hours and earnings, a properly constructed sample could provide information on the earnings and change in earnings of different occupations in different industries and different geographic regions of the country, which is more detail than the employment cost index yields.

In addition, however, information would also be available on the distribution of the rates of pay within each occupation and how these distributions change, and this is an essential element in understanding wage behavior. From the employer's point of view, the burden of reporting information on individual employees identified by social security number should not be great since the basic records of the firm are kept in this form and the information is readily available. For many establishments it would be simpler to provide the basic information for specified employees than to bring together the records of all employees falling into the occupations specified by the BLS definitions for the employment cost index.

The measurement of productivity change: The final element that must be considered in assessing the measurement of capacity utilization is productivity change. Wage increases can be expected to take place as part of the normal process of economic growth. From the point of view of price stability, the central question is whether wage increases are offset by productivity increases.

In this manner, productivity change does determine how large wage increases can be without exerting pressures on prices, and it, therefore, establishes for the economy as a whole the point on the unemployment-wage tradeoff which the system can tolerate without inflation. But here, again, there are measurement problems.

Conventionally, the change in productivity is measured by relating the change in labor input to the change in output. Two measures of productivity change are available, computed by different methods, one for selected industries and one for the economy as a whole. Both, however, depend upon bringing employment, hours, output, and price information together from a variety of different sources. The lack of consistency among data sources and inadequate coverage of the basic data raise serious questions about the meaning and validity of the resulting productivity measures.

The major problem lies in the division of responsibility among different agencies with different and unrelated statistical programs. Different agencies use different sampling and survey methods and different

classification systems and they process the data in different ways. The need for interagency cooperation has been recognized and there is an interagency committee on the measurement of real output. This committee has concerned itself with problems of comparability, but the work has not been extended to developing a common integrated effort. More than any other area of statistics, the deficiencies of productivity measurement demonstrate the need for basic reform in the federal statistical system.

As in the measurement of wage behavior, what is required for improved productivity measurement is longitudinal data at a much lower level of aggregation than has been available to date. Unlike the wage case, however, much of the needed information already exists and could be put together. At least for manufacturing, it would be possible with the statistics now collected to bring together at the establishment level the required information on output, labor input, and even expenditures on plant and equipment.

The Census Bureau is in a position to link the establishment records over time and analysis of these records, augmented by additional information on prices, could provide the basis for measurement of productivity change at the establishment level. It is only by development of productivity measurement at this level that the determinants of productivity change and its relation to employment and unemployment can be satisfactorily understood.

To summarize, it may be concluded that although the existing statistics of employment and unemployment do provide useful and valuable indices of economic activity, they do not provide an adequate basis for the measurement of capacity utilization. For this, data are needed to show: One, how much labor individuals would offer if job opportunities existed and how much subemployment exists at different levels of economic activity; two, how the earnings and hours of individual employees respond to change in the level of economic activity; and, three, how productivity at the level of the establishment is affected by different levels of economic activity.

These data needs all have one element in common: measurement and analysis needs to be carried out at the individual reporting unit level before the data are aggregated so that the behavior of individuals and establishments can be separated from the effects of changes in the mix of individuals and establishments. Only in this way can we understand what actually takes place as the level of economic activity fluctuates.

CHAIRMAN LEVITAN: Thank you, Dr. Ruggles, for an excellent statement. Are there any questions?

MR. ANDERSON: Thank you, Mr. Chairman.

I very much appreciate your statement Dr. Ruggles, and it brings together, I think, in a very meaningful way, some of the micro-data problems that lie behind our attempt to understand the tradeoff between unemployment and inflation. We have heard a great deal about this, and certainly the discussion of unemployment versus wage rates is an important part.

One notion in your paper that is a bit troublesome to me is the underlying assumption that in fact there is a stable tradeoff; that if we would improve our data, we could move from one point on that curve to another and, thereby, improve our position.

I am sure you have considered the fact that that curve itself is not just the product of the dynamics between the rate of unemployment and the rate of wage change, but also the institutional structure of the labor market, the composition of the labor force, and other factors.

I wonder whether simply improving the data, better definitions, and the merging of certain administrative data, would in fact provide us with an information base that would be useful for policy formulation purposes. Would a great deal more have to be done to look at the composition of the labor force and the structure of local economies in order to really be able to have more effective policy?

You seem to be suggesting that we move toward development of one measure that would combine data sets that we already have. I would like to have your comments on the reporting of statistics as compared to



trying to improve the public's understanding of what these numbers mean by making available more numbers and devoting more attention to the explanation of what these numbers mean. Do you think that would improve the use of the statistics for policymaking purposes, which is really the implicit objective that is contained in your paper?

DR. RUGGLES: Well, I guess I have been very concerned in the last several years that we do not dare stimulate the economy because of inflation, and certainly in academic circles, with all due respect to Professor Levitan here, that this tradeoff is considered to be the central phenomenon. They do not go so far as to suggest that there is excess demand, but they track it through essentially the cost. They consider that this will raise cost.

Now, I have not seen any proof that there is a tradeoff, but I think that if we just provide more information on more things, it is going to remain as confused as it is at the present time and we will act as if there is a tradeoff, even if there is no tradeoff.

I think we have to do some analytic and statistical work to check to see whether in fact wages are responding, shall we say, overwhelmingly to the cost of living and not to labor market conditions. My own belief is that certainly at our present level of labor utilization, wages are relatively insensitive to changes in employment. But in order to prove this, we need other kinds of information than we have presently at hand.

In other words, I just do not think people certainly have been successful in proving that there is a tradeoff, but we have not been successful in proving that there is not a tradeoff and it is a standoff. So, because, theoretically, we know that ultimately there must be a tradeoff, then the question is raised: Well, aren't we really at that point right now? Do we dare stimulate the economy at all or are we going to promote more inflation?

MR. ANDERSON: I agree that certainly, given the institutional arrangements in the labor market, there is very little relationship in many cases between the rate of change in wages and the rate of unemployment. Certainly, when you have wages established through collective bargaining agreements that are set for some time in the future, those wages are going to rise without regard to what happens to unemployment. Now, there are those who might suggest that the fact that you have wages set like that might have an effect on unemployment, but that is another matter.

My question is whether simply improving the data, that is, getting a better measure of productivity, would be sufficient for policymaking purposes, or whether you really want to go substantially beyond that? For example, should we change the definition of unemployment, and thereby provide more information on the demographic characteristics of the unemployed, their labor market experiences, and so forth? Would this also be necessary to get a handle on this dynamic economic question?

DR. RUGGLES. Yes, I think it would be.

I would add one thing, though. If it is true that we can test the sensitivity of wages to unemployment and productivity to unemployment, we might well find that the increase in economic activity had a greater impact on productivity than it did on wages. So that, in fact, the way to combat inflation most is to try to increase the level of economic activity, since productivity is probably more sensitive to economic activity than is the wage rate.

And I think that it is only by trying to study this wage rate and productivity in conjunction with each other that over the long run there may not really be a tradeoff. The object is to get the rate of productivity up more than wages rise, and for that we may need a higher utilization of our capacity; that is all.

CHAIRMAN LEVITAN: I hate to impose mundane matters in this highly intellectual discussion, but I would like to remind my brethren and sister here that we have to be back at 1:30, so any questions you ask

and the responses you get will be at the cost of your victuals.

Mr. Moskow, you are next.

MR. MOSKOW. All right, I will keep that in mind.

Dr. Ruggles, we appreciate very much your being here today and preparing this very interesting paper.

I just wanted to ask you some questions about one aspect of it. I should say, by the way, at the beginning, I am not sure that all of the recommendations are within our purview, the mandate of the Commission, but that is something that we can discuss later. I think the paper certainly should be distributed to agencies within the executive branch or the Council of Economic Advisers in the Office of Management and Budget, however, because I think a number of the recommendations relate to broader concepts and problems than we are supposed to be addressing.

CHAIRMAN LEVITAN: The bulk of this will be sent to those agencies.

MR. MOSKOW: On the measurement of the available supply of labor, you made the point that a valid measure of available labor supply should take into account "people who are forced to take inferior or inappropriate jobs," that is, people who are subemployed. Could you just enlighten me a bit on the measures of available capacity for plants? I know that that has been a matter of discussion. Do they try to make adjustments for inappropriate utilization of plants or machinery?

DR. RUGGLES: I believe they do ask the plants what operating capacity they could operate at and the fact is that sometimes they produce far beyond what they state they can. In other words, they can produce at 110 percent capacity. This has called into question as to just what capacity really does mean in these things.

And they ask them also: At what level would you prefer to operate? This is still another question. So, I think it is a very fungible concept.

MR. MOSKOW: I agree. I think it is a fungible concept, and I think, with respect to the labor supply, terms like "inferior" jobs or "inappropriate" jobs are very elusive and subjective.

DR. RUGGLES: Yes, but it is a little like the concept used to disguise unemployment in developing countries. We can all recognize that there are lots of jobs that are essentially low-grade jobs that are not appropriate for an economy that is operating at high capacity, and we should draw those people into more useful activity.

So, I think that one does have to face up to these questions sooner or later as to what are appropriate jobs.

MR. MOSKOW: I am just wondering exactly how one would try to measure the available supply of labor and try to determine whether someone is in an inferior, inappropriate job. A lot depends upon what the individual thinks of the job he or she had, and that may differ from what that individual's real value in the marketplace is as well.

I can give a lot of far-out examples of this, but we do not have time right now. It is just a concept I would like to know more about; exactly how you would try to specify in an objective way what was an inferior or inappropriate job for an individual.

DR. RUGGLES: That was part of why I requested the longitudinal work history so it could be done in context with the individuals themselves.

MR. MOSKOW: Do you mean it would be the individual's judgment as to whether it was inappropriate?

DR. RUGGLES: No, his past history; if in fact we had a recession and you saw a lot of people taking jobs that were considerably below what they had held before.

MR. MOSKOW: I see.

DR. RUGGLES: It is the cyclical concept.

MR. MOSKOW: I see. So that is the only way you are suggesting it be used?

DR. RUGGLES: Yes.

MR. MOSKOW: I understand.

CHAIRMAN LEVITAN: Joan.

MS. WILLIS: One of the things that came to my mind is whether or not there would be any problems in terms of confidentiality of information with regard to some of the statistics you are suggesting. Second, are you aware of any changes that would have to be made in any laws in order to accomplish the development of these new goals?

DR. RUGGLES: I do not think there are. It depends upon which agency you have do them. Census has the right to do them throughout. There was, of course, the exact match of CPS with the IRS records and with the current population, so that there has been a lot done already in the exact matching.

But I believe there was a specific title that permitted Census to do this.

MS. WILLIS: That poses the question: Why haven't they done it? Are you aware of why?

DR. RUGGLES: It costs a lot and it has to be planned in advance. It is a lot of work and it is just beginning. I expect to see it even more. I believe the survey of income and program participation is planned to be matched with the various government administrative files.

CHAIRMAN LEVITAN: I think that the record should show that not a single person left for lunch while you were talking, so I don't want to impose too much on everybody here.

We will resume at 1:30.

(Whereupon, at 12:40, the hearing was recessed to reconvene at 1:30 p.m. the same day.)

#### AFTERNOON SESSION

CHAIRMAN LEVITAN: Mr. Harrington, we are honored by your presence and we welcome you to the Commission. Would you please proceed in your own way to present whatever testimony or whatever advice you have to give to this Commission.

#### STATEMENT OF THE HONORABLE MICHAEL HARRINGTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS, REPRESENTING THE NORTHEAST-MIDWEST COALITION OF CONGRESSMEN

MR. HARRINGTON: Let me begin, Mr. Chairman, by thanking you and the Commission for the opportunity to share with you this afternoon my views on the crucial issue of labor and economic statistics.

As you may know, the House of Representatives has been immersed for the last week in discussions of the FY '79 budget. It is a sobering experience, I think, for most legislators to discover themselves nonchalantly discussing a \$500 billion federal budget.

But, most importantly, I think the annual budget resolutions may prompt us to pause, to look around, and to inquire whether the money we are spending is having any effect.

Typically, those in Washington tend to think that if our goals are not being achieved it is because the programs we fund are bureaucratic or ineffective. Without detracting from that argument, which I think in many instances is certainly legitimate, I am here this afternoon to put forward what I believe to be an equally important problem: the failure to target federal programs and policies to where they are most needed.

In fact, the basic point which I want to emphasize this afternoon is that the sophisticated development and use of economic statistics can make the crucial difference in the lives of those Americans who are in distress, by ensuring that they receive the assistance which is intended for them.

I am here this afternoon as a representative of a district in northern Massachusetts, once an area of thriving urban commercial centers, that is now in the throes of post-industrial decline. I am also chairman of a congressional coalition which represents hundreds of such declining areas where lagging growth in personal income, an eroding manufacturing base, rising property taxes, and serious structural unemployment describe the urban norm.

The plain fact is that the victims of those shrinking economies of the northeast and midwest, the middle-aged shoeworkers, out of a job with no other skills or the option of mobility, are not served by a flat unemployment rate which fails to reveal the economic context.

Most of us have become familiar with the statement that \$16 billion in federal funds are based annually on unemployment statistics for distribution. But, impressive as that figure may be, its significance for individual well-being is difficult to convey.

The fact is that those \$16 billion include some of our most essential programs for bringing economic hope to the victims of unemployment and economic hardship. They include local public works programs, a third round of which is now being prepared in the House; training and public service employment under CETA; countercyclical revenue-sharing grants to local governments to help them meet the demand for social services; government contracts with private firms through the revitalized Defense Manpower Policy #4A, which targets federal procurement.

These are the programs whose effectiveness hangs in the balance of our search for better economic measures.

The second general point I want to make is that I believe the work which this Commission will be doing over the next 18 months is especially important to

Congress, inasmuch as the avoidance of intransigence of the Bureau of Labor Statistics up until now has doused our hopes of securing a full examination of the labor statistics issue.

As you know, Mr. Chairman, the original CETA legislation of 1973 charged the Department of Labor with beginning development of alternative measures of economic hardship. The language was included because the inadequacy of simple unemployment rates for guiding a broad skills training program was generally acknowledged.

However, the Department of Labor did not follow through on this mandate. The result, for those of us involved in the issue, is not only delay but acute frustration.

Even as recently as last month, in a meeting among some of my colleagues, Deputy Commissioner Janet Norwood and myself, we were still confronted with the tired excuse that the Bureau of Labor Statistics was unable to conduct much research on new statistical measures for fear of becoming a "policy advocate." Surely, this attitude must change if we are to make any progress at all.

So, let me say that I am certainly gratified by the extensive outline of topics which your Commission's findings propose to cover. In view of the origins of Congress' concern, I think it is essential that the need for expanded data and alternative measures be given considerable attention during your study. It is an integral part of the unemployment statistics issue.

I might add that I hope your ultimate report, in addition to providing valuable recommendations, will also serve to broaden the parameters of BLS' concerns.

More than a year ago, Congress was first presented with the allocation of EDA funds for Round I of public works. Mr. Chairman, as I am sure you remember, it was about a week later that the "revised" unemployment figures for 1976 were released by the Bureau of Labor Statistics and we discovered that, in the case of many states, the difference in the unemployment rate and therefore in the funding entitlement was substantial. My own State of Massachusetts lost \$40 million.



Many of us in Congress were understandably upset. I filed a bill which 40 of my colleagues cosponsored to give BLS enough money to expand their sample such that these year-end revisions could be done away with. Later, in June, I sought to amend the Labor-HEW appropriations bill to the same effect, but was persuaded to withdraw the motion on a promise from the House Appropriations Subcommittee that this issue would at last be examined. The summer passed with no congressional action.

At the same time, on the executive side, I was personally assured by Commissioner Shiskin and others at BLS that what I was asking for, namely, reliable monthly data for all states, was quite impractical. I was warned that the cost could be as much as \$100 million.

When I began to complain not only about the quality of the data but also about the inadequacy of the measure itself, the exclusion of discouraged workers, for example, or our inability to distinguish cyclical from structural unemployment, I was assured that I should hold these complaints in abeyance, since a special commission of experts had been formed to examine these very problems.

Since I am now sitting before that very body, I want to make a few specific comments on the latest status of our unemployment data and then turn to the question of alternative measures.

First, as you know, the Bureau of Labor Statistics made a number of methodological changes in its computation of unemployment statistics earlier this year. As of January 1978, we now have monthly CPS data for ten states; we have a rolling six-month average benchmark for the remaining 40 states which promises to eliminate most of the problem with large annual revisions and we have the prospect before us of quarterly CPS data in those 40 states once some limited sample expansions are completed.

These improvements are significant and I do not want to belittle the advance they represent. I believe it is crucial that we have reliable data for state unemployment on a monthly basis and the changes which have just been implemented are a substantial step in

that direction. Nevertheless, there are some serious problems which I foresee with the recent changes.

One of those problems involves the sampling errors in those states included in the group which is slated for monthly CPS data. For states like Massachusetts and your State of Florida, Mr. Chairman, there is ground for concern about the extent of irregular shifts, or "noise" as it is affectionately termed in statistical circles, in the month-to-month data.

This is because these states have relatively small CPS samples and barely qualify under the 10 percent error requirement set for monthly data.

To give an example of what this means, looking over the 1977 figures for Massachusetts, the CPS unemployment figures in a typical four-month period ranged from 9.7 percent to 6.6 percent. During the same months the 70-step data ranged four-tenths of a percent.

Given, for example, the CETA funding which is partly based on the highest three months of a year or the general inclination of policymakers and legislators to look to monthly data as an indication of economic welfare, the sort of erratic statistical shift which occurs under a 10 percent error guideline poses serious problems.

Clearly, we need an increase in these sample sizes as well as equitable treatment among the states.

A more severe problem, however, arises with the fate of large cities and metropolitan areas under the new methodology. As you know, Mr. Chairman, under the new regulations, claims-based unemployment figures will supplant census-share statistics for small, substate areas.

Coinciding with this change is a decision by BLS to abandon the CPS annual benchmark for 30 metropolitan areas (SMSAs) and 10 central cities. This means that these areas will now be depending upon insured unemployment figures.

There are, of course, serious problems with using these methods on inner cities where uncovered employment and the number of reentrants into the labor market are high and where unemployment does not observe the same subarea distribution as population. The result of

abandoning a CPS annual control, which more accurately captures urban unemployment, could be disastrous.

The City of Philadelphia, for example, has recently examined the effect of this new methodology and has arrived at a projected decline of one and one-half percent in the unemployment figure for Philadelphia and a loss of \$6.5 million under Title VI of CETA alone.

Oakland has similarly calculated a 15 percent drop in its CETA funding. Clearly, urban areas are the site of our persistent and severe unemployment problems. Consequently, this is the very moment when we should be refining our local area measurements, not undermining them.

This brings me to the point I most want to stress this afternoon, Mr. Chairman, the chronic need for new types of statistics which will get at the kinds of economic problems we know are out there, particularly in the urban center, but which so far are inadequately reflected in the data we have.

Apart from the inaccuracies of the unemployment statistics, there is the larger, and to my mind much more important, problem that unemployment rates by themselves are often not the best indicators of regional or local economic health.

Unemployment levels only measure surplus labor, those without jobs who have been actively seeking work in the past four weeks, those who have been laid off from work, and those who are waiting to start jobs in the next four weeks. They do not include either "underemployed workers," those who have dropped out of the labor force. Nor do they reflect many of the structural problems in the economy which affect local unemployment levels. Many economically declining areas have moderate but static unemployment rates while some economically growing ones have high unemployment rates.

Yet another problem is that the unemployment rate provides no method for distinguishing between structural and cyclical unemployment, even though we know there is a difference and we acknowledge that difference is important, perhaps most obviously so in the administration of the CETA program.

As you know, when CETA was first enacted, its major component was the skills training program

administered under Titles I and II. However, as America found itself caught in a serious recession by early 1974, CETA was largely converted to a public service employment plan.

In his testimony for the reauthorization of CETA in February, Secretary of Labor, Ray Marshall, expressed the Administration's desire to reorient much of CETA back to the "severely disadvantaged" and the "structurally unemployed."

At the same time, however, Secretary Marshall admitted that the Administration was not altering the funding formula to effect that reorientation because the status of the existing statistics was too uncertain.

Given all of these deficiencies in the simple unemployment measure, my staff has worked for many months, in conjunction with the staff of the Northeast-Midwest Research Institute, on other indicators which might supplement the conventional employment and unemployment data in analyzing a region's economic health.

In this area, let me say that your work, Mr. Chairman, in developing the earnings and employment inadequacy index, has been extremely useful to us and seems to me to hold considerable promise as precisely the kind of broader economic measure which needs to be instituted.

In order to more accurately reflect the needs of the region, however, I think the earnings measure ought to be adjusted for geographical variations in the cost of living.

To be more specific, northern-tier states, and especially their cities, sustain housing, food, and energy costs that are far higher than those in other parts of the country.

Furthermore, state and local tax burdens in older industrialized portions of urban America run far higher than the national average. These are the economic facts of life. Yet, they have never been reflected in the multitude of federal formulas that govern funds ostensibly distributed on the basis of need.

Not surprisingly, this results in an undercounting of "people in need" in high cost-of-living areas and a reduction in federal assistance proportionate to the undercounting. The mathematics are simple: A real

income dollar, adjusted for cost of living and taxes, is worth 60 cents in Albany, Georgia, and only 43 cents in Albany, New York. Yet, the dollar is counted as having equal purchasing power in the distribution of grant-in-aid funds.

Among the other measures which we have examined are loss or gain of industry, change in earnings, employment growth rate, per capita income, and change in population. Of these measures, the last three seem to hold the greatest promise in constructing a composite index of economic health.

Not surprisingly, these three measures were selected by the Department of the Treasury to be used as funding bases both for the reauthorization of countercyclical revenue-sharing and for the targeting of certain sections of the urban package.

Employment growth or decline, measuring the change in the number of jobs in an area, is a good indicator of the extent to which an area is developing economically. The actual economic differences between areas of similar unemployment levels begin to emerge when employment change is examined.

For example, the New York City SMSA had an unemployment average from 1973-1976 of 8.5 percent. The San Diego, California SMSA exhibited a 9.3 percent unemployment rate over the same period. They both appear to have similar unemployment problems. San Diego appears to be in even worse condition than New York. Both would receive federal aid on this basis.

However, the percentage changes in employment show how great the true economic differences are. San Diego had a 24.1 percent increase in employment from 1971-1977, while New York City experienced an 11.5 percent drop in employment.

BLS has maintained that the employment growth measure is not sufficiently accurate to base funding distributions. Indeed, there are problems which need to be addressed. With existing census share methods, employment changes cannot be determined below a county level.

Even given new distribution methods, the assumption that subarea estimates of employment levels correspond to population concentration is not neces-

sarily correct. Further calculation of employment growth is certainly problematic.

Population change is another useful indicator of the general economic attractiveness of an area. In considering the extent to which people move elsewhere in pursuit of jobs, population change can reflect an area's past economic activity as well as its future economic health. A community undergoing economic growth, therefore, is likely to experience population growth as people relocate in search of better job opportunities.

In addition to this dimension, population change affects the fiscal strength of the community. A decline in population precipitates a decline in revenues for the area. One would infer that a comparison of tax bases would be useful. However, the lack of data uniformity prevents this. Population change, therefore, provides a good surrogate measure of an area's ability to provide services for its residents and to combat potential economic decay.

The relative economic success of an area is usually signaled by a change in resident per capita personal income. This tends to follow changes in business conditions and population patterns. In order to be truly indicative of the economic health of an area, however, the per capita income measure should be adjusted to take into consideration geographic variations in the cost of living.

As you can see, Mr. Chairman, the agenda of items to be examined and data to be improved upon is a long one. But I cannot overemphasize the importance of this work. I hope that your Commission will provide the initiative in researching these areas which has been so sorely lacking from BLS. A wealth of new policy options lie before us.

We have had enough tunnel vision in Washington. What we need is a willingness to take up that challenge and I hope your Commission will play a leading role in that effort.

Let me say in perhaps perspective self-defense that we have trespassed, perhaps, well beyond what is the conventional wisdom surrounding the origin of this Commission. But it is our belief, both in examining

the earlier legislation, and frankly our belief in dealing perhaps symbolically with the realities that intrude in attempting to deal with the very real differences that I sense exist in many of the areas that I can personally address that the need on the part of this Commission is to be as expansive in the definition of that mandate as is possible.

Thus, a good part of the testimony this afternoon is directed toward the hope and the belief that that will in fact occur during the tenure that has been established for you.

I would like to offer too, both in the form of James Costello, whom the Chairman has met, and in the research institute referred to, a willingness to share to the degree that it may be legitimate and worthwhile some of the experiences and the resource material that has been developed and hope that we can get something in a sooner-than-later fashion which will allow us with more intelligence, and to a degree accuracy, to use the funding that we have appropriated in the past half dozen years and which I suspect is going to be a semi-permanent condition that we all are going to have to deal with over the better part of the next generation.

CHAIRMAN LEVITAN: Thank you very much.

Mr. Harrington, I could not think of a nicer object for kicking around than BLS, but now they are sitting right in back of you so you had better be careful. But they are used to it.

MR. HARRINGTON: It is an experience we are both used to.

CHAIRMAN LEVITAN: You are both used to it and, of course, since you also endorsed the hardship index, how could I criticize anything you say?

But I am wondering, can we really achieve--now you put the challenge to us--but can we really achieve the things you want? You want, first of all, a great deal of local data. You want not only local data, but you want data based on income and all sorts of quality data.

Number one, can this Commission realistically recommend it? You just mentioned that during the last six years, you kept on appropriating more and more funds. You never appropriated another penny to BLS to measure except when you kick them around.

And, even if you would appropriate the money, can you actually get the type of data, you said even below the county level, and still get any precision out of it? What I am asking you, Mr. Harrington, aren't you actually asking for more than anybody can deliver, including even Congress?

MR. HARRINGTON: Let me carefully avoid the last snare because we would probably agree in what Congress can and cannot deliver from our collective experience. That is why I am here, quite frankly, having seen that it is either not willing or able to, but also to say that in specific response to the question of perhaps trespassing rather harshly on BLS.

My understanding is--and I could be corrected--that there was a sum of money specifically appropriated or authorized for the purpose of attempting to improve on the questions that you raised, at least to the general outline of the traditional measure of unemployment. I wish I could paraphrase the former Secretary of State this morning in his positive use of the negative. But there was a studied disinterest or disinclination on the part of BLS to demonstrate a great deal of enthusiasm for the use of that funding.

I do not want to really spend the afternoon necessarily going over ground that we have covered both privately and to a degree that I have covered in other forms because I think it is only a part of the problem.

I do not know, to answer your basic question, whether or not what I asked for, in the range of your experience collectively, what you are aware of as the troublesome issues, if you can definitively answer any of these questions.

But let me, since I am in the Labor Department building this afternoon, paraphrase a statement given by Secretary Marshall in Toronto two weeks ago to the Economic Club where he suggested, in attempting to deal with the equally intractable problem of unemployment



and inflation, that one of the things he thought was a depressing characteristic of the industrialized society was the lack of risk-taking on the part of their leadership.

It is endemic to the institution I am a part of. I would hope that you are not fettered by the same unwillingness to fail greatly in the direction, at least, of recognizing what the rather meager efforts to date have brought us to by way of both popular approbation and a degree of relief in terms of the very specific problems that we attempt to address.

In short, I would not mind if you missed the mark a mile as long as you try any way you want, but just break out of this imposed mental and political constraint we have ourselves boxed into. And I would hope that you could prod us in the process to do something with a greater sense of urgency about the need for it.

CHAIRMAN LEVITAN: Speaking for my sister and my brethren, that is a promise, Mr. Harrington.

Joan?

MR. HARRINGTON: The town needs more of it, whether it is political or administrative.

MS. WILLS: Thank you.

That leads to a question. In your paper, you talked about BLS not wanting to be a policy advocate and we have heard testimony this morning from an ex-Commissioner of BLS, I think, frankly sharing that same concern.

I do not think that negates the question of whether we should have some place in government that is a policy advocate in terms of definitions. I guess a question comes to my mind, on which we have had several suggestions, about a federal statistical agency, an audit board, several different mechanisms that are suggested that would continually look at what kind of statistics it is we are gathering, and perhaps perform some of that function of policy advocacy. Perhaps the statistical agency is not the appropriate place.

Have you done any thinking about that beyond just wishing BLS could do it, or would take up the challenge, so to speak?

MR. HARRINGTON: No, I can answer that two ways. I do not have a specific suggestion to make as to what, by way of an existing or proposed structure entity, might be useful. But I would really fundamentally go back to the fact that of all of the existing agencies they appear to be the most likely place in terms of their historical role to have at least some of this appreciation sink in.

If it looks like that is unlikely and we do not get more than why things cannot be done, rather than why things can be done as a response, then it may very well be useful either in a legislative sense or in recommendations to the Commission to suggest an alternative.

I am not as concerned about where it occurs or even a prospective effort at dealing with it as much as I am a believer that people with the right mind set --and you can infer what you want to from that--in place can do about what they want to, if the mind set is there and determined enough to use it, whether they lobby for more money--and I do not think \$100 million, against \$16 or \$18 billion, is much by any stretch of the imagination.

And I think that there have been repeated signs in the course of the last year that there is assertiveness on the part of the Congress, as many of the industrial states are in semi-permanent conditions, to get something approaching more accuracy and the definition of what we are basically groping for here, where that money can best be used. In a way that is not transient in nature to the degree that many of these programs appear to be not only little help to those who need it, but cause the worst of that cycle by increasing cynicism on the part of those who are paying for it.

MS. WILLS: The next question: You are asking for more state and local data, a lot more local data. Has the institute done any thinking about better utilization and refinement of administrative data within

states and within local areas to be complementary to the CPS?

It seems to me that is where we are finding one of our problems. There is a great deal of beauty in the CPS, but how far do you stretch that? And that also raises questions about regional cost-of-living variations. Have you done any thinking about that?

I have been told that coming up with some kind of agreeable cost-of-living variation would be very, very expensive and may not tell us what it is we want to know. Have you thought anything about using some internal administrative data within states to begin to solve some of your problems?

MR. HARRINGTON: Well, I have had some experience in Massachusetts attempting to have them address the problem, which is best described by their monthly data, at least for the last season, being released with the preface that the data is inaccurate and is not to be believed, but releasing it nonetheless, and suggest that if it is not going to be a burden willingly borne by the federal government nor solely borne by the federal government that it would be useful for them to embark on that course, either with CETA funding to do it or to attempt to define for itself what it would begin to try to use in the implementation of the broader policy mandates with the use of this money.

I think to a degree some of that is ongoing, but I cannot comment on how sophisticated that form is in other states or tell you that I am very encouraged by what has been done to date in our own. I think we have phoney unemployment data. I do not think it is all deliberate. I do not think we really have yet begun, except at the broadest outlines, to focus policy in the way that the President is groping for in his definition of urban policy on urban areas where many of these problems appear to be.

But I think there is room in the federal system, if we believe it and accept it in a theoretical level. I suggest that maybe one of the things you could suggest is a variation on this theme that would allow test states to come up with their own approach and see what they look like.

Uniformity does not show me a great deal of appeal in approaching this.

On cost of living, some of it is being built in now. We have a shelter differential built into the Food Stamp Act last year which helped to a degree with part of our problem, where that money goes, and recognizing what those costs are.

I think that we see it in some of the suggested directions by executive order. We refer to the cyclical issue, and I think we are getting at it a little bit better. I went through this with Commerce a year ago and feel very strongly a year later that it remains a singularly and significantly unaddressed problem.

I am in sort of a continual debate with a southern counterpart of mine named George Busby who persists in using per capita income as a measure of relative economic affluence, when you know that 50 percent of the difference in energy and power and never mind the cost of housing and food, and the Commerce Department is publishing this statistical data about expense of cities in the country regularly.

Even at the broad outlines, we are able to say that it is more expensive to live in certain parts of this country than others, even if we do not do much in refining it. But we do not do much in reflecting on that when it comes to the implementation administratively of policy.

And I would like to say that we have the wisdom and the courage to give you a new bill or a series of bills in the Congress. I think it is going to be executive order, some innovation on the part of the people who run these programs, where the bulk of the money is coming from. It ought to be right now in terms of appreciation for the fact that they can retreat behind the inadequacy or the preciseness of the congressional mandate for the difficulty in getting change, but they ought to try to take it on the best they can.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: Well, I appreciate, Mr. Harrington, your coming before the Commission and sharing with us

your views. I especially appreciate that part of your statement which talks about Philadelphia, my home town. I am very familiar with that problem and share many of your concerns as expressed in your paper.

I would hope that the group you represent, the Northeast-Midwest Coalition ---

MR. HARRINGTON: We are going to shorten that name one of these days, Mr. Anderson.

MR. ANDERSON: Well, I would hope that you would communicate with the Commission and specifically indicate what you would like to see done with the CPS or other data to deal with the specific questions that you raised.

I think that the Commission can benefit greatly from organizations and special interests telling us how you would like to see these methods modified.

We are all aware of the problems of allocating funds based on unemployment statistics, and so forth. I would just mention parenthetically that the terms like "structural unemployment," "frictional unemployment," "cyclical unemployment," these are terms designed by economists for very different purposes than those for which they are being used.

So, what we really need is some specific recommendations or suggestions on how this information system in your view should be changed to accomplish the objectives you have in mind. That is simply what I want to suggest in having you communicate with us.

MR. HARRINGTON: We would be more than willing, to the degree that there is a work product available that may cover a number of different areas and perhaps an effort also to summarize what those conclusions are, to provide that through the research facet of the coalition.

Did you have something to add in that area?

MR. COSTELLO: No. I was just going to say that we have already communicated that sort of thing to Commerce, HUD, and Treasury, so we would be happy to do that.

MR. ANDERSON: Thank you very much.

MR. POPKIN: I will just very quickly--first of all, that was one of the richest papers we have received in terms of suggestions and I think we will want to ask ---

MR. HARRINGTON: Well, I am glad the author is here to hear it.

MR. POPKIN: We will ask for more later. I think you might also consider just sending us another memo. For family reasons, you are particularly well placed to think about the problems also of state government in the area in which we are discussing the problem.

I would just like to, very briefly right now, ask you one quick question ---

MR. HARRINGTON: Quickly, for the political integrity of the speaker disclaims any relationship to him. I am teasing, but you are talking about another relative, I assume, with the same last name.

MR. POPKIN: I in fact thought you were related to Kevin Harrington.

MR. HARRINGTON: I am. But I was just going to kid about the O'Neil-Harrington ties which are merely ---. I did not want to have his problems worsened at a distance.

MR. POPKIN: I am sure you are more up-to-date. Okay. How important is it for you to get data on subunits, number one, within your congressional district and, number two, on a monthly basis?

MR. HARRINGTON: Let me try the second part of it because I do not know that I can answer the first adequately.

I think to the degree that--well, Anwar Sadat says 80 percent of the problem in the Middle East is psychological.

To the degree that a good part of what I think we currently go through is that subjective, that attitudinal, decisions are made, statements are used, actions are taken, I think that it has obtained the legitimacy that, fortunate or not, historically valid or not, is something that has to be addressed as significant.

Certainly, if you are looking at the Ford curve in terms of his own tenure as President, I think, it was directly in proportion to where that economic data went.

In fact, there was a politically corrective initiative taken, I believe, in the early period of the Nixon Administration's first term, by removing a couple of careerists at BLS and putting a couple of other people in who were able to deal with some of those issues in perhaps a somewhat more subtle fashion.

But I think there is an appreciation that we have --on my side of the table, we would say that whether or not we could in the abstract agree that it is imprecise, perhaps not improvable, undesirable or whatever else, it is there. It is going to be a fact of life and is going to have actions and reactions which affect confidence, or detract from confidence, to the point where it is significant.

MR. POPKIN: Would it upset you if it was only issued quarterly instead of monthly or every six months for units within a state or whatever?

MR. HARRINGTON: If it were not meant to really take the heat off of some of the other concerns that I expressed and have done in conjunction with some serious work with urgency attended to it to deal with the broader range of subjects we have raised, I would not care at all about whether we dealt with it on a quarterly or semi-annual basis, or whatever.

MR. POPKIN: As long as the money ---

MR. HARRINGTON: As long as the money--and as long as we are working toward a refinement, a broadened definition of what the concern is, which is ultimately to put that money where it is needed and where it can do some lasting and credible good.

CHAIRMAN LEVITAN: Mr. Moskow?

MR. MOSKOW: My apologies for being late, but it was unavoidable. I did read your statement and I do appreciate your being here.

I wanted to ask you about this \$100 million figure. The impression I got is that that number--amount to spend--you thought would not be unreasonable if the resulting data that would come from that would be reliable and people would have confidence in that.

Do you think that that view would be shared by the majority in Congress?

MR. HARRINGTON: Increasingly, I do. Without question at all, I think that the experience, particularly at the hands of EDA distribution, round one, though that may bring us in some broader discussions about structural change in a government that turns over to the administration which has opposed it twice a public works program to implement by regulation and distribute data.

There were some wild fluctuations in the use of that data which resulted, as I have indicated, in some very serious shortchanging when that data was redone or a reestimate was given. I have used our own state as an example, which received about a \$40 million--we estimate--shortfall in the distribution process.

MR. MOSKOW: Well, the reason I ask is because in any formula change there are obviously always going to be some winners and some losers in different parts of the country. I cannot help wondering--I certainly agree the data should be as reliable as possible--if people are talking about reliability of data, what is really behind their minds is: Is my area of the country going to win or lose?

If that is true, then no matter how reliable the data that you produce, there are always going to be some people who are objecting to that particular formula.

MR. HARRINGTON: I do not think there is any question either that those considerations are there and I



do not know that they should not be addressed as realities if you are going to have a reasonably viable federal process.

I do think, though, that if you are talking about this issue narrowly, it demonstrably could stand some improvement. But I think the way to deal with the second part of the question you raise is to perhaps make an effort that emerged during the debate last year over revision of the community development program and an alteration of the formula used in the distribution process, to have people on my side reflect on what the purpose of those programs are.

It is not meant to spread money evenly, as I view it, across the country. If the Nixon formula were maintained, as we demonstrated, West Palm Beach, Phoenix, Jacksonville, and a lot of other places that had a much more comparatively healthy experience and longer term prospects which were equally positive, would have been unjustly enriched in our opinion in terms of what the Community Development Act was supposed to have done.

So, I would say, yes, we do not want to have lack of appreciation for that concern about what that alteration may mean, but we also ought to be using programs for the purpose that really is at least broadly intended historically, in the application of those proceeds, and deal with other problems, if they exist, in a different form or in different legislation.

And I do not think there would be any problem on the part of the Congress in welcoming some of those changes which make it somewhat more credible.

MR. MOSKOW: Of course, developing a consensus on that purpose is sometimes very difficult.

Just one other point. I noticed that you mention here that someone suggested to you--it was a problem you presented to someone in, I think it was in the Bureau of Labor Statistics--they said, "Well, there is a commission handling that and you should present your concerns to the commission."

We are increasingly getting a lot of people coming to us saying that, as our Chairman mentioned yesterday, privately to us, and I just think we should all be

aware of the fact that our report is not due until 18 months from the time we were confirmed by the Senate.

So, there may be room for people to make changes in the interim. I would hate to see everything relating to employment and unemployment statistics being held up until this report comes out.

MR. HARRINGTON: Well, that is precisely where my major quarrel with the mind-set of the people who are in these programs is. You get out of the artificiality of the confines of this building in this city and deal with what it is, and you have heard it said before that can we in any fashion convey to people the urgency, timeliness and relevance.

There is all the reason in the world to begin to move these things, even at the risk of--we talk about major error--major mistakes rather than just sit around and say why things cannot be done or what the restrictions are that are imposed.

I do not buy it and I do not see any reason why both sides of this conversation cannot prod those who have the bulk of the executive responsibility, administrative responsibility, to implement these things in a rational and timely fashion.

And I do not think if, frankly, we did nothing else except engage in that, whether it was directed toward us and we need it--and Mr. Levitan can tell you from his own experience on the Senate side--I do not see any reason not to do the same thing with people who are in these programs and not let them use that rationale, which I think is specious.

Looking at the level of constituent or population approbation for the range of government in general, I would think the greatest incentive in the world would be to try to do something that appeared to be credible and timely and rational in the use of these programs and then fight about whether or not somebody trespassed beyond what a regulation from a year ago meant or was meant to be.

It has just been too much of an excuse for an avoidance.

CHAIRMAN LEVITAN: Mr. Harrington, your reference to my experience on the Hill reminds me that if I want to see you again, I better not get on the wrong side of your secretary.

Before I let you go, I have just one point. I think, Mr. Harrington, that what you have suggested will be laid in your lap again. The act which creates this Commission tells us that we have to present a draft of a bill to Congress.

It will be, I think, up to you to deliver if BLS does not. So, you may as well know that, whatever the charge you gave us, it is something that will again be in your lap 17 months from now. I hope we will have a chance to talk again about it and we will be in touch with Jim Costello about anything that is developed by the Northeast-Midwest Coalition or whatever you call yourselves.

MR. HARRINGTON: We are going to change it to the Coalition, with all of the elitism you can draw from that.

Let me make one more point at the expense of Mr. Moskow, if I can. I think Barry Bosworth is an example of what I am talking about by way of a paper tiger, that first was created by Ford and we basically justified or rationalized ourselves last year, with no teeth to deal with wage-price activity.

But I think Bosworth has done more in terms of using that office as a forum to jawbone and to ticket people. To face the reality of how futile it has been to date in dealing with it as we have anything else. I can think of no power, nothing there except an office to be able to use.

And that is what I am talking about. When it comes to people who have money, a mandate ought to have some sensitivity as to what is happening to people in terms of their view of government and the inability relevant to their needs day to day.

And I am not taken with regulations, restrictions or impediments or delay, and I hope you people aren't either. Well, I said that four different times.

CHAIRMAN LEVITAN: Excuse me, Mr. Harrington. Jim wanted to say something. Jim?

MR. COSTELLO: I just wanted to mention something about the \$100 million figure because I think it is very interesting. It relates to both what you said and Ms. Wills said about whether or not what Michael is asking for here is possible.

The interesting thing about the \$100 million figure is that when the Bureau of the Census was finally put down to actually coming up with a cost estimate for OMB for what it would cost, it was not \$100 million; it was not \$50; it was not even \$25; it was \$15 million.

And, if that is an indication for the initial resistance you get, followed by the facts of the situation, maybe we ought to be pushing harder.

CHAIRMAN LEVITAN: Thank you very much, gentlemen. Thank you, Mr. Harrington, and we will be in touch.

I wonder--is Mr. Leach here? Mr. Arnold was supposed to testify in the morning. We ran over schedule, and I understand he has to catch a plane. Would your schedule permit you to stay and to let Mr. Arnold go first?

MR. LEACH: Sure, no problem.

CHAIRMAN LEVITAN: Mr. Arnold, the floor is yours. Mr. Arnold is the director, Research and Statistics, Utah Department of Employment Security. Since some of my best friends are located there, welcome, Mr. Arnold.

STATEMENT OF RICHARD J. ARNOLD, DIRECTOR,  
RESEARCH AND ANALYSIS,  
UTAH DEPARTMENT OF EMPLOYMENT SECURITY

MR. ARNOLD: Mr. Chairman, members of the Commission, my name is Richard Arnold. I am the director of the Research and Analysis Section of the Utah Department of Employment Security. I am appearing here before you as a representative of the Interstate Conference of Employment Security Agencies, Inc., which

represents the Public Employment Service and Unemployment Insurance System in all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands.

I appreciate this opportunity to present our views relating to employment and unemployment statistics to the Commission. I would first like to emphasize something that you already know and that is that the Conference of Employment Security Agencies is something of a confederation of states which attempts to relate and interrelate problems which seem to be common to the states.

This is done in order to attempt to reach solutions within national manpower policies that are beneficial to each state as well as to help Employment Security do a better job in each state.

Necessarily, my presentation is both an interpretation of the views I have heard expressed by my various counterparts, as I have participated with them on the ICESA Committee for Labor Market Information over the last three years, and a reflection of some of my own feelings on a matter which needs serious attention.

Here is a summary of the statements that follow:

First, there is an urgent need for the expansion of personal, social and economic characteristics concerning the employed and the unemployed.

Second, there is a special concern that the expanded characteristics data noted in the above statement be specifically recognized as relating to an urgent state and local need for data other than that required by the national government.

Third, there is a need for a change in the technology of estimating employment and unemployment for the state and local areas.

Fourth, there is a need to move more of the responsibility for these employment and unemployment estimates made below the state level to the states.

As for the first recommendation, my feeling is that the state employment security agencies have little concern at this point that the Commission will not recognize the needs for expanding the availability of data. The ad hoc committee chaired by Mr. Kaldahl brought to the Commission's attention the need for

expansion of the characteristics data relating to employment and unemployment statistics from the Interstate Conference, and this Commission is meeting our needs in this area.

The recommendation is mentioned principally to note that the states of the employment security system continue to be interested and that this interest in adequate employment and unemployment statistics is paramount to our concerns in the other recommendations.

As to the second recommendation, over recent years there has been a tremendous growth in the demand for statistics concerning the employed and unemployed. This growth has taken on at least three aspects: First, there has been an increase in the demand for information that is available concerning the employed and unemployed themselves; secondly, there has been an increase in demands for new and additional distributions concerning the characteristics of the employed and unemployed, and, third, there has been an increase in the kinds of uses the data is being put to and a change in the makeup of the users of employment and unemployment statistics.

As for the growth in each of the above aspects, I am sure that you are equally as aware as I am that involved in each of these kinds of growth is a group of users at the state and local level who my constituents and myself feel are not fully or appropriately recognized. They are the state and local users of employment and unemployment statistics. They are not the same as the national users of state and local data.

Perhaps spawned by CETA legislation, there is a spreading belief that the manpower problems of the country begin, exist, and are solved perhaps best with local level input and involvement of local users who are trying to plan and analyze state and local economics with ever-increasing intensity.

If I may, I would like to demonstrate this growth for employment and unemployment statistics by using my own state and the requirements for data as affected by national legislation. We have a situation where the Utah Department of Employment Security went from producing employment and unemployment statistics for the state, state metropolitan areas, and some of the other

major counties ten years ago, to now, where we produce unemployment rates for over 100 cities, all counties, and many subcounty areas.

Another example, ten years ago there was an occasional demand for some characteristics of the employed or unemployed, such as age, sex, race, occupation by state or major metropolitan areas. Today this same information is wanted in series, on a monthly basis, in greater detail, and for many counties and subcounty areas.

Even though much of this growth in the interest of employment and unemployment statistics has been expanded by national actions, local interests have also expanded to a place perhaps where there is a growing local belief that through the use of employment and unemployment statistics, manpower problems can be solved or beneficially affected by local analysis and planning.

Unfortunately, when the demands for data concerning the employment and unemployment statistics at the state and local areas began expanding, there was not and had not been sufficient effort, resources, etc., put into assuring the availability of the consistency of such data between states and particularly between state and national data. State and locally generated statistics on employment and unemployment were often not particularly conceptually the same as nationally produced statistics.

Also, many disaggregations of employment and unemployment statistics, such as by race, sex, occupation, and industry were not available to the detailed area levels that were believed needed and are available nationally.

Perhaps a good case at point lies in the demand placed upon state agencies as a result of the use of unemployment figures in CETA funds allocations. For purposes of CETA funding in the states and counties, there was an instant need for considerable improvement in the consistency within states and areas of unemployment rates.

In order to achieve this, BLS was assigned the responsibility of bringing unemployment estimates into alignment. While my constituents will argue as to the

success or failure of this undertaking and lean towards failure, it is my belief that it was not the alignment to a conceptual definition that was so bothersome, but that the changed alignment has destroyed and continues to destroy series of data that were often conceptually close, at least arguably so.

These changes have been done without reestablishing the series so that the data could have use for social economic purposes at the state and local levels for other than CETA funds allocation.

If I could repeat, there are local demands for data that, at least presently, do not seem to receive recognition for their importance from the national level. As suppliers of that data, the employment security system would stress, with the Commission, a need to recognize the importance of these data users.

As to recommendation three, there is not a viable alternative to the maintenance of conceptual definitions of employment and unemployment statistics. While the most obvious way to maintain such consistency is to use the same methodology from one area to another, such requires the provision of a precisely consistent set of data. In the case of employment and unemployment statistics, in terms of use, the data at the state and local levels present some problems to be dealt with.

There are two significant methodologies for producing employment and unemployment statistics on a current basis. One is the household survey, which is by far the best known.

The second system consists of a formula, the 70-step method, that uses a conglomerate of data from the unemployment insurance operation of the state, establishment data gathered through the tax function of the unemployment insurance system which produces a count of the number of jobs and series of inputs from the aforementioned household survey, and some data from the census of population.

Both of these systems have significant limitations and offsetting advantages as to their use. From the standpoint of national statistics, the household survey is definitely superior. But from a local standpoint, particularly below the state level, the formula methodology provides definite advantages specifically for



local users. Stability and a meaningful relationship over time are two major advantages of the latter.

Because the household survey is a sample, the survey loses its reliability as sampling variances expand. Attachment one shows the range of reliability of the household survey for the nation and for the various states as reported by BLS for 1977.

One may note the range of confidence levels are from 0.6 percent to 1.6 percent for states, while the national range is 0.2 percentage points.

Generally, in discussions referring to sample reliability, it is used in the context that the true level of unemployment, for example, in the case of Utah, can be expected to range within 1.4 percentage points about 80 percent of the time. A somewhat rarely mentioned point is that the sample not only may vary through the 1.4 percentage point range, but will indeed vary throughout that range.

From the standpoint of national economic analysis the .2 percentage point range is narrow enough for economic analysis, but I would submit that, for particularly the smaller states, the 1.4 percentage point range is too large for any effective economic use. I would also submit that even in the allocation of funds this sample variation creates a situation where some states, and areas, etc., must necessarily get more than their share or less than their share because of the function of chance as opposed to the actual level of unemployment.

Much of my constituents' concern toward employment and unemployment estimating has been a result of this condition.

In contrast, the formula methodology functions largely by relating unknown unemployed structures to known unemployed structures. Because of the nature of the structure of the unemployed, this is a feasible method.

However, the relationships of the data are dependent on the maintenance of a number of consistencies in the reporting systems in order to maintain their reliability.

Major among these consistencies are: One, the relationship of the known structures to the unknown

structures of the unemployed must remain consistent. Second, the maintenance of the known data must be consistent, for example, low changes, policy change must either not occur or be fully compensated for. Third, consistency of the data must be maintained from area to area.

That is, the policies relating to the taking of claims must be consistently followed from area to area. Left to itself, the formula has shown significant problems in adequacy over time and from state to state. This perhaps is an understatement.

Current benching methodologies structured by the Bureau of Labor Statistics which marry the two systems within the sample variance ranges noted above, in essence, handles most of the state-to-state variance and much of the in-state variance resulting from the above-noted weaknesses in the formula system.

If the household survey were used to control the sample as opposed to its current use in benching unemployment rates, I believe that most of the problems in the state and local employment and unemployment data would be solved. The data would be conceptual; it would add to within small and acceptable variance with that provided the national level by the household survey, and state and local series would have the stability to be used locally for economic analysis.

As to recommendation four, internally within a state there is one other group of inadequacies resulting from strict use of the formula. These are caused by peculiar economic and social conditions that relate solely to a single area. Under current national state methodologies there is not a way to compensate for such abnormalities.

Yet, I would submit, there needs to be a compensation if the data is to be useful as an economic measure for that area at the local level.

To demonstrate, let me again use a Utah example. It is not an unusual case. I have heard representatives of other states note similar or worse situations. The strict formula methodology generates from San Juan County, Utah an unemployment rate of 3.8 percent. The area has a large Indian population, 54 percent, and relatively little in the way of an economic base.

It is doubtful that the economics of this area as measured by the unemployment rate is superior to the State of Utah rate of 5.3 percent.

Also, another area where Indians make up a significant portion, 12.1 percent, notably less than the portion in San Juan County, has an energy-based economy and also has a higher rate of unemployment, 4.3 percent. We believe the rate of unemployment for San Juan should be more like 8.3 percent.

In order to make sense out of the San Juan situation there needs to be a breach in the methodology to compensate for the failure of the data bases to adequately measure the employment and unemployment situation. Presently, such breaches are not recognizable nationally and the credibility of the entire system of unemployment estimating is often brought into jeopardy.

I believe that if the methodology control were moved more towards the state responsibilities with some maintenance of integrity abilities at the national level, this final area would be improved in the uses of employment and unemployment statistics. Most of the state employment security agencies' concerns, as I have heard them expressed, would be laid to rest.

As a final note, in the above discussion I have offered some ideas as to how I believe many of the state employment security agencies' concerns might be met. I recognize that there are undoubtedly other viable solutions. The heart of the recommendations made herein is that the problems or areas of concern be dealt with in some viable way and not in any specific solution that may be offered.

## ATTACHMENT 1

RANGE OF THE 90 PERCENT CONFIDENCE INTERVALS OF THE  
1977 UNEMPLOYMENT RATE ESTIMATES FOR STATES

<u>State</u>	<u>Range</u>	<u>State</u>	<u>Range</u>
UNITED STATES	0.2	MISSOURI	1.0
ALABAMA	1.6	MONTANA	1.4
ALASKA	1.4	NEBRASKA	1.4
ARIZONA	1.6	NEVADA	1.6
ARKANSAS	1.4	NEW HAMPSHIRE	1.4
CALIFORNIA	0.6	NEW JERSEY	1.0
COLORADO	1.4	NEW MEXICO	1.6
CONNECTICUT	1.4	NEW YORK	0.6
DELAWARE	1.6	NORTH CAROLINA	1.4
WASHINGTON D. C. CITY	2.0	NORTH DAKOTA	1.4
FLORIDA	1.0	OHIO	1.6
GEORGIA	1.4	OKLAHOMA	1.4
HAWAII	1.6	OREGON	1.6
IDAHO	1.4	PENNSYLVANIA	0.6
ILLINOIS	0.6	RHODE ISLAND	1.6
INDIANA	1.0	SOUTH CAROLINA	1.4
IOWA	1.4	SOUTH DAKOTA	1.0
KANSAS	1.4	TENNESSEE	1.4
KENTUCKY	1.4	TEXAS	0.6
LOUISIANA	1.4	UTAH	1.4
MAINE	1.6	VERMONT	1.6
MARYLAND	1.6	VIRGINIA	1.4
MASSACHUSETTS	1.0	WASHINGTON	1.6
MICHIGAN	1.0	WEST VIRGINIA	1.4
MINNESOTA	1.4	WISCONSIN	1.0
MISSISSIPPI	1.6	WYOMING	1.0

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Source: U.S. Bureau of Labor Statistics, unpublished documents, April 1978.

CHAIRMAN LEVITAN: Thank you very much.

I would repeat the same thing that I raised before with Congressman Harrington, as you may have heard.

MR. ARNOLD. Yes, I did.

CHAIRMAN LEVITAN: I am sure that it will be news to Julius Shiskin that I am the champion of BLS, but at the same time, ICESA has known that we have been in business now for several months. Has ICESA ever prepared anything for us that would be useful to substitute for the Bureau of Labor Statistics' 70-step method?

Or are you going to join with Mr. Harrington and kick BLS, but not come up with anything more specific?

MR. ARNOLD: I think that the marrying of the two systems is more specific-and I really do not think we ought to kick BLS too badly.

CHAIRMAN LEVITAN: You have done quite well already.

MR. ARNOLD: I have?

I think the marrying of the two systems a good step forward. I think where we are breaking down is that there is no room in the system, the way it exists now, for any breach of methodology. Controlling the states with a household survey would be one suggested way of bringing about some stability and making the data useful for other functions.

MS. WILLS: Could I ask you to expand on that?

CHAIRMAN LEVITAN: Excuse me, just one second.

Mr. Morgenstein raised his hand before. Do you want to join us at the table?

MR. MORGENSTEIN: I think I could answer your question.

CHAIRMAN LEVITAN: But you had better join us here at the table so that you can be on the record.

This is Mr. Sam Morgenstein, ICESA.

MR. ARNOLD: Where was I?

CHAIRMAN LEVITAN: You were about to marry the two systems.

MR. ARNOLD: I have married the two systems. Our problems lie in the fact that we cannot breach the methodology and in the fact that the sample at the state level has too much variance.

If we controlled the formula at the state level with the sample, it would do away with the excessive variance. It would keep the data so that it was feasibly usable. It would take away the disadvantages of both systems.

MR. POPKIN: Would you clarify what you are saying? I am not sure I followed what you were just saying.

MS. WILLS: I understand the sample at the state level. What I do not understand--and maybe this is Sam's concern, too--is below state level, based upon the sample or utilization of the UI administrative data in terms of marrying the systems, that is where I got lost

MR. ARNOLD: All right, I was probably too brief.

MR. POPKIN: Are you talking about the state sample as a constraint and that you should decide how to allocate it among the counties by your own state formula?

MR. ARNOLD: No.

MS. WILLS: No. That is not what he is saying.

MR. ARNOLD: What I am trying to say with that part of the paper is the state administrative data comes up to one total for unemployment. The sample comes up to another total for unemployment. Now, the final adjustment is to adjust the administrative data to the sample level.

And then all the counties, all the areas in the state are automatically moved straight up or down proportionately.

The first point that I am talking about is, instead of varying that state total within the sample and the variation that is included in the sampling procedure, that has to exist, is to control the estimate so that over a period of time the administrative data would pass through the sample points, if we were very fortunate, on a one-to-one basis. The sum of a period of time would be the same for both systems.

And that is what I mean by saying control the formula with the sample so that we would have a perfect correlation over time.

CHAIRMAN LEVITAN: Mr. Morgenstein, you raised your hand before. You wanted to say something. Now is your chance.

MR. MORGENSTEIN: Well, I do not want to talk about BLS.

CHAIRMAN LEVITAN: You usually do.

MR. MORGENSTEIN: Well, I once worked in the vineyards of the Lord there, but I will not go into that.

I was responding, Sar, to your specific question about what is ICESA doing about looking for another game in town, as it were. Our California agency is experimenting, looking at the entire methodology being used currently, and we hope sometime in May they will come up with findings. What they will be I do not know.

Specifically, we asked them to do several things. One, is this the best methodology that can be utilized? Two, is there another game in town? And I personally think there is not in relation to CPS. Three, what proposals can they come up with which could help us in some of the issues we are facing in developing unemployment estimates?

CHAIRMAN LEVITAN: Do you think Mr. Morgenstein, we will get it before the Commission's life expires?

MR. MORGENSTEIN: It depends on how long you expect to live.

CHAIRMAN LEVITAN: It is not what I expect. If the law is already there and we do not expect to amend it, we will go out of existence sometime in September of 1979 and we will have to write a report before that date.

MR. MORGENSTEIN: I would say that there will be a paper before September of 1979.

CHAIRMAN LEVITAN: But we have to write our report before that time, and come out with recommendations after we make that report.

MR. MORGENSTEIN: All right.

I suspect that you will have it much before you need your report.

CHAIRMAN LEVITAN: I just would repeat something which I told you on the phone privately: I wish that ICESA would deliver rather than keep complaining. That is as nicely as I can put it to you.

MR. MORGENSTEIN: All right. Let me repeat something I told you privately, too.

CHAIRMAN LEVITAN: That's right, I want to put it on the record.

MR. MORGENSTEIN: If the Commission would keep us informed as quickly as they expect us to reply, we would do that.

CHAIRMAN LEVITAN: Mr. Anderson?

MR. ANDERSON: Mr. Arnold, I wonder, in view of your comments about the unemployment rate for states--and your comment is similar to that made by a number of other witnesses--whether the problem is not so much the estimate of unemployment as it is the use of the unemployment rate as the basis for allocating funds for a variety of economic development and other purposes.



I am beginning to wonder whether any level of confidence in these statistics would really take the State of Utah, the State of Pennsylvania, or what have you where they really want to go in stimulating economic growth and dealing with some of the very serious problems in those states having to do with the social and economic status of the people.

I would like to ask you this question: 1.4 percentage point range, with 90 percent confidence. Why is that too great? If my calculation is correct--let's assume that the rate of unemployment in the State of Utah last month was the same as in April and March, 6 percent--what that would mean is that the rate of unemployment might have been anywhere between 4.6 percent and 7.4 percent.

Now, let's say that we looked at that rate of unemployment over some period of time, three months, six months, and use the trend in that unemployment rate as the basis for allocating funds. Would you come out very differently from where you would arrive if in fact the range was 1 percentage point or one-half percentage point or two-tenths of a percentage point? What is wrong with 1.4 percentage points?

MR. ARNOLD: Let's say that the intent of Congress in allocating funds is to put them into areas where they have economic problems. Now, somewhere in the unemployment rate you have defined what an economic problem is. And let's say that you have defined that at 6 percent, and let us say that the true rate is 6 percent in Utah.

The range is plus or minus seven-tenths of a percent. So, half of the time you are going to say that Utah has no unemployment problem and the other half of the time you are going to say it does, just by chance, just at the flip of a coin ---

MR. ANDERSON: Well, then isn't the problem really ---

MR. ARNOLD: --- and that is quite a range.

When the national economy starts to fold over, it is measured in tenths. When the state economy starts

to fold over, it is measured in tenths. To wait until seven-tenths of those have passed by, you have waited well past the crucial point.

MR. ANDERSON: I just wonder whether you can get where you want to go. Wouldn't it be better--take your San Juan County, a county with 50 percent Indians--if you really wanted to get at the grinding social and economic problems in that county and indeed throughout the state, wouldn't it be better for you to have a measure, not just of the unemployment rate, but of the disparity between the unemployment of the Indians and the Anglos in that state, some idea of the income level of the Indians in others, some comparison of the distribution of economic distress, rather than simply the unemployment rate?

I wonder if we are not putting too much stress on the use of the unemployment rate as the basis for making judgments about economic progress rather than looking at a range of data. I would simply end by asking you this question: What have the states themselves done to improve the amount of information available on these questions?

Why wait for the federal government to do this? Don't the states have the authority to allocate more funds to collecting data, to examining a number of these questions? What have the states done?

MR. ARNOLD: Surely, the states have the authority to do that. The states also have the authority to redefine--and they do redefine--I would agree with you that a wider range of data needs to be provided and that the states do provide that.

CHAIRMAN LEVITAN: Ms. Wills, you will have the last question.

MS. WILLS: I am learning to emulate my professors sitting at this same table, and everybody is giving assignments to the speakers, and I am wondering if it would be possible for you ---

CHAIRMAN LEVITAN: You will have to pay union dues to the Association of University of Professors first.  
(Laughter.)

MS. WILLIS: You spoke in your testimony about the urgent need for expansion on personal, social and economic characteristics. I think it would be incredibly helpful to this Commission if you would make some recommendations about what types of characteristics and what types of things you would like to see expanded.

You also--and I am quite sympathetic--referred to the state and local data needs that are very different in many cases from those of the federal government. I would like some suggestions from your task force in terms of how you think and what kinds of information you think are needed at the state and local data base that are different than what we need at the national level. Also, suggestions on how we can get that and keep it plugged into the system.

I would also like to inquire further--because I am still lost and I think you had a great idea except I do not understand it--as to the concept of the CPS at the local level. I, frankly, am still somewhat confused in terms of the methodology that you think could be put into place in that system, and I think it would be very helpful to us.

MR. MORGENSTEIN: Mr. Chairman, may I make one comment?

CHAIRMAN LEVITAN: Indeed, you may.

MR. MORGENSTEIN: Dr. Anderson, you raised a question about, why don't the states do certain things in terms of research? I think if you go back and read how the states are funded both by BLS and the Employment and Training Administration, you will find the answer to that. There is very strict and tight funding for producing certain products.

MR. ANDERSON: But the states also collect taxes from their taxpayers, and it would seem to me that more of those taxes could be allocated to answer some of the questions.

MR. MORGENSTEIN: That goes back to the governor of the state.

CHAIRMAN LEVITAN: Mr. Arnold, the note that I have from the staff is that you have to leave before 3:00 to catch your plane, so we appreciate very much your coming here. We do hope that you will supply us with the additional data that Ms. Wills asked for.

Since the Chairman always has the last word, I will instruct my secretary, Mr. Morgenstein, that any time you call collect for anything you want from the Commission, we will honor your call.

MR. MORGENSTEIN: Thank you. We will still send a messenger over.

MR. ARNOLD: Thank you.

CHAIRMAN LEVITAN: Thank you very much.

Mr. Leach, thank you very much for waiting. We are sorry to delay your testimony. Mr. Daniel Leach, U.S. Equal Employment Opportunity Commission.

#### STATEMENT OF DANIEL E. LEACH, VICE CHAIRMAN, U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

MR. LEACH: Mr. Chairman and distinguished members of the National Commission, my name is Daniel E. Leach, and I am the Vice Chairman of the United States Equal Employment Opportunity Commission. I wish to thank you for providing my agency with an opportunity to react in this fashion to the tentative outline of your report.

Your agenda, I must say, deals with an extraordinarily wide range of issues. As to some of the items your concerns are shared and it is to those that my remarks will be addressed.

In this regard, I speak not as a technician or as an individual steeped in understanding the nature and sources of the mass of statistical data accumulated by government. It is up to you, in part, to recommend better ways of identifying, sorting out and utilizing the data which is collected. Those objectives have become extremely important to my agency, particularly as that data and information seeks to identify the relative position of people in the workplace.

The Equal Employment Opportunity Commission has come to rely more and more on statistical data and over the next decade its success, in my judgment, will depend, in part at least, on the availability of improved information.

For instance, we will need to know the composition of the American labor force in greater detail and the changes that are occurring between points in time. Though not always the case, the Commission now is being asked to produce sweeping changes in the names, faces, colors, complexions, and sexes of Americans up and down the employment ladder. That is becoming the yardstick used to measure the Commission's effectiveness, to bring blacks and women, Hispanics and others into the mainstream of the economy.

In 1972, Title VII of the Civil Rights Act was amended to permit EEOC to enforce its decisions in court, to institute major lawsuits against industries and labor unions. And just as the agency's enforcement authority changed to reflect, I think, a stronger national commitment, so did the issue of discrimination itself change in terms of how it was viewed by the Commission.

Today, under Title VII, discrimination can be an isolated event, a discrete act, one which is unique to each individual worker affected. Discrimination is also the result of institutionalized employment systems. It affects broad classes of persons. It is based upon sweeping disparities.

So, under Title VII, discrimination must be met both as a series of isolated and distinguishable events and as an entire system with large-scale effects. On one hand, EEOC must deal with hundreds of thousands of individual grievances. This is reflected by the individual charge process.

On the other hand, the Commission must deal with pervasive institutionalized discrimination at which Title VII is also directed. It is to this latter strategy that the use of statistics has grown so rapidly and with such complexity in Title VII matters.

The Supreme Court recognizes the particular relevance of statistics in employment discrimination cases. They are critical in court when endeavoring to estab-

lish labor markets, pools of employment, and workforce utilization. See, for example, Hazelwood School District v. United States, 433 U.S. 299 (1977) and Teamsters v. United States, 431 U.S. 324 (1977).

Few, if any, lawsuits today involving class issues and requiring comparisons of large numbers of workers are presented without expert testimony by labor economists, statisticians and specialists whose presence in the Title VII arena was not nearly as apparent five or six years ago.

This has been the trend. It will continue and intensify. In the Title VII world there needs to be better information, more refined. It should be as current as possible.

Increasingly, the judgments of my agency will be dictated by the quality of the information it gets. Where do the exclusionary practices still exist in the economy? Where are they the worst? How do the protected classes continue to be affected? And so forth.

These questions must be answered as accurately as possible and in a timely fashion. In that regard it is my understanding that the results of the 1980 census will not be available to provide data on the social and economic characteristics of workers by state, SMSA, county and city until 1982 or 1983.

It is encouraging, however, to note that there will be a census in 1985 and every five years thereafter. In the interim, and until then it would be most helpful if greater use could be made of Current Population Survey and CPS data.

This is only a suggestion. There may be others. As you know, however, the Current Population Survey updates are now unpublished. But it will be five years before the next round of fresh decennial census data appears. That concerns me.

I said I am not a technician and I appreciate some of the technical problems that may be involved. On a monthly basis, or even quarterly, I understand that the sampling error for various subcategories may be too large. The occupational detail would likewise be imprecise and in some cases unusable for the purpose of comparing an employer's staffing profile to the appropriate benchmark.

But annual averages may, in many instances, provide sufficient information to make the necessary determinations as to the statistical evidence in a case. Hopefully, making available these statistics to corporations, unions and civil rights enforcement agencies would encourage the use of affirmative action programs where indicated as well as conciliations and settlements and also serve as the basis for developing evidence for the enforcement efforts of EEOC and for the courtroom.

I am aware that, at present, the Bureau of Labor Statistics (BLS) publishes just enough of the information in summary form to suggest the availability of more data on SMSAs and other subdivisions. I am also aware that it probably would be quite costly to publish the information with greater specificity.

It seems, however, that a necessary and vital purpose exists for wider dissemination of this data. I would urge you, therefore, to recommend that immediate steps be taken in this direction and pledge the cooperation of my own agency in pursuing this with the Department of Labor.

I feel strongly about this. In my own area I see a growing demand for high quality data. I think the government should do everything possible to accommodate this requirement. Perhaps I am looking ahead a little, but that is how I understand your mandate, to think ahead, to think long range. In that regard, you may be assured that many major questions involving equal employment opportunity over the next decade will result in decisions based on labor force analyses.

There are other elements of the statistics gathering and reporting process that could perhaps be tailored more to the particular needs of Title VII. I am not at all clear, for example, on the status or impact of so-called "discouraged" workers as they are reflected or not reflected in the labor force. EEOC records demonstrate a disproportionate number of blacks and women and Hispanics in this category.

I would ask too that you examine the initial question on the CPS inquiry with men being asked if they worked and women if they tended the home during the reference week. More broadly, greater compatibility as

between information systems should be looked at to assure, for instance, that SMSA occupational categories meet the job categories identified under the EEO reporting system.

On that point, too, we should be getting better information on the officials and managers category, a better breakdown.

It is pertinent, finally, to say that EEOC is beginning to use its substantial computer capacity as a law enforcement tool. Through our new Office of Systemic Programs we have begun to make the in-depth inquiry that ultimately must form the basis of an informed and rational judgment upon which a broad investigation of discrimination can be handled, companywide, industrywide, geographically, issue-by-issue, or however else those old slogans are now employed.

For example, "No blacks need apply," "Anglos only" or "This is men's work." The words may no longer be visible, but they are there, and only the intelligent use of statistical information can help identify them, do it fairly and strike them down, taking aim, for example, at those who since 1964 have done virtually nothing to respond to the mandate of Title VII.

You and your recommendations can help us immensely in this endeavor. Thank you.

CHAIRMAN LEVITAN: Thank you, Mr. Leach.

Sam, since you have to leave, do you have a pressing question?

MR. POPKIN: Just one. Since everybody gives homework, I think we should give EEOC a little double homework. I think we should send all the papers we have coming in on the dual labor market to them, to see if they have any suggestions to add. Whether or not there are dual labor markets is obviously directly related to whether or not the data that has been collected serves the needs of EEOC.

And we should make sure we get specific suggestions on specific wordings, and I do thank you for starting to breach the subject for us.



CHAIRMAN LEVITAN: Mr. Leach, I wonder whether you still remembered the Kennedy era when you testified? I thought that you were going to tell us what data you have for us, and now I see that you are looking for data. What have you done for us lately?

We have had some testimony about the richness of data that would help both the Commission and the nation. Except for the final point here, which I was hoping you might develop a little more, you do not tell us what kind of data we can get from you that would fill in the statistical gaps.

MR. LEACH: Well, I am going to have to look at it. Perhaps I can have some of our staff people get together with your staff and discuss what your needs are. I must say that your mandate and your mission was only brought to my attention rather recently. I think it is extraordinarily important.

I think that we share a great deal in common in terms of our objectives. I think that you can help us very much, and I will be glad to see in what ways we will be able to help you.

CHAIRMAN LEVITAN: Thank you.  
Now, Mr. Moskow.

MR. MOSKOW: Well, on this same point, it is my understanding that EEOC does collect information on workforce broken down by racial and ethnic categories by employers.

MR. LEACH: That is right.

MR. MOSKOW: It seems that some of the information that you mentioned here, specifically the point that you mentioned of getting better information on the officials and managers category, I assume by race and sex, it seemed to me that your own data would have a much better breakdown of that than anything that BLS could possibly collect.

MR. LEACH: But the point here, Mr. Moskow, if you will permit me, is that, yes, we do have a sufficient

base, but we need to compare our data base with the existing labor market to see whether or not we have a case.

In other words, if we can demonstrate basically a Title VII case, if we can demonstrate that classes of people are not being utilized in a work environment-- and we know what that work environment looks like because the employer through the EEO-1 gives us that-- but we need a benchmark and the benchmark is SMSA information basically. That is our benchmark. If we want to find out what the relevant labor market looks like, we start with the SMSA.

That forms the basis of our enforcement action.

CHAIRMAN LEVITAN: But, Mr. Leach, wouldn't you need very detailed data for that which is beyond the capability of BLS to develop? You did not want to kick BLS--if you want to kick BLS, be my guest.

MR. LEACH: I think it is there, Mr. Chairman. The courts have been generous in accepting the SMSA as that benchmark and the detail, whatever detail we can find in it.

CHAIRMAN LEVITAN: Would it be improper to suggest that maybe the courts do not accept proper data?

MR. LEACH: I would not venture into that area.

CHAIRMAN LEVITAN: I guess I should not either. Mr. Anderson.

MR. ANDERSON: Yes, Mr. Leach, I am glad to see you again.

MR. LEACH: It is good to see you, Dr. Anderson.

MR. ANDERSON: For the Commission, I simply reiterate what Sam Popkin said before he left and also the Chairman. I would be very interested in the EEOC data base, which I think is a very rich data base--you not only have information on the labor force, you have data on unions, on state and local government, and others.

MR. LEACH: Educational institutions.

MR. ANDERSON: That is right.

I think that we would benefit from some statement from the EEOC on the availability of that source of information for enlarging our understanding of what is happening in labor markets and if you could respond in that way, I would be most appreciative.

MR. LEACH: I would be glad to provide you with a breakdown.

CHAIRMAN LEVITAN: Mr. Moskow, were you going to ask another question.

MR. MOSKOW: I was but ---

CHAIRMAN LEVITAN: Go ahead, I am sorry.

MR. MOSKOW: It was just on this same point of these categories. I would think that when you get down to these very fine breakdowns by occupation and by level within an occupation, which I know you sometimes have to look at in these cases, here, too, I think we are getting way beyond what we could reasonably expect the Bureau of Labor Statistics to gather in the regular course of their Current Population Survey in their establishment of data.

I, too, would share what everyone else here has said. I think the first step would be to get from EEOC a statement of what data you are getting now, how you are compiling it, and how it is being distributed and disseminated.

MR. LEACH: Okay, that is a good idea. I agree.

CHAIRMAN LEVITAN: Ms. Wills.

MS. WILLS: Just while we are adding to the assignment, on the top of page four you mention CPS updates that are unpublished. It is really a point of clarification. Are you talking about unpublished data as it relates to certain populations, for example, Hispanics?

MR. LEACH: Yes, by sex, race, and beneath the state category.

MS. WILLS: Beneath the state?

MR. LEACH: Right. The subcategories.

MS. WILLS: Okay. It was simple.

CHAIRMAN LEVITAN: Thank you very much, Mr. Leach. We will be in touch with your staff for any additional data. Thank you very much.

Testifying for the U.S. Conference of Mayors is Mr. Mel Mister. I am going to call you "Mel," not "Mr. Mister."

MR. MISTER: Well, I hope so. I hope I can call you "Sar," rather than "Chairman."

CHAIRMAN: You have called me worse before.

STATEMENT OF MELVIN MISTER, DIRECTOR,  
INSTITUTE FOR URBAN AND REGIONAL ANALYSIS,  
U.S. CONFERENCE OF MAYORS

MR. MISTER: I am Melvin Mister, director of the Conference of Mayors' Institute for Urban and Regional Economic Analysis. On behalf of the Conference of Mayors, I want to thank you for the opportunity to present our views on the needs of city governments for improved federal labor force statistics.

From the perspective of city government there are two general purposes of local labor force and unemployment statistics. The first is the design, analysis and evaluation of policies and programs that seek to improve employment prospects and reduce unemployment.

The second is the use of local area labor force data in federal and state aid formulas. The latter divides itself essentially into, first, data used as program triggers and, secondly, data used for allocation or matching formulas.

There was a time when mayors were largely responsible only for putting out fires, catching crooks and

collecting garbage. Today economic development, manpower, housing and community development are all important elements of a mayor's responsibility. Unfortunately, federal statistical services have not kept pace with the increasingly significant role played by local government.

State and local area unemployment statistics are now used to allocate by formula over \$16 billion of federal aid. Major federal programs such as the anti-recession fiscal assistance program, CETA, Public Works and Economic Development Act of 1976 are geared to rates and levels of employment and unemployment. Thus, methods used to collect such data can have very significant impacts on the revenues of local jurisdictions.

As to local needs, mayors are involved in making critical, local political decisions affecting the pattern of economic growth in their cities and surrounding areas. In recent years the fiscal problems of local government have deepened, and stagflation has widened the gap between local revenues and expenditures.

City governments, with federal assistance, have increasingly turned to efforts to strengthen their local economies as a means to improve the fiscal health of city government.

With a priority concern about residents of their jurisdiction benefiting from increased local economic activity, the absence of timely, reliable, accurate city labor force and unemployment statistics has been very frustrating. All too often the official statistics conflict with the mayor's personal knowledge about what is happening in his community.

A wealth of data is available to local government from public and private sources. Its quality varies enormously; it was collected at different times for different purposes. We urge the Commission to address the technical assistance needs of local government in making use of this wealth of data for local decision-making about economic development and manpower.

The absence of timely federal labor force and unemployment data for cities has forced local government to use various sources to obtain estimates. Technical assistance is needed to assist local government in raising their standards for collecting and

using labor force and unemployment data from a variety of sources.

In addition to technical assistance, the time has arrived for the federal statistical pendulum to swing in the direction of data for cities. There is a growing need and a capacity to use labor force, unemployment, and other data for microeconomic analysis at the local level.

This year's White House Conference on Balanced Economic Growth, the President's urban policy proposals, the renewed interest in neighborhoods are indicative of the need for more disaggregation of existing data, for increasing sample sizes, and perhaps for collecting additional information.

Secretary Kreps stated the problem succinctly before the Joint Economic Committee earlier this year when she said, "Even if we fully meet or surpass our national economic growth targets, we will have solved only part of our economic dilemma. For behind the national totals of GNP, prices, and employment there is a diverse picture of the health of the American economy. ... Nowhere are these problems more clearly seen than in the differences in unemployment rates by various demographic categories."

It is our hope that the Commission will find ways to economically expand the amount of disaggregated information made available to local government to meet their decisionmaking needs. We generally support the suggestions made in Harold Goldstein's September 1977 paper on "State and Local Labor Force Statistics" to improve labor force data for analytical and other purposes.

In addition, we believe that inadequate resources are available to produce the accurate, small area labor force and unemployment data needed by cities. Less than \$4 million is included in the FY '79 budget for the Current Population Survey, the major source of unemployment data. Yet, the results influence federal spending of \$16 billion of federal money plus countless state and local decisions which affect the lives of millions.

We also urge the Commission to explore means for local government data collection to be used by the city

and by the federal government for decisionmaking. It might be possible for the federal government to set standards for local government or private contractors to use in collecting labor force and unemployment data.

Problems of bias and uniformity must be addressed. It may be difficult to aggregate local data for use in the allocation of federal funds. The Commission could provide a valuable service, however, by determining to what extent a combination of federal standards, technical assistance and strengthening of local data collection could improve the manner in which the inter-governmental system deals with labor force and unemployment issues.

As to allocation of federal funds, there is an urgent need to clarify the technical and policy issues involved in the use of statistical data in grant-in-aid formulas and as triggering mechanisms to determine when a program should start and stop.

The political process will ultimately determine the goals of federal programs, and the executive and legislative branches should be urged to give earlier and greater attention to issues in devising grant-in-aid formulas. It is not possible or desirable to expect the precision in legislation required by statistics which can be made available at reasonable cost.

In any case, it may help to distinguish the ways in which unemployment data are used in the grant legislation and to determine what is vital to the provisions, what could be changed, and the options that are available. As illustrative, the statistical indexes are used for triggering and for formula distribution, if a formula is used.

Triggering is essentially in two parts, each of which could be separated and dealt with independently in my view. There is the triggering mechanism which determines whether the program is to be funded. Such triggering could be set off by nationwide indexes and in most instances such a nationwide index is used in the statutes, for example, 6 percent unemployment or unemployment in excess of 4.5 percent.

There is also the triggering mechanism which determines eligibility for grant funds. The point to be underscored is that when the trigger mechanism

determines eligibility of a local government for sizeable federal funds, particularly if the provisions call for eligibility on an all or none basis, a heavy weight is placed on the fragile statistics. The local eligibility requirements, however, do not have to be tied to the overall trigger.

It may also be useful to step back and ask why the trigger? Is the triggering mechanism essential to the purpose of the aid, or would, for example, a permanent continuing program be preferable?

Apart from the trigger, there is the formula for distribution and, in theory, matching requirements. If the trigger and eligibility mechanisms could be worked out, the allocative formula problem is less complex.

It is our hope that the Commission will address policy issues such as these about the use of unemployment and labor force data in addition to the types of data collected and improving definitions of unemployment.

There should be a relationship between the type of data collected and the purposes for which it is to be used. Too often, we have confronted a strong desire on the part of the federal statistical official to avoid policy issues on the grounds that it will produce bias. The Commission could perform an important function by tempering this "just the facts" approach with sensible policy considerations about priorities.

The recent experience with the Bureau of Labor Statistics changing the way unemployment is measured has been a frustrating and disappointing experience for local governments. In the name of better data, with inadequate policy analysis, official unemployment estimates have been changed.

In testifying before the Congress on this issue which affects so many federal aid programs of importance to the cities, Mayor Moon Landrieu made the following recommendations on behalf of the Conference of Mayors:

First, any major changes for calculating unemployment levels should be delayed until the Commission on Employment and Unemployment Statistics has issued its final report. The Commission will be exploring all aspects of unemployment measurement, including the fact



that none of the present procedures takes into account "discouraged workers."

It also will be making recommendations on how Congress can place less reliance on unemployment statistics in program allocation formulas.

Second, the Current Population Survey sample should be expanded so that the CPS can be used more at the local level. The Conference of Mayors recognizes that the cost of such an expansion could be great.

Therefore, limiting the expansion to those states where most of the unemployment is should be a consideration. Generally, reliable unemployment estimates could be derived for the other areas by combining the present old and new procedures.

On this point, it is important to note that over 70 percent of CETA Titles I, II and VI dollars were allocated last year to just those 19 states which contain the 30 SMSAs where the CPS is now used to some degree. The cost of expanding the CPS for application in these states would be a tiny percentage of the present billions of dollars allocated on the basis of unemployment statistics.

Third, data should be collected for at least the next six months for both the old and new procedures. Only in this manner will satisfactory analyses be able to be made.

Fourth, at the minimum, the new procedures should be delayed until the potential effects on the distribution of employment and unemployment can be determined adequately.

Fifth, the use of Current Population Survey data should be continued for all 30 SMSAs and 11 central cities under any new method where it is now applied.

Sixth, if the new procedures are continued to be implemented, Congress immediately should review all legislative allocation formulas.

These formulas were based on certain distributions of unemployment at the time of passage. No matter what method is more accurate, it would be inequitable to continue funding under the present formulas without some adjustments if cities are to be negatively affected by the new procedures.

These suggestions are illustrative of the approach which the Conference of Mayors favors in dealing with changes in policy while protecting the objectivity of the data collection process.

I would like to submit for your use a copy of a special report, "Methods for Collecting Employment and Unemployment Statistics" (see Appendix B). It was prepared in connection with our discussions with BLS. You will note that on page 2 of this document we recommend delaying changes until this Commission issues its report.

We urge you to give priority attention in your report to the needs of local government for better data and an improved capacity to deal with labor force and unemployment data.

In addition, we hope the Commission will not be timid in proposing large and/or more frequent surveys if that is necessary to produce timely, accurate data required to achieve federal objectives which have been determined through the political process.

CHAIRMAN LEVITAN: Mel, I do not know whether it would be proper, but just to correct the record: on page 1, you say disparagingly that there was a time when all that mayors did was catch crooks and collect garbage. Would you accept it and wish they still would be doing it?

MR. MISTER: I did not say that they were doing it. I said that they were largely responsible only for doing that. That does not deal with their performance at all.

CHAIRMAN LEVITAN: If they were still doing that today, you would not accept that? Is it all right.

MR. MISTER: My point was, Sar, that it is their responsibility to expand it. I have said nothing about a judgment on their performance.

CHAIRMAN LEVITAN: Mr. Moskow.

MR. MOSKOW: I appreciate your testimony and the papers you provided will be very helpful to us, and it shows a great deal of preparation.

Just a couple of points: There is no question we are going to give priority attention to this area of state and local governments in our statute and statutory mandate for the Commission, and it is one that has already been discussed, so I can assure you on that account.

But some of the issues you raised here I really think are beyond the scope of the Commission. You mentioned, for example, on page 6, "It is our hope the Commission would address policy issues such as these." And then one of them that you had referred to is in the first full paragraph on that page, "It may also be useful to step back and ask why the trigger? Is the triggering mechanism essential to the purpose of the aid or would, for example, a permanent continuing program be preferable?"

In my view, considering an issue like that is clearly not within the mandate of the Commission. I would think that that is a congressional decision, a

key public policy decision, how to meet a specific need that the Congress had recognized, and we are supposed to look at the statistics that would be used. And that would clearly be beyond it.

MR. MISTER: I agree. Triggering on a policy issue, how it ought to be handled, what kind of statistics can be most cost-effectively produced to deal with it, are questions that the Commission might help us to throw some light on. The question of whether or not there ought to be triggers is another issue. And I would agree with you that that is beyond the scope of the Commission.

In fact, I tried to say in this statement that the political process has to decide some questions and it will never decide them in a way that is satisfactory for the statistical people, and I think we are going to have to accept that fact.

But once those judgments are made or in the process of being made, I would hope that the Commission could throw some light on the difficulties of alternative approaches from a statistical standpoint. There is some gray area there that I think the Commission can operate in, and I would like for you to go as far as possible in helping the political people make those judgments about triggering and nontriggering and what kind of definitions to use for triggering in as intelligent a way as possible. When the law is passed, somebody has to try to implement it.

But I would agree with you that my statement probably suggests that you should do something which is beyond your mandate.

MR. MOSKOW: All right, the other question I had is there are a number of people who have testified that rather than using a measure of unemployment for distribution of funds, they would recommend measures of income be used in variations, maybe real income, adjusting for differences in prices throughout the country or other variations such as those.

But it is a conceptually different approach to distributing funds in many of the block grant types of programs that we now have and I wonder-I have not read

this backup paper--if the Conference has any position on this or whether you personally have a view on it that you would like to express to us.

MR. MISTER: No, the Conference of Mayors does not. In connection with the President's urban policy message, a number of mayors, along with our staff, are trying to figure out if there is some method for coming up with a uniform measure of distress.

That is, a number of the new Presidential proposals involve giving money to cities based on their degree of distress. Some of the programs seem to have similar objectives, and we are trying to see if there is one set of criteria that could apply to several federal programs.

And, in all of those discussions, we have talked about using unemployment but including other factors as well. There is some skepticism on the part of the people who are working on it about how far we can go because the political decision about what factors should be taken into account is really going to be determinative.

That is why I say as much help as we can get from experts like yourselves on what the limits are of statistical activity would be very helpful in making these, frankly, political decisions.

In some of the programs that exist now, like the community development block grant program, which you are certainly very familiar with, and the action grant program, we came up with more than one factor.

So, there are some cases where we are doing that now, but still I think I would like to be in a position, and the Conference would like to be in a position where we can speak with more authority about what we can get out of the statistical system related in some way to what we are doing.

Let me just mention one other thing. We did go through a rather interesting exercise with the Commerce Department recently where they used something, which I am sure that you folks would be more familiar with than I, called the Delphi method.

Operating under the assumption that there are tests for making judgments about distressed suburban

communities, the Commerce Department tried to figure out how to measure distress among communities in metropolitan areas by compiling statistics and having a meeting and trying to get a Quaker consensus with some "knowledgeable people."

If a correlation exists between your statistics and the knowledgeable people concerning distress, then you have gone through the Delphi method. That is the best understanding of it that I have. I do not know whether that is correct or not.

But, again, that is the kind of approach that we are groping for. We are involved in that discussion, but I frankly admit that we do not have any answers.

CHAIRMAN LEVITAN: Ms. Willis.

MS. WILLIS: I am sorry. I have been through the Delphi exercise once and I have real bad memories.

MR. MISTER: I would like to go to Greece sometime but I have never gone through the Delphi.

MS. WILLIS: Three questions: One is to add onto part of what Mike was asking about in different calculations or statistics to be used for the allocation of monies.

In the process that you are going through, are you trying to differentiate between indices that would identify need for individuals as opposed to--or in addition to, perhaps, is a better way to state this--area or economic distress or jurisdictional distress? Because it seems--now I am going to editorialize--it seems to me that is where one of our critical problems lies.

MR. MISTER: It is funny. I have tried to divide the statement up into two parts, one the local part. I think on the local side we see a lot more attention being given by staff people and by some of the mayors to focus on the areawide issues, the neighborhood issues. The neighborhood is a big popular thing these days.

So, they are trying to deal with that and get measures and indices of that.

From the federal side, on the allocation of federal monies, the process that we have been involved in is unusual. When the Congress passes a law, it determines what we have to look at. We try to do the best we can to work with the federal government to figure out a way to implement the law.

This process has led a lot of local people to find sources of data to fight with the federal government. On the action grant program, the Census Bureau made an error and the mayor of one city had to go out and find a way to prove that they had made an error. He finally did that and then he got added to the list of eligible cities for action grants.

So, I think in terms of the allocation of federal money, we are not equipped, at the moment anyway, to participate effectively in the statistical discussion that ought to go along with the political decision-making. That is where we have a real shortcoming.

MS. WILLIS: That leads me to my second question. You are the first person who has made a suggestion that part of what we --no, Alan Beals has alluded to it somewhat this morning--but you specifically talk about the need for technical assistance for, I assume, local city people in terms of how to use the data that we already have. Could you expand on that a little bit?

MR. MISTER: I think from the local level, it seems to me that there is an issue not only of federal-produced information--that raises one set of issues--but there are also local people who are using other sources of data for their own decisionmaking. If a community has to decide whether or not it has too much property zoned for industrial use, it has to have some knowledge about its own local economy, and it may turn to the utility company, to Sales Management magazine, or other sources of data.

Or, in some cases, they use money, sometimes federal money, to do their own survey work. So, there is a lot of data collection going on that local government plans for their own purposes, and one of the

reasons for me suggesting some technical assistance was to assist local governments in that process.

If my dream came true, we would have the federal government establishing some standards for local government use, which would make it possible for localities to collect better data, some of which might be used by the federal government for some joint decisionmaking, not necessarily about the allocation of money. Some of the Census Bureau people tell us that they asked states and cities to estimate their populations, and they added it all up and it came to 3 billion people in the United States.

So, you end up getting a lot of bias problems that have to be dealt with, but it seems to me we can go a long way in just improving the quality of data used at the local level.

On the federal side, we think that the Office of Federal Statistical Policy ought to help us deal with just the regular application requirements apart from the question of allocation formulas.

I think that if you took some cities' applications for CETA money, for waste water treatment facility money, for community development money, and took the names out of the applications and read through them, you would not know that you were talking about the same community.

So, I think there is an important role for the federal government to play in setting standards, and I think that has been a pretty weak operation as best as I can understand it up to this point.

CHAIRMAN LEVITAN: Do you have another question?

MS. WILLIS: I have a very quick one. You mentioned cities throughout here. What is your definition of a city? The reason I am asking that question is, when we are talking about developing better data for a city, we obviously mean a population basis. Most information is gathered on an SMSA basis now.

MR. MISTER: I do not want to be flip, but for me a city is a political jurisdiction with a population of 30,000. That is our membership rolls. But one of the



points I do want to make about the data seriously is that we have a strong interest in focusing on political jurisdictions because our main interest is in tying the statistical data gathering process to some political decisionmaking process.

At one point, a federal official wanted to give monies to SMSAs, and he wanted some addresses where he could send it to these SMSAs. They do not make decisions, and we really think it is important to focus on the political jurisdictions called cities.

CHAIRMAN LEVITAN: Mr. Anderson?

MR. ANDERSON: Yes ---

CHAIRMAN LEVITAN: It will have to be quick one.

MR. ANDERSON: I simply want to thank you for this very detailed statement. I intend to read it very carefully. I have no questions.

CHAIRMAN LEVITAN: Thank you very much, Mel.

MR. MISTER: Thank you, Sar.

CHAIRMAN LEVITAN: Appearing for the National Urban League is Dr. Robert Hill. Robert, you have the floor, and we work under the 15-minute rule.

STATEMENT OF DR. ROBERT B. HILL,  
DIRECTOR OF RESEARCH, NATIONAL URBAN LEAGUE

DR. HILL: I would like to express the appreciation of Mr. Vernon E. Jordan, Jr., NUL president, who is currently out of the country, for giving the National Urban League this opportunity to present its views before this National Commission on Employment and Unemployment Statistics in order to assist this panel in carrying out its highly significant congressional mandate.

My name is Robert B. Hill and I am the director of the National Urban League's research department, which has its base here in Washington, D.C. since 1969. As

you may know, the issue of unemployment and subemployment of minority workers has been the preeminent area of concern to the National Urban League since its inception in 1910.

This concern has been reflected over the years in such long-term successful employment training and outreach efforts as the Labor Education Advancement Program (LEAP), which has provided thousands of minority youth with the skills in the construction trades, on-the-job training program, the national skills bank, veterans affairs program, the Black Executive Exchange Program (BEEP), and many others.

However, in addition to our major concern of securing meaningful employment opportunities for minority workers, the National Urban League has had a strong continuing interest in the quality of governmental statistical data that are used as the basis for gauging the extent of social and economic progress in this nation and for allocating billions of dollars in governmental aid to states and localities.

**Hidden Unemployment:** One statistical measure that we have strong reservations about is the government's definition of unemployment. The U.S. Labor Department classifies as "unemployed" only those jobless persons who report in the monthly Current Population Survey that they have been "actively seeking work" during the prior four-week period.

However, this excludes millions of persons from the labor force who want work but have become too discouraged to actively seek it. Since minority workers are consistently overrepresented among these excluded discouraged workers, the current governmental measure of unemployment disproportionately understates the actual extent of joblessness among blacks and other racial minorities.

In an attempt to correct for this distortion, the NUL research department developed the NUL Hidden Unemployment Index in 1972. 1 This index, which is based on a formula suggested by the U.S. Joint Economic Committee of Congress, incorporates three groups of workers: first, persons officially defined as unemployed; secondly, those persons not in the official labor force who say that they "want a job now"; and, third, the

involuntary part-time, persons working part-time who want full-time jobs. 2

The NUL Hidden Unemployment Index is calculated four times a year for both black and white workers as well as for teenagers and is published in the NUL Quarterly Economic Report on the Black Worker, which is based largely on unpublished Bureau of Labor Statistics data.

By incorporating the two "hidden unemployed" groups, we estimate that the actual extent of joblessness among black and white workers is about twice the official count.

For example, during the first quarter of 1978, 1.5 million, or 12.9 percent, of all black workers were officially counted as unemployed, while the NUL Hidden Unemployment Index indicated that 3.1 million, or 23.9 percent, of all black workers were really out of work.

Thus, we contend that the actual jobless rate for black workers has consistently remained at the depression-level of one out of every four workers for each of the past three years, 1975-1977.

Several other groups, such as the AFL-CIO, have also developed alternative measures of unemployment. However, most of them are based on the Labor Department's restricted definition of "discouraged" workers with which we strongly disagree.

As a rule, about one-fifth of all persons not in the official labor force indicate in the Current Population Survey that they "want a job now." The National Urban League classifies all such persons as "discouraged" workers and includes them in its Hidden Unemployment Index.

However, the government limits its definition of "discouraged" workers to that subgroup that indicates that they "think they cannot get a job" because of presumed age, race, skill, or other personal handicaps. It excludes all other persons who say they want a job now but who report that they were not actively seeking work because of home responsibilities, school attendance, or health reasons.

Thus, the Labor Department arbitrarily infers that such persons do not really want a job because these responsibilities would make them unavailable for work

even if a job were immediately forthcoming. Such an inference is highly unwarranted since millions of persons with home responsibilities, school obligations, and health problems are able to also hold jobs every day.

It is methodologically not sound to use the reasons that individuals, who say that they want a job now, give for not actively seeking work as a basis for inferring their unavailability for work. In fact, these persons are never specifically asked whether they would be able to take a job if one were immediately available. While we are prepared to concede that not all persons who say they want a job now would be immediately available for work, we feel that more persons are in fact discouraged than are reflected in the government's definition. We might add that the NUL's broader definition of "discouraged workers" is supported by the work of other manpower analysts. 3

We recommend that this Commission consider other questions to be added to the CPS which would more directly and fully assess the nature and extent of discouragement among American workers.

For example, many workers who want jobs are not able to actively seek them because it is too expensive. Funds for transportation and access to a car and telephone are essential requirements for being able to quickly pursue job possibilities. Such resources are not available to thousands of persons who want jobs, especially racial minorities in poverty areas. Yet, such barriers are not specifically probed in the CPS as a factor leading to discouragement.

Census Undercount: However, even if the government adopted the National Urban League's broader definition of unemployment, the actual extent of unemployment among racial minority workers would still be understated. This is so because of the disproportionate undercount of blacks and other minorities in the decennial census, which is used as the benchmark for drawing the household samples in the Current Population Surveys, which are conducted each month by the U.S. Bureau of the Census for the Labor Department.

According to the Census Bureau's own estimates, a total of 5.3 million persons, or 2.5 percent of the total U.S. population, were left out of the official count in the 1970 census. But while 2 percent of the white population was missed, the Bureau indicated that 8 percent of the total black population was not included in the 1970 census.

The 2 million blacks missed in the 1970 census is equivalent to the loss of five congressional representatives, scores of state and local legislators, and billions of dollars in possible governmental per capita funds to financially-pressed areas throughout this nation.

Since virtually all governmental aid to states and localities incorporate the population count as a criterion for distribution, areas with concentrations of racial minorities are being disproportionately denied their equitable share of funds due to the census undercount.

This is especially evident in the allocation of such manpower funds as CETA and public works programs. Moreover, since young adult black men are disproportionately left out of the census count, the Labor Department's figures for this group are sharply understated. Such inaccurate statistics result in ineffective targeting of manpower funds to those very areas and groups that most need them.

Consequently, the National Urban League strongly urges this Commission to vigorously explore ways of adjusting employment and unemployment statistics for the census undercount at the state and local levels as well as at the national level.

As a member of the U.S. Census Bureau's Advisory Committee on the Black Population for the 1980 Census, the National Urban League has already made a start in the direction of developing a method of computing the undercount in all states and localities for both whites and nonwhites.

The results of our analysis were first released in 1973 in a special report entitled, "Estimating the 1970 Census Undercount for States and Local Areas," which is attached to this testimony. 4 Several other researchers have adopted the NUL's synthetic method in conducting

analyses of the impact of the census undercount for revenue-sharing allocations to states and localities.<sup>5</sup>

The National Urban League would be pleased to meet with the Commission's staff at some later time to more fully explain our methodology. However, while our method does not adjust for the undercount among Hispanics, we feel that with additional work it is possible to also make an adjustment for them using our methodology.

However, we are not as interested in the NUL's method being adopted as we are concerned that this Commission actively solicit the views of other researchers in this field in order to come to some consensus around a method for reliably correcting for the undercount for all states and localities.

Such input would help to achieve two important objectives: one, a more accurate measure of the actual extent of unemployment among all groups and, two, a more equitable allocation of manpower funds to those areas and groups most in need of them.

Local Area Data by Race: Another matter of grave concern to the black community is the lack of race data on employment and unemployment for central cities and poverty areas on a periodic basis. The unemployment data by race provided annually by the Bureau of Labor Statistics are helpful but are insufficient both in their scope and in the number of cities for which statistics are provided.

Since racial minorities are disproportionately concentrated in central cities, the severity of their plight is obscured when unemployment rates for the total metropolitan areas are used, particularly when unemployment sharply declines in suburban areas and continues to soar in the central cities.

In fact, we strongly urge the Commission to explore ways of increasingly using central city jobless rates as a basis for financial allocations as opposed to metropolitan area jobless figures.

Of course, it would be argued that it would be exceedingly expensive for the government to compile unemployment rates for most central cities on a periodic basis, not to mention figures that could be generated for different racial groups. But there are some interim approaches that could be adopted.

For example, at the end of the 1970 census, the Labor Department commissioned the Census Bureau to conduct a special Census Employment Survey (CES) in 60 low-income or "poverty" areas in 51 cities in order to determine the "barriers to employment" among inner-city minorities. No such in-depth surveys of inner-city areas have been conducted since that time.

But they can be conducted, for less cost, if they are done in cooperation with community-based groups that have staff with research and interviewing skills.

In fact, more than half of the 110 Urban League affiliates conduct household surveys in inner-city areas each year. At any rate, we feel that the Commission should thoroughly explore ways of possibly reinstating such special surveys, such as the Urban Employment Surveys or Census Employment Surveys, enlarging the CPS sample to provide racial data for more cities on a regular basis and allocating more manpower funds on the basis of central city figures.

Seasonal Adjustment: Our final area of concern is with regard to the government's seasonal adjustment of employment and unemployment figures. We think that this Commission could perform a real service by exploring the practice of using seasonally-adjusted unemployment rates as a basis for estimating the dimensions of unemployment as it affects people and the kinds of public policy they require.

It is our contention that people are unemployed whenever they are out of work, regardless of the time of year or season in which it occurs. Seasonally unemployed workers still need to buy food for their families. They still need to pay rent and make other essential expenditures.

Thus, governmental expenses for unemployment insurance, food stamps, welfare and health benefits are needed for seasonally unemployed workers as well as those workers who are unemployed for all seasons.

We do not deny the validity of using seasonal factors as a methodological construct for technicians, but we seriously question the propriety of highlighting an adjusted unemployment figure as the "real" count for all unemployed persons and understating the actual, unadjusted figures each month.

If Congress wants to allocate job slots, it should be done on the basis of real numbers of jobless individuals and not on the basis of hypothetical constructs which are constantly being revised.

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<sup>1</sup>National Urban League, Research Department - "Black Unemployment: A Crisis Situation," - Methodological Appendix - August 1, 1972.

<sup>2</sup>The Joint Economic Committee, Congress of the United States, 1972 Joint Economic Report: January 1972 Economic Report of the President, March 23, 1972; National Urban League Research Department, Quarterly Economic Report on the Black Worker.

<sup>3</sup>Victorisz, et al., "Subemployment: Exclusion and Inadequacy Indexes," BLS, Monthly Labor Review, Vol. 98, No. 5 (May 1975), pp. 3-12, especially footnote 8.

<sup>4</sup>Robert B. Hill, "Estimating the 1970 Census Undercount for States and Local Areas," The Urban League Review, Vol. 1, No. 2, Fall 1975, pp. 36-45.

<sup>5</sup>Reese C. Wilson and E. Francis Bowdeten, Jr., General Revenue Sharing Data Study, Volli Executive Summary. Prepared for the Office of Revenue Sharing, Technology Management Incorporated, Stamford Research Institute, August 24, 1974; and Robert B. Strauss and Peter B. Harkins, The 1970 Census Undercount and Revenue Sharing: Effects on Allocation in New Jersey and Virginia, Joint Center for Political Studies, Washington, D.C., June 1974.



CHAIRMAN LEVITAN: Thank you, Dr. Hill.

MR. ANDERSON: Bob, I certainly appreciate having you come before the Commission. It was a very fine statement, and I certainly will read it, plus the other one which you mentioned which has not been distributed. If you could provide that, it would be very helpful. We are certainly familiar with the work the Urban League has done over time in trying to enlarge upon the amount of information available about unemployment.

But I would like to ask you this: It is very clear in your statement that unemployment to you means the condition of being without a job and, in fact, the methodology that you use in correcting the reported unemployment statistics is to include all those persons who are without jobs whether or not they have done anything at all to seek employment.

Now, I wonder, from the standpoint of national statistics, whether you would find the following definition to be appropriate, and I would like you to comment on it. Do you think that it might be useful not to discard the labor market test entirely, but to try to identify among that group of discouraged workers some number of persons who within some reasonable period of time have searched for work, perhaps six months, a year, maybe 18 months, rather than simply add all individuals who say they are available to work but have done nothing at all for a considerable period of time to search for work?

DR. HILL: Yes, let me say I would be very much in agreement with that approach. In fact, it is true. The definition, of course, that we include says all people who say they want a job now, which, as I said, is about one-fifth of everybody in the labor force, but you are right. There is no probing to say, "Have you ever looked in the past? How long?" In other words, actually find out whether in fact they were discouraged and gave up. There is no probe.

So, I definitely agree with that. In fact, our recommendation was precisely that we should ask more direct questions about the nature of discouragement. In other words, I do not know at this point what that period of time may be, but I definitely agree with you.

I do not believe the measure we have can actually be called even discouraged. I mean, there are people out of work who say they want a job. I am talking about the present way of classifying it. So, I would be very much in agreement.

I think that that is needed. I think there are two types, though. There are persons who may have given up looking for work, but I think you should also have a way of assessing people who really want to look for work but have not.

That is what I was talking about, access to phones, to funds. You need money to look for work.

MR. ANDERSON: The second issue, Bob, is the use of unemployment statistics as the basis for allocating federal funds for social programs. Do you really think that an improvement in the quality of the unemployment statistics alone would be sufficient to make more rational allocation judgments? Or from the point of view of the program that the National Urban League operates, would it be better to have a much broader range of information, both employment as well as unemployment data, on which to base allocation decisions?

DR. HILL: Well, I think there is a question on the use of the term of unemployment, except I kind of lean toward--if you are talking about being able to allocate programs in terms of jobs, somehow we should take into account some indicator of the extent of jobs missed or subemployment. So, weather being the only factor, I would have some question about that.

But I do think that some type of way of incorporating some extent of jobless missed or subemployment should be measured.

There are, of course, a number of other procedures you can use as proxies though. One that I think would be, of course, from our constituency, is in terms of racial groups, disproportionate numbers of persons in

these area. It would seem to me that there is a high correlation between unemployment and racial groups, and it seems to me that just the concentration of them could be used as a basis of allocating.

And I think, frankly, it is more reliable than our current bases are. The previous speakers were asked in terms of income measures. Well, serving on that Census Advisory Panel, that income indicator is an extremely dubious one that the Census Bureau uses, and I think much more work would have to be done to say what it is you actually have.

In fact, there is an attempt to try to place the income on the 100 percent sample of the census, but in my last discussion it seems like that is not even going to occur. It is going to be on the sample basis again.

MR. ANDERSON: Thank you very much.

CHAIRMAN LEVITAN: Mr. Oswald.

MR. OSWALD: Dr. Hill, I share with you many of your concerns, and I think I would like to ask two things that you might supply better later. One, you indicate the concern with discouraged workers and suggest that maybe that there are other additional questions that might be used in probing, and I think that is one of the issues that we face. And, if you have specific recommendations in terms of what types of questions that we could use, I think all of us would be happy to learn from your own experiences.

And the second item that ties in with your work with the Census Bureau on the undercount is that we have approximate notions from the census in terms of the total undercount, as you indicated 8 percent for blacks, nationwide. When we struggle with the notion of local area statistics, how do you make that adjustment? Is there a bigger concern with undercount in rural areas of Arkansas or with Harlem and the Bronx?

It is not purely a relationship to either color, race, or something else; it is also location, I gather. Is there anything that we can learn in terms of an adjustment process, in terms of the sort of resesarch the census is doing and that you are doing with them in

this regard that could help us in terms of saying for an area, this is an appropriate means of adjusting for an undercount the census shows up because this is the adjustment process that we know is needed?

DR. HILL: I will make this report available because it more fully describes in terms of the methodology for actually coming up with estimates of the undercounts for states and localities.

Let me just kind of briefly summarize the procedure that we have used. First of all, we start from the actual estimates that the Census Bureau derives nationally, and they have derived the national undercounts by age, sex and race, those three factors. And they have the rates of undercount by age, sex and race for blacks, that is for nonwhites, and also for whites, but not for Hispanics because they use the demographic methods from births and vital statistics, so they say they cannot do it.

So, taking their estimates for the national, we use what we call a synthetic method. What it does is that it makes the assumption of the null hypothesis, that the persons with the same age, sex and race categories, individuals in the same--in other words, white males between 10 and 14 have the same probability of being undercounted at a state or local level as they do in the national.

In other words, they are different but they are not statistically significantly different. We do not know whether plus or minus. So, making that assumption, what you do is that-that approach means that you just take every area, whatever the size is, the age, sex and race distributions and you can extrapolate beyond that to a total count.

So, what happens is that it takes into account rural as well as urban, and it is affected only by the population profile of that locality. So, undoubtedly places that have higher proportions of young adult black men would tend to have higher rates of undercount than others.

Essentially that is the approach that we have used as a beginning step. We think it is a beginning step. We think that there should be more work in this area.

But what it does is that it is a mechanism for being able to derive an undercount for every locality, regardless of the size. Now, I do understand statistically that you are more likely to increase your error rates for smaller localities.

But we again say that at least right now the Census Bureau does not have the method for correcting for smaller places, and most places are not New York or Chicago. The revenue sharing is showing that--38,000 localities. So, what we propose is that even if you could use a procedure like this as an interim basis while at the same time you try to explore other ways, you at least have an interim way of correcting the undercount. But nothing is being corrected now for these localities.

I think that if you could read it more fully--and I might also mention that other research groups have been using this. Stanford Research Institute used our procedure to do their analysis for the Office of Revenue Sharing of the impact of the population undercount for revenue sharing, and they recommended that our procedure could be used for all states for large counties.

So, there is a question about the lower limit for smaller areas.

CHAIRMAN LEVITAN: Mr. Moskow?

MR. MOSKOW: Dr. Hill, I just want to say I think your statement was a very good one and will be very helpful to the Commission. I had a couple of questions. One, in your comments you mentioned a criterion for distributing funds, you mentioned income, and you mentioned there were some problems in the methodology of calculating or estimating income that you were aware of based on your work with the Census Bureau.

A number of people testifying before us have suggested that we should consider income as a means of allocating funds under certain block grant type programs:

I was just wondering what your view would be, if you assume that these methodological problems were worked out--or let me put it this way, if you assumed

that the methodological problems in unemployment are about comparable to the methodological problems in income, or other things being equal, do you think that income would be a desirable criterion to use to allocate funds among localities under some of these block grant programs?

DR. HILL: If you are talking about community development block grants, I do not have as much of a problem, or education, because, as you know, the Census Bureau does special censuses in terms of children who are below the poverty level so they could use updated information for allocation of educational funds to localities.

But when we talk about allocating for the purpose of jobs, it seems to me, frankly-let me just answer you first-I do not believe that the methodological difficulties of unemployment are as difficult as the methodological difficulties in getting accurate income information, number one. I think it is much less difficult to get.

I mean, there are many different ways we can assess employment by whatever indicators we want to use, but it is very sharp in terms of the under-reporting rate and then what is reported is inaccurate. So, I would have a question with respect to that.

But, let's assume it was much more reliable. I would think that perhaps, yes, some combination of unemployment and income might be advisable, I would say that. It is just that I have heard this debate before and some say, "Since we do not have the purity of income so we have to hold up in making any adjustment for population." They said that in terms of revenue sharing.

And I do not believe you have to hold one up for the other.

MR. MOSKOW: All right. My other question relates to the discouraged worker area, which is one that we are very interested in and we have and we will spend a lot of time considering. On page 3 of your statement, you talked about the government's present definition of discouraged workers, or BLS' present definition.

DR. HILL: That is right.

MR. MOSKOW: You said, and I am quoting, "It excludes all of the persons who say they want a job now but who report that they were not actively seeking work because of home responsibilities, school attendance, or health reasons." As I understood your next statement, it said that you would like to see those people included in the discouraged worker group.

My question is this: In viewing people who have home responsibilities, school attendance, or health reasons, I am sure there are some who because of those just do not want to work for pay, and they do not want to seek a job.

DR. HILL: That is true.

MR. MOSKOW: They are not working now, they do not want to seek a job for pay, and there are others who may but they are not seeking it because of these responsibilities. Are you suggesting that all of those people be included in the concept of discouraged workers?

DR. HILL: First, let me make sure that we separate two groups. The Bureau asks the person, if he is unemployed: "Were you looking for work over the past four weeks?" And the person says, "No." So, automatically they are outside of the labor force. Then, BLS says: "Well, do you want a job now?" A certain portion, about one-fifth says, "Yes," and 80 percent say, "No, I am not looking for it. I do not want a job." But, BLS says, "Wait a minute, let's probe further. Why weren't you actively looking for work?" And then people say, "home responsibilities, health; I think I cannot get a job." Ah, so, that subgroup is the discouraged worker.

What I am saying is that these people say they have home responsibilities and school obligations and the Bureau is making the inference that they are unavailable for work. They also said they want a job now. I think it gets back to the question that Dr. Anderson asked. I think that with better probing, you can try to get the portion of that group who in fact may be available for jobs.

I do not believe that all of them should be excluded, and that is my argument with BLS. They exclude all of them, and I feel that--if I said we do concede that by including all of them we are probably overstating it, but I do believe that a portion of them should be included. Now, with better probing you could find out what that portion is.

MR. MOSKOW: Okay. That was exactly my question.

MS. WILLIS: I have just an observation. I assume that you do not want us to do anything about those five congressional districts you mentioned in your testimony.

DR. HILL: No.

MS. WILLIS: You mentioned allocation of funds based upon statistics in central cities.

DR. HILL: Yes.

MS. WILLIS: Could you expand on that and what you call central cities?

DR. HILL: Well, again, I think you do not get, I mean in terms of the numbers--I guess my point is that I still feel that if jurisdictions exist--we have political jurisdictions which have needs--and somehow we should be as equitable to as many of them because they should not be penalized for their size and their smallness in size.

I believe that we should have at least an expansion--of course, again, BLS has been criticized for expanding the CPS, and it has expanded it. They are able to come out with information in terms of all the states and many SMSAs, but still most of the urban areas are still excluded.

So, I think when we say central cities, I do not want to say what the bottom limit would be, but I would say that at least we can include many more localities than we are presently doing. And I think it is very crucial because I think by using metropolitan area,



major labor areas, is very much misrepresenting the needs of those persons in central cities who are in that particular area.

MS. WILLIS: And you do not think a census share methodology inside the SMSA does what it is you are looking for?

DR. HILL: It gets back to , I think, what Bernie Anderson was saying in terms of using other proxies. To me, at least the racial composition of the groups, concentration in those central cities, which we at least have from the census, would be a good proxy--I am talking about in the central cities now--in terms of allocating, some way of a proportionate share.

But I just think that it is very important that we--now, there is a question too about using some of these for allocating funds as opposed to very important, maybe, planning, programming, and targeting, and I think there can be some distinctions there. You can target activities.

I think the thing is that we are not concentrating on the central cities and that we are obscuring that by using metropolitan area data, and I think that we can get information on central cities. I mentioned the CES survey. That was in 61 urban areas, 51 cities, and that provided poverty area information, not within central cities.

MS. WILLIS: One of the people who testified this morning suggested that perhaps one of the things that could be done to improve our data is to publish on a monthly basis or perhaps a quarterly basis, and I would like your opinion on whether or not we need to publish everything continually on a monthly basis or whether or not some things wouldn't be better done on a quarterly or semi-annual basis.

One suggestion was made--I think for a different set of reasons--to publish the total number of people employed. This suggestion was also to include the armed forces, the number of unemployed, and those not in the labor force.

Now, just for a moment, think a little bit about those not in the labor force and obviously consider the one unemployment statistic being published every month. Just assume for a moment that maybe four or five statistics were published every month-I am not advocating it--but then within the not-in-the-labor-force sets of questions, perhaps we could begin to address in better detail why people are not in the labor force.

I am expanding more on the concept of the discouraged worker. Have you given any thought to that? And, if you have not, I would like for you to give some thought to it and get back to us on it.

DR. HILL: Well, I would like to think a little bit more about it except that it seems to me that the Bureau is publishing now on a monthly basis a range of information--in fact, they have expanded-and I find their quarterly series increasingly helpful nationally.

I just question, though, when you say: who uses the information? I mean, for researchers and technicians nationally it is one thing. I think at least if information is available, that is one thing. The Bureau has been extremely cooperative, I must say, in terms of us being able to have access to some of their unpublished information on their monthly unemployment data, so it is available for use, particularly by technicians and policymakers.

But what types of information, I think, is another question. They do provide more information on those not in the labor force on the quarterly basis.

CHAIRMAN LEVITAN: We have kept you overtime and late, but if you will indulge me with one more question. On page 5, you advise the Commission to solicit views of further researchers. I wonder, Dr. Hill, whether you had a chance to look over the background papers the Commission has already solicited ---

DR. HILL: No, I have not.

CHAIRMAN LEVITAN: --- and whether, if we will supply you with a copy of that, whether you would think about what is missing or what subjects we have and then

advise us also, possibly on a piece of paper, who are the other researchers you would think we would want to consult with.

DR. HILL: I would be very pleased to do that.

CHAIRMAN LEVITAN: Thank you very much, Bob, for your testimony and for being so patient with us in waiting.

DR. HILL: Thank you.

CHAIRMAN LEVITAN: Our final scheduled witness is a nationally known authority on manpower and I think since we have been wandering today from national to local data, I think he is going to integrate the two, and from a national perspective to look at local data.

Professor Garth Mangum, Professor of Economics at the University of Utah. Dr. Mangum, as we say to all our witnesses, since you did not hear it, you have all the time you want as long as you do it in 15 minutes.

STATEMENT OF GARTH MANGUM,  
PROFESSOR OF ECONOMICS, UNIVERSITY OF UTAH

DR. MANGUM: It is a privilege to appear before this august body and that pleasure is added to because each member of the Commission present today is a valued friend of long-standing. I will start by apologizing for not having a written submission. All I have before me are notes made on an airplane on the way in.

At the request of the Commission, I had earlier written a background paper on the employment and unemployment statistics needs of CETA prime sponsors in which I had made some recommendations for expansion of the CPS supplemented by UI data and for a county-level industry occupational matrix.

But I would not choose to talk to that today, other than to use it as a take-off point to stress the vital need at the state and local level for employment and unemployment data. The need for CETA purposes is important enough by itself since prime sponsors are committed to make decisions about who needs what kind

of service and, therefore, have to have very detailed data. But also, if we are going to use "better jobs and income" as the basis for welfare reform, we will have to have a lot more knowledge than we now do about the prospects for self-sufficiency among welfare recipients. We will need greater knowledge of recipient characteristics as they relate to the labor market and also of the employment prospects in occupations where they might find jobs or where jobs might be created through public sector job creation.

The needs of education planners are always multiplying for information on trends in the occupational structure, and, increasingly, the access routes into whatever employment does in fact exist.

Further interest is indicated by the development of the National Occupational Information Coordinating Committee and its state counterparts, the Occupational Employment Survey, the Continuous Wage Benefit History and all of those developments.

On the economic development side, concern for population trends, migration trends, industry occupation employment growth trends, more knowledge than we currently have on the industrial potential at the state and local labor market level, and the community preferences of the kind of growth that we would like to see in that area.

So, I would commend to this Commission, particularly, the paper that I have just had the opportunity of reading this afternoon by one of your other contributors, Jim Hanna, who has stressed some of the organizational problems that exist in the development of an adequate employment-unemployment statistics data system at the state and local level. Although a lot of progress is currently being made and there is a lot of interest, there is a real problem of divergence within that interest and a vast difference in competence at various levels in the system.

I have not mentioned the question of fund allocation. That is obviously important, but in many ways it is extraneous in terms of the development of state and local economic planning capability.

We in this country have not shown much interest in national economic planning, but we are increasingly getting deeper and deeper into various kinds of planning at the state and local levels. There are many ways of handling the funding question, which has aroused so much concern since everybody lives by the dollar. There has been talk here today about using income criteria as opposed to unemployment criteria and since this Commission has been giving consideration to the question of a hardship index, that is one way of combining all of that.

But when you get through with all of that, it is not really a lasting issue. It just simply happens to be a byproduct of the way that Congress has chosen to hand out the bucks. But these other concerns are really long-lasting.

Now, we have in every state, within the employment security structure, research and analysis units which would seem to be the natural source of most of the data that we are talking about. Since they are available to all and bridge across all of the programs, such as CETA, welfare, economic development, and the others, putting the assignment there is a good way of avoiding duplication of effort within the states and the communities.

But there is a vast range of competence among these units. Some are very good and some of them are at the opposite end of the spectrum, with others ranging in between. There is no accepted model for the production of much of this data.

On the other hand, I think it is fair to say that the Bureau of Labor Statistics has almost a corner on competence in this arena. However, it has had primarily a national assignment and focus and its relationship to states and localities has been to extract data from that level bringing it up and aggregating it for national means.

This body could make a great contribution by recommending that there be some sort of a task force within the Department of Labor, perhaps at the Secretarial level, reporting directly to the Under Secretary or Secretary, to orchestrate and coordinate the capabilities of BLS, those people within the Department who have responsibility for CETA, the folks who have

responsibility for the employment security system, including the research and analysis units, those in OPER who have planning concerns, NOICC, and others to see what kind of a system could emerge out of these constituent parts. That task force could see to it that the quality of what is produced at the local level is improved, but more important than that, that it is made available for use at that level and that the full competence that exists within the BLS and others at the national level be focused on the creation of some kind of a state and local manpower data system that would provide the data for the planning uses of all these different bodies.

That would require training of staff at the local level, the development of some kind of an overall model for use, and a technical assistance role from the national level, but still leave the people at the state and local level free to develop and use the kind of data that they need.

If there are any questions on that or any other subject where I can be of help, I would be most happy to try to do so.

CHAIRMAN LEVITAN: Let me try on the last one. I am not sure what you meant. Would you give the money to the states and let them distribute it? How would you distribute funds?

DR. MANGUM: Funds for what purposes?

CHAIRMAN LEVITAN: For CETA, an institution with which you are very well acquainted.

DR. MANGUM: The allocation formula, of course, has to emerge out of Congress. Somebody here has to decide how to distribute the bucks out there across the land.

There are clear problems that emerge from using unemployment. These were discussed by the previous speaker and I am sure have been discussed many times by others, problems of the measure of employment and unemployment, problems of those who are out of the labor force, the discouraged workers, the fact that the labor

force participation rates for all age-sex groups tends to be lower in the central cities, the problems of rural areas and that kind of thing.

I do not know exactly what I would use for a distribution formula, though it would be something more like the hardship index notion which combines family income and unemployment rather than being limited strictly to unemployment.

I really do not consider that one a very complex problem. Any formula will take from some and give to others, and that is the essential issue. Congress just has to decide who it wants to have the money go to and derive a formula which does it. For my preferences, it is just simply a matter of somebody coming up with a formula which does take into account poverty and low labor force participation rates as well as unemployment and use some kind of a multiple criteria rather than the simple criteria of unemployment.

CHAIRMAN LEVITAN: Let's assume you would want to give some money to Provo, Utah, and Congress passes another billion dollars now, either for CETA or, as Congressman Harrington testified today, for public works. What would you tell the Commission concerning how that money should be allocated? How should it reach the Honorable Mayor of Provo?

DR. MANGUM: The Honorable Mayor of Provo does very well under the present system. The major obstacle to solving that problem is whenever you make a suggestion for changing the formula, those who are profiting by the present formula are going to oppose it. Those who are in the areas where the population is very homogeneous, which do not have the concentrated central city problems, are going to do well by a formula that stresses unemployment. Locations which have a serious poverty problem and a less than homogeneous labor force have the undercount problem and lose bucks.

CHAIRMAN LEVITAN: No, I will tell you once more. Since nobody in Washington either knows how many unemployed or how many poor people there are in Provo, what formula would you use to allocate the money, either to Utah or to Provo, so that it reaches the people there?

DR. MANGUM: Well, if I understand your question, Mr. Chairman, it is really not a question of the allocation formula as much as the count of unemployment. There are really two issues. One, how do you count the number of unemployed and poor or whatever else your criteria for targeting are? And the other is how do you allocate the funds once you have a count?

I commented on the need for some kind of a multiple hardship index for the allocation, but for the count ---

CHAIRMAN LEVITAN: Which we appreciate.

DR. MANGUM: For the CETA count, what I recommended in the earlier paper is a restructuring of the CPS so that the primary sampling units are continuous and encompass the prime sponsor jurisdictions along with supplementation from unemployment insurance data drawn primarily from the ES-202, an extension of the Continuous Wage Benefit History, to all the states and a beefing up of the CPS samples in the larger central cities to draw them more heavily into the sample compared to the suburban areas to offset somewhat the undercount. That ought to help improve the situation.

CHAIRMAN LEVITAN: I am departing from my practice. I am always the last one to ask questions, but let me ask you one more. Do you have any idea how much it would cost to extend the Continuous Wage History Survey to all of the states? Have you ever checked any ballpark figure?

DR. MANGUM: No, I have not.

I did try to price out what I was recommending for CPS and came to the conclusion that it would raise the present \$18 million cost to \$24 million, or about \$6 million additional. That was simply by increasing the size of the sample in certain areas. I have not checked to see what it would cost to extend the Continuous Wage Benefit History since, as I understand it, it is the intent for that to be extended anyway. A pilot is currently going on in 15 states, but with the full intention, as the bugs are worked out of the sys-



tem, to extend it. So, it is not going to be an additional cost. It is just, as I understand it, a question of timing as to when that system will be in place.

CHAIRMAN LEVITAN: Yes. Mr. Oswald.

MR. OSWALD: One of the things that you mentioned in terms of building blocks--and I have not had an opportunity to read your paper ---

CHAIRMAN LEVITAN: Nobody has.

MR. OSWALD: You do not mention the 790 series as a basis at all for looking. Should we look at all of the changes in terms of employment that we do get from the 790 series to determine what is happening in particular areas?

DR. MANGUM: I had referred in the paper to the 790 series and commented primarily on the lack of occupational data within the 790 series. Since in the paper I was talking from the standpoint of CETA prime sponsors who have a great need on the one hand for recipient characteristics and on the other for occupational data, that did not meet their particular needs.

That does not mean it is not a valuable series.

MR. OSWALD: I guess really the question that I am asking goes a little bit more this way: Even extending CPS as you indicated to that extent, how reliable will the data be for particular areas?

There are certain problems with UI data because of various issues that deal with eligibility, place of residence, and a number of others that you are familiar with. Should the data that comes from the 790 series be in any way integrated into the sole process for making a local area estimate on a better basis?

DR. MANGUM: We are trying to develop out in our state a county-level industry-occupation matrix which uses 790 data among others. We are quite sanguine about the prospects for being able to develop a system at the county level there which will be accurate enough

for most planning purposes. It won't be adequate for allocation of dollars.

Tremendous precision is not needed for planning. What the planner is concerned with is general magnitudes and directions of trend. Whether one is off a tenth of a percent here or there does not amount to very much. But where every tenth of a percent is so many million dollars, people really get anxious for precision.

CHAIRMAN LEVITAN: Ms. Wills.

MS. WILLS: You talked about the NOICCs and the SOICCs--I think there are maybe only five or six of them established and even with staff around the country right now.

CHAIRMAN LEVITAN: Would you spell out those words for the record?

MS. WILLS: SOICCs, State Occupational Information Coordinating Committees, established by the Vocational Education Act of 1976, and now written throughout CETA.

Also, in a somewhat unrelated area, the Census Bureau is talking about establishing state data centers prior to the 1980 census on an experimental basis. It is my understanding that the concept of what Census is talking about is a technical assistance, resource center that can provide census information to the users within that state.

Obviously, that is connected in many cases to universities. I specifically pull all those in because when you talked about some of the organizational dilemmas we have, and we have had three or four people today testifying how to use the data that we now have.

The Conference of Mayors, for example, specifically called for some kind of technical assistance system. Their obvious concern is with the cities. My concern, quite frankly, is for all users, and that is not saying it is not important for the cities.

Another area that people have talked about is a review board at the federal level to, in essence, be an audit agency for the statistical system. Other people

have talked about establishing a federal statistical oversight agency of some sort or another.

I think those all translate into everybody, in essence, asking for the same thing, but nobody coming up with a good way to improve the knowledge base of the statistics that we now have.

Do you have any recommendations? You mentioned earlier the need to help the research and statistical units inside ES agencies. I am as aware as you are of the long-term battle between EPA and BLS. I do not think they are going to go away tomorrow.

How would you, sir, improve that system? Where would you start? Would you start with technical assistance through the R&A division or give them more money? Or where would you start?

DR. MANGUM: You have broadened the question much beyond my thinking. I have been thinking about it primarily in the labor market terms. That brings the issue down within the scope of the Department of Labor. When you broaden it out to census relationships, that is really broader than I am prepared to react to at the moment.

As far as the labor market is concerned, it really has to start in the Department of Labor with the pulling together at the top levels, that is, the Secretary level, finding out what the basic problems are that keep two agencies reporting to the same individual having such long-term difficulties.

The first step is to use the competence that exists within the BLS primarily, designing a model system, not one that is going to be imposed necessarily, but one which is designed as a model system, then provide technical assistance and training to those people out in the R&A units so that they can provide and disseminate the sort of data that is needed at the state and local level.

The second step is to provide them with a modest increase of funds so that they can generate data for the local level as well as the data that they are now funded to feedback into Washington.

But, I would certainly start with the increase of competence before I worried very much about increasing the bucks.

MS. WILLIS: The reason I expanded it was because Congress expanded it when they established the NOICC and SOICC system and that was, frankly, my primary reason.

One other question. Sar was asking you about formulas. Some people, on the Hill and in the authorizing committees to be specific, have suggested that perhaps one of the ways to get ourselves out of this dilemma of inadequate statistics generated through the CPS is to use administrative data within states. That is, to devise some method to allocate to states and then within-state use, for example, public aid statistics and unemployment insurance statistics. One can add to that level of education, or whatever else. So, at least within-state, there would be consistent data based upon administrative records that would perhaps be less troublesome than what we now have with the error rate of the CPS having millions of dollars riding on it. Do you have any thoughts about that?

DR. MANGUM: It seems to me that you still get into the same problem. It depends on what administrative data you use. If you use unemployment statistics, then, of course, you have the problems which we have just talked about.

MS. WILLIS: Unemployment insurance.

DR. MANGUM: I meant unemployment insurance statistics. You have the problem that only a fraction of the labor force is covered by or are eligible for unemployment compensation. Some of the groups you are most concerned with, the new entrants to the labor markets and particularly youth and women, are very much under-represented among those who are eligible.

If you move to welfare statistics, then you have another set of criteria and another set of problems. So, you are not going to get away from the problem by going down to the administrative level. But still ---

CHAIRMAN LEVITAN: The question is: Which is your favorite problem?

DR. MANGUM: Which is my favorite problem?

We still have to come up with a system which supplements the unemployment data with some kind of a measure of family income and some kind of a measure of those out of the labor force but potentially employable.

Whether you do it at the national level or the state level, it really boils down to the same problem.

CHAIRMAN LEVITAN: I would suggest that when you come to this town, do not mention family income. I was berated late yesterday by two witnesses for using that old-fashioned, reactionary term "family income."

DR. MANGUM: We still have families in Utah.

CHAIRMAN LEVITAN: That is what I say. When you are close to the mountains, it is okay, but not when you come down to this valley.

(Laughter.)

SPEAKER: We have them in Chicago, too.

CHAIRMAN LEVITAN: Mr. Moskow.

MR. MOSKOW: Garth, on the use of administrative statistics, if administrative statistics were to be used widely to base distribution of funds on different programs that were mentioned before, is there a risk that those administering--since there are a lot of dollars riding on these decisions--the programs are going to be more vigorous in their administration, or however you want to put it, to try and get a bigger slice of the pie?

DR. MANGUM: I am sure tht would be a problem. It used to be that the Chamber of Commerce in every town was complaining that the government is making us look bad by counting us as having too many unemployed. Now, everybody is yelping because you do not count enough unemployed to get them enough bucks.

Any formula has to be arbitrary. Somebody just has to come up with the best arbitrary formula that

they can and pass the bucks out and let people scream. I am not so much concerned about people complaining as I am about the fact that I think the present system does in fact put the money to some extent in the wrong places.

I happen to live in one of those places that profits by the present formula, but if our programs are primarily designed to help people with various disadvantages to make their way into successful employment, then the present system has a bias in it that ought to be corrected.

But whatever formula you come up with is not going to make everybody happy and make them quit complaining or suing the federal government or anything else. Administrative statistics are being used and used effectively by many prime sponsors for planning purposes. And they make a great deal of use of them.

When you ask CETA prime sponsors' staff what additional planning data they need, they really are relatively modest in the things they ask for because they think that they can do pretty well at the kind of low-level precision they really need for planning purposes with available administrative data.

But, as you suggest, if you start using any data for the distribution of dollars, then you have the demand for precision again because every bit of precision means an extra dollar. You also have the incentives to bias reporting in various ways.

MR. MOSKOW: My other question is related to your suggestion for this type of technical assistance to the states. You mentioned a model program. We had some testimony earlier today by the Conference of Mayors, as Joan mentioned, where they were envisioning that the assistance would go directly to the cities.

I was wondering if the key units were the state employment agency research groups that you mentioned. Would they be able to develop models and provide assistance at both the local level and the state level, or are you talking about the federal government dealing with people at two different levels in addressing this problem?

DR. MANGUM: First, I think that the model and models ought to be developed nationally and then suggested to the state level, where they can be modified. I think the state is the appropriate focal point for the data systems that we are talking about. I do not think there is any other political jurisdiction on a substate level that really comes near enough to encompassing a labor market.

It certainly would not be the city; it would be the county, if anything. But we have essentially state education systems, state systems of employment security, state public welfare systems, and so forth, and that ought to be the focal point, and then those people at that point ought to be asked to generate data on city and county lines to the extent necessary.

In most cases, data at the city level is not necessary. The county level is more likely because it comes nearer to encompassing a labor market. With state generation of data reported at the county level, the needs of the cities will be met reasonably well.

MR. MOSKOW: The problem, of course, is the tremendous disparity in political jurisdictions throughout the United States so that when we generalize and say county would be more appropriate than city, it may be in Utah; it may not be in Illinois, or vice-versa.

DR. MANGUM: Yes, but can you say, on the other hand, that city is going to be more likely to come to it than county? Or would you argue that states will never do because so many metropolitan areas overlap state boundaries? We have to live to some extent with what we have. If political jurisdictions could be redrawn along economic lines, okay.

Since we cannot, you have to live with what we have. In my opinion the state comes the nearest to being the reasonable place to generate this kind of data. On a substate basis, the focus and locus could be varied. In most cases the county would come closest to meeting substate needs. There may be some areas in some states where you might want to do it differently, but that doesn't mean the state agency could not generate the local data.

CHAIRMAN LEVITAN: Mr. Anderson.

MR. ANDERSON: By the way, your comment about the competence of BLS, I think, is one of the more generous things that has been said about the agency in the two days of hearings here, and I am sure that they will be pleased to hear that.

It is an interesting idea to have at the national level the development of models for data collection that could be used for planning purposes at both the state and local level, and that idea goes beyond what you expressed in your paper, where you were dealing only with CETA.

What I wonder about, though, is the incentive system that would have to be developed to get the state employment services, the research and analysis units there, to in fact cooperate in receiving this technical assistance and then going forth to do an exemplary job.

I have in the back of my mind the numerous problems with the federal-state relationship in the employment service. It does not appear to be a very harmonious relationship. It is a love-hate relationship. The federal government pays for these services and then the state pretty much goes on its own to do this. The governors of the states do not seem to have very much control over what happens in the state employment service, and many of them do not have any interest in what happens there.

I would be interested in your comments on what incentives would be needed to have what I think is a very fine idea implemented to improve the quality and availability of state and local data.

DR. MANGUM: First, it has been my observation that the state employment security system responds remarkably well, maybe too well sometimes, to the directives and the patterns that come down from on high in Washington. As you say, generally, in most states the governor does not have very much to do with it.

Generally, most of the employment service people tend to look toward the regional office and then on to Washington for their directions. I think they do reasonably well what they are required to do, which



essentially at this point is that they have been required to gather certain state and local data and report it to Washington.

They are not in any way required in most cases to package it and put it out to the local folks. Some states take the initiative and do it and do reasonably well. The rest of them do not.

I think that if you establish the pattern and made that a part of their assignment that they are supposed to generate the data in this pattern and publish it in this form, most states would do it. Most people would prefer to be a little more competent than they are now, and most people do not tend to turn down training opportunities when they come along.

The regional training centers under CETA do not have a great deal of difficulty getting state people to come in and sit in their workshops, as long as the training is worthwhile. If you put on a training program, generally people will respond by coming and taking the training. If the training is good, good people will come. If not, those with nothing else to do will come. If you put on certain requirements in terms of competence, generally they are responded to.

Now, there is not going to be any exemplary system. It is a question of what you expect and what is reasonably and humanly possible.

Having worked with these folks at the state, local and national level for a good many years, I think they are reasonably competent human beings and respond about as well as I would expect to see people do.

I tend to think it is really more a problem of structuring the system so people cannot only get the rewards, but remove some obstacles for them doing what they really would naturally like to do anyway because of the assignment and the titles they carry in their jobs.

CHAIRMAN LEVITAN: Thank you, Dr. Mangum, for coming to share your thoughts with us.

Before we close these hearings, is there anybody else who wants to place any concerns before the Commission?

I still see two suffering BLS staff people who have stayed with us for the last two days; I do not want to say I will give you equal time; that would mean we would stay all night. But if you want any statement for the record now, please include it. No?

Thank you very much. The hearings stand adjourned.

(Whereupon, at 5:00 p.m., the hearing was adjourned.)

APPENDIX A

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Additional Submission by  
Alan Beals, Executive Director,  
National League of Cities

(323)

NATIONAL LEAGUE OF CITIES  
1620 Eye Street, N.W.  
Washington, D.C. 20006

August 3, 1978

Dr. Sar Levitan  
Chairman  
National Commission on Employment  
and Unemployment Statistics  
Suite 550  
2000 K Street, N.W.  
Washington, D.C. 20006

Dear Dr. Levitan:

When I testified last May 12th, you and other Commission members requested that NLC respond to a number of questions concerning the specific data improvements we would like to see, the definition of unemployment, alternative conceptualization of unemployment and whether or not administrative data should be used instead of surveys.

In preparing our response, we have reviewed the testimony of Edwin Coleman of the Bureau of Economic Analysis and Brian Motley of the University of Kentucky.

Before getting into our answers, I'd like to indicate that NLC is not able to provide the cost estimates associated with alternative methodologies for collecting data; however, we feel that the cost benefit ratio favors allocating more resources at all levels of government than is presently the case. From the point of view of resources, the \$16 to \$20 billion that is allocated to state and local governments on the basis of employment and unemployment data would argue for a substantial investment in making sure that the data used accurately reports the conditions that exist for each recipient government.

A second point concerning the allocation of funds is that NLC supports annual allocation of funds based on annual data. Whereas the national economy may move significantly one way or another in a month's time, generally local economies do not. It seems that if the frequency of reporting were reduced, efforts for greater accuracy could claim a larger share of the available resources. From a city's point of view, annual allocations would be better for budgeting. Worrying about wide ranges of possible receipts based on quarterly allocations is very disruptive, as I pointed out in my testimony. Recently Milwaukee experienced a drop of \$1 million in its quarterly antirecession allocation. This was very disruptive to Milwaukee, and it was not the only city that experienced such a variation.

Improving collection techniques is only part of the data problem facing cities. Better definition of urban problems comes before better data, and in this regard, we look to the Commission to offer suggestions to help us to better understand the dimensions of problems confronting our nation's cities. Currently, much of the furor concerning federal statistics is that they are only approximations of the magnitude of a general problem and reveal very little about the qualities of that problem. Knowing more about the problem will help guide formulation of better public policies and programs.

Dr. Anderson requested we examine the work BLS is doing on employment-population ratios. These are studies concerning employment, not unemployment. As long as unemployment remains the primary symptom of urban problems, NLC can see few useful results from studying employment and its relation to population as a whole. Instead, we need to study the causes, character, and magnitude of the unemployed population. We need to learn how public actions can help to allow each of the unemployed to have the opportunity to be employed and to earn an adequate wage.

Other definitional changes NLC would like are identification of different types of unemployed. For example, the magnitude of the structural unemployment problem is really unknown. To aim resources at a problem of unknown dimensions may have us hunting a mouse with a shotgun or an elephant with a peashooter. Also, distinctions between part-time, full-time, and moonlighting jobs is necessary. Certainly, knowing the size of the two-worker household population and the behavior of the second-job-of-the-house employee may help us to isolate the unemployed population better. This latter category would include the voluntary and involuntary unemployed as well.

Recently, the National League of Cities' policy committees have been struggling with the question of which urban needs are the most important and how we can structure a hierarchy of needs at the city level in order to provide better focus for federal aid. Not surprisingly, economic activity was seen as having a primary relationship to both the fiscal stability and solvency of a community and the employment opportunities for the residents of that community. The Community Development Committee adopted the position that the tax base and employment are derivative of the level of economic activity, and the Urban Conservation Task Force identified the cluster of problems around unemployment and individual economic hardship as most important. This implies that measures of employment and unemployment must consider individual economic independence. The employment and earnings inadequacy (EEI) index constructed by yourself is a very useful measure of urban distress. A great literature surrounds the psychology of poverty and dependency upon federal largess and what that does to individuals, their initiative, etc., and to the community in which they live. Without belaboring the point, individual economic independence is the epitome of the American dream and the nightmare of many central cities.

Choices must be made concerning why we collect data. If employment and unemployment data are to be used for the allocation of federal funds, that purpose is distinct

from measuring certain levels of economic activity or for planning macroeconomic policy and requires different definitions for each unit counted. From a city's point of view, discouraged workers, underemployed workers, "unqualified workers," and new entrants all represent a service-dependent population. They draw on the resources of the city for many services as well as on the federal government for transfer income. This population creates a strain on the local budget in a variety of ways and it is this population that in many ways exacerbates the fiscal condition of cities. If the purpose of the federal aid program is to address fiscal stress in cities, then not counting this population means that you understate the dimension of the problem. Furthermore, whether it is voluntary or involuntary is meaningless because they still consume the services that are creating the fiscal stress in cities.

In Dr. Coleman's testimony, he requests that a test of the current level of compliance in filling out ES-202 forms be made, using IRS form W-2 information. This seems to us to be a very reasonable attempt to use administrative records. Other proposals he indicates that might be very helpful are to use the current work history sample that the social security system maintains and the IRS W-2 information, as a way of getting at employment by establishment. Currently, the employment data collected from multiestablishment employers is not separable into the employment at each establishment. In conversations with BEA, they have indicated that establishment data on employment could provide the type of basic information necessary to get to city level estimates of employment and income. It would also provide information about commutation patterns and a number of other characteristics of the local economy. In fact, Dr. Coleman holds out such optimism in his testimony: "The new social security system ... will for the first time put all W-2 information into a computer-readable form. This change in administrative procedures presents an excellent opportunity for the development of a statistical information system capable of producing data on employment, wages, migration, and commutation

patterns on an annual basis and at the same time provide a check on the ES-202 funds." NLC is very supportive of such a use of administrative records, particularly since it would provide a wide variety of information about a local economy without having to use independent sources for each particular characteristic. As you are aware, data on a local economy from two different sources quite often vary.

Dr. Coleman indicates that there is a confidentiality restraint because of provisions in the Tax Reform Act of 1976. NLC would be happy to support a modification of this provision in order to assure that the experiment with the W-2 information can be conducted. Specific confidentiality requirements could be done after a successful experiment.

In our testimony, we stated that the handbook method used problematic assumptions to estimate the noncovered employment sector. These assumptions, that noncovered employment situations are similar to those in covered employment, that job opportunities for experienced workers are similar for new entrants are out-of-date by BLS' own admission. However, it is also clear that the Current Population Survey also has a bias relative to the age-sex-color composition of subnational areas. NLC thinks a very careful analysis of city conditions, based upon a stratified sample of different cities, is necessary more frequently than once a decade. Generally, the central cities, with large dependent age populations (under 18 and over 60), and large black and minority groups, deviate from national norms.

The need for better data at the federal level to allocate federal resources to solve urban problems demands a greater commitment of resources to collection and analysis. However, there is also a need for better data at the local level for the variety of tasks that now must be accomplished by city governments. As local economic development becomes the cornerstone of the federal urban policy to help cities, the need for data about their economy, particularly employment, unemployment and labor force information, will increase.



Furthermore, it seems reasonable to enlist the help of local governments to improve administrative data if, as Dr. Coleman puts the case against administrative records, statistical uses of administrative records are always a lower priority than the program uses. Perhaps dollar allocations to the states and cities to provide additional personnel to assure that the information collected is as accurate as possible may be an inexpensive way to improve the collection of data. Of course, there are alternative means, for example, that a federal planning grant can go to large SMSAs so that they can do samples within their jurisdictions that allow for better disaggregation on a specific SMSA basis.

As with the welfare program, there is an urgency to standardization of the employment security program among the various states. Because states do not use the same definitions, their counts in different categories are vastly different. It is important that more standardization be achieved because, in this particular program, the central city residents who are disenchanted with all government institutions might be encouraged to participate, get counted and receive benefits due them.

Thank you once again for the opportunity to work with the Commission, and we stand ready to offer whatever additional help that may be possible for NLC to give. We also look forward to Commission participation in our annual meeting at the end of November. Enclosed for your information is a recent copy of Nation's Cities. Please note the article by Terrence Jones and Don Phares.

Sincerely,

(Signed)

Alan Beals  
Executive Director

Enclosure

**APPENDIX B**

**METHODS FOR COLLECTING EMPLOYMENT  
AND UNEMPLOYMENT STATISTICS**

**Additional submission by  
Melvin Mister, Director,  
Institute for Urban and Regional Analysis  
U.S. Conference of Mayors**

**(330)**

## METHODS FOR COLLECTING EMPLOYMENT AND UNEMPLOYMENT STATISTICS

State and local area unemployment statistics are now used to allocate by formula over \$16 billion in federal dollars. The major legislative programs for which this data is used are Titles I, II and VI of the Comprehensive Employment and Training Act of 1973 (CETA), Title IV of the Public Works and Economic Development Act of 1965 (PWEDA), and Titles I and II of the Public Works Employment Act of 1976 (PWEA).

In addition, unemployment rates and levels are considered in the funding distribution of several other programs. Thus, the methods used to collect such data potentially can have a very significant impact on the revenues of states and local governments.

The Bureau of Labor Statistics is now instituting several changes in the way local area unemployment is measured. The United States Conference of Mayors believes these changes will tend to alter official estimates of the number of unemployed and/or unemployment rates in cities.

The purpose of this paper is to review the particular new measurement procedures and the available data so that interested persons can understand the possible effects and make rational decisions to deal with resulting problems.

### Summary of Major Points and Recommendations:

The following is a summary of the detailed discussions which can be found in the rest of this document along with Conference of Mayors recommendations.

### Review of Facts and Data Available:

**BLS Myth:** A simulation of old and new measurement procedures has been completed.

**Fact:** No simulation has been done which compares the old method and the actual new method.

**BLS Myth:** The existing simulation shows the new procedures will not work to the disadvantage of cities.

**Fact:** The existing simulation compares the old method which was used in most, but not in all, cities with "interim" procedures which will be in effect in 1978. The simulation shows that even the "interim" procedures will work to the disadvantage of cities.

**BLS Oversight:** BLS in its discussions of the old and new procedures has implied that all cities have used a single old method.

**Fact:** Eleven of the largest cities in the country have made direct use of the Current Population Survey data in computing their employment and unemployment levels and have not used the census share procedure. Available data show that these cities will be hurt most by the new method. Employment levels for these cities will be overestimated significantly by the new method.

**BLS Myth:** The new method is much more accurate than the old method.

**Fact:** There are serious problems with both the census share and claims population ratio methods. To put forth as BLS has done that the statistical shifts in employment and unemployment will be consistent with existing population trends grossly oversimplifies the situation and overlooks the many inaccuracies of the new method. The new method clearly is not more accurate than the present CPS ratio method in eleven of the largest cities.

**BLS Myth:** The new method will mean more uniform estimating procedures across the country.

**Fact:** Different methods will be used across the country for the next several years. BLS itself only this month will be able to supply information on which method will be used in a particular state in 1978. Moreover, it appears that BLS is giving the option to state labor market information agencies to go back and redo the last quarter's 1977 data with the 1978 method for the purposes of the April allocation under Title I of PWEA. Thus, a severe lack of uniformity will exist for the first federal program to be affected by the new method.

Recommendation One: Since it cannot be demonstrated by BLS that the new procedures are significantly more accurate than the old ones and since states will be using a variety of methods for the next several years, any major changes for calculating unemployment statistics should be delayed until the National Commission on Employment and Unemployment Statistics issues its final report.

The Commission will be exploring the problems with unemployment measurement procedures and will be addressing the issue of "discouraged workers." Neither the old nor the new methods take into account "discouraged workers," most of whom are concentrated in cities. The Commission also plans to make recommendations for funding formulas which measure "need" other than through the unemployment variable.

Recommendation Two: The Current Population Survey has the greatest potential for producing accurate local area unemployment statistics. The Current Population Survey sample should be expanded so that the CPS can be used more at the local level. The Conference of Mayors recognizes that it will cost large amounts of money to expand CPS.

An alternative to expanding it so that it can be used in local areas of all states, an expansion should be considered only for those areas where most of the federal dollars flow. Other areas could use an improved procedure combining the claims and census share methods, an approach that will be even more possible with the introduction of the quinquennial census.

In this light, it is interesting that close to 55 percent of fiscal year 1977 CETA Title I and fiscal year 1977-1978 stimulus Titles II and VI dollars went into those states where the present eleven CPS cities are. Over 70 percent of these same dollars were allocated to the states where the 30 CPS SMSAs are.

BLS has told the Conference of Mayors that it would cost about \$100 million to expand CPS so that it can be used in all local areas of the 19 states in which these 30 SMSAs are located. It is not imperative that the CPS even be expanded for use in more than the major SMSAs

within those states. Further, the \$100 million figure itself is a miniscule percent of the \$16 billion in federal allocations to state and local governments based on the unemployment estimates.

Recommendation Three: Data should be collected for at least the next six months for both old and new procedures. Only in this manner will there be satisfactory analyses.

Recommendation Four: At the minimum, the new procedures should be delayed until the potential effects on the distribution of employment and unemployment can be determined adequately.

Recommendation Five: The use of Current Population Survey data for estimating employment and unemployment should be continued for all 30 SMSAs and 11 central cities under any new method.

Recommendation Six: If implementation of the new procedures is continued, Congress should immediately review all legislative allocation formulas. These formulas were based on certain distributions of unemployment at the time of the legislative passage.

No matter what method is more accurate, if, as preliminary data indicates, cities will be negatively affected by the new procedures, it would be inequitable to continue funding under the present formulas. It would be especially questionable to implement measurement procedures in a manner contrary to the interests of city residents at a time when an "urban policy" is being formulated by the Administration.

Recommendation Seven: Congress must recognize that the unemployment statistics are being used for purposes far different from the uses for which they originally were designed.

Consequently, there now must be a closer relationship between the people who collect the statistics and those who design programs. As indicated above, the "discouraged," precisely those to whom many of these programs are targeted, are the most undercounted in the official data.

The following discussion details the findings outlined above:

The "New" Method: Thus, the first point which must be understood is that there is not one "new" method which has been imposed by BLS. In the interim, states gradually will be introducing the changes, some states having begun this implementation process prior to 1978.

As indicated below, BLS hopes to have one final set of procedures in place for all states in local areas. However, this apparently will not be possible for several years.

One final introductory remark is that only the highlights of the "new" methods are presented in this section. A more detailed outline is contained in the attachment to this document.

Local Area Statistics, Non-CPS Areas: For most labor market areas, employment and unemployment estimates have been based mainly on BLS Handbook data. This will continue to be true under the new procedures.

The estimates for cities and counties within most labor market areas have been computed by the "census share" method. This method assumes that the county employment and unemployment levels bear the same proportion or ratio of each month's labor market area estimates as they did in the most recent or 1970 census.

The thrust of the "new" method for unemployment data will be to mainly rely on unemployment compensation claims by place of residence, with some attempts to independently estimate unemployment for new entrants and reentrants into the workforce.

Employment levels will be calculated on the basis of the most current population estimates for areas within labor market areas, with the ratio of the local jurisdiction's population to the labor market area's population multiplied by the estimate of the labor market area employment level.

This claims-population ratio procedure will be used for calculating unemployment and employment for counties in almost all states in 1978. Most of the rest of the states will begin this procedure for county estimates during 1979. Eight states have been using this method for the past one to two years.

The same claims-population ratio method will be applied for city unemployment and employment estimates if the unemployment compensation claims by residence data is available. However, it should be noted that, even if the data is available, BLS has made the procedures optional for the states to use in estimating city unemployment in 1978.

Only about 10 to 12 states will apply the new procedure for city data in 1978 and about 14 in 1979. For the other cities, employment and unemployment estimates will continue to use the "census share" method in 1978.

It is less than certain when the rest of the states will use the "entire" new method, for example, figuring unemployment and employment on the claims-population ratio procedure all the way to the city level.

Although most states will have the capability of using the new procedure at the city level within the next few years, BLS now seems to be wavering on whether all states ever will be required to estimate city unemployment in this manner. Thus, in 1978, only an "interim" procedure will be in effect for most states. County unemployment will be estimated with the "new" procedures, but city unemployment in only about one-fifth of the states will use the actual "new" method.

Local Area Statistics, CPS Areas: Under the "old" method, unemployment and employment for 30 Standard Metropolitan Statistical Areas (SMSAs) and 11 large central cities within several of these SMSAs were figured under a set of methods different from the rest of the SMSAs and cities. BLS has so far chosen to ignore this fact when discussing the effects on the new procedures for collecting the data.

In these 30 SMSAs, the sample from the Current Population Survey has been reliable enough to derive an annual average for employment and unemployment. The BLS Handbook estimates are then adjusted each month to the CPS annual SMSA average.

For the 11 cities, Baltimore, Chicago, Cleveland, Dallas, Detroit, Washington, D.C., Houston, Milwaukee, New York, Philadelphia, St. Louis, CPS data has been reliable enough to get one annual average ratio of city employment to employment in the metropolitan area, and a similar ratio for unemployment.



Under the new procedures, the use of CPS averages will be discarded for all of the above SMSAs except Los Angeles-Long Beach and New York. In these two, monthly estimates from the CPS will be able to be calculated. For all of the 11 cities, except New York City and Washington, D.C., CPS data also will be dropped.

For New York City, monthly CPS data will be available. Monthly CPS survey data will be used in Washington since it is treated as a state under several federal programs. Eventually the unemployment and employment estimates for the other nine cities will be based on claims-population ratio, the "new" method described above.

In 1978, it appears that the new procedure will apply to only Baltimore and Philadelphia of the above 11 cities, and three to six other major cities within the 30 SMSAs.

Theories Behind Old and New Methods: Before reviewing the available data, it would be best to explain the reasons BLS has set forth for using the new procedures and the apparent advantages and disadvantages of using the new procedures.

BLS Propositions: There are basically three reasons BLS is imposing the new method. First, BLS says that the use of 1970 census relationships is outdated and provides significant inaccuracies. BLS says that the unemployment compensation claims share method therefore will be more accurate. The potential disadvantages of the claims share method will be discussed in detail below.

However, it can be said here that while relationships undoubtedly have changed since 1970, one cannot assume automatically that the claims share method is more accurate and certainly it cannot be assumed that it is significantly more accurate.

Population losses of cities since 1970 would seem to indicate that they have decreased shares of not only employment, but also unemployment relative to the suburbs.

Yet, how universal this trend is when applied on a jurisdiction-by-jurisdiction basis cannot be determined.

Second, BLS has been concerned with the large revisions of each year's preliminary estimates. These

occur at the end of the year when the new CPS annual averages become available. BLS has been very sensitive to the criticism that results when the data is revised.

The problem of revision mainly applies to CPS state totals and not local area unemployment statistics. The shift to monthly CPS estimates for states is designed to correct this problem and should be more accurate. The questions of revisions at the local level mainly apply to those areas, 30 SMSAs and 11 central cities, whose unemployment levels have been partially based on CPS data.

However, dropping CPS data at the local level to bring about fewer revisions is like throwing the baby out with the bath water.

What needs to be pointed out here is that the extent of revisions does not necessarily reflect an amount of inaccuracy, but is tied to the methods used. Thus, a method could be formulated which would still be based on CPS data at the local level that would lead to smaller revisions and be equally, if not more, accurate.

In states that will not immediately be using monthly CPS data, a six-month moving average will now be applied rather than the previous year's CPS average. BLS could have used this procedure at the local level in past years and ended up with fewer revisions. BLS in fact seems to have devised its new procedures so that the goal of fewest revisions is at least as important as the goal of increased accuracy.

A third reason for going to the new method is a desire to accomplish greater uniformity in procedures across states. However, as discussed later, dropping the use of CPS at the local level to achieve uniformity is questionable given that the CPS is potentially the most accurate method and can produce the most detailed statistics. Moreover, it will be shown that the new procedures will exhibit perhaps even less uniformity.

**CPS Procedures:** The procedure used up to now in some areas combining the use of annual average CPS data and Handbook estimates to compute local area unemployment levels undoubtedly has its problems.

One, as indicated above, has been the large number of revisions. Again, however, different procedures

could have been used to correct this often politically embarrassing situation. If truly accurate and unbiased local area unemployment estimates are desired by the public and elected officials, increased use of the CPS data is called for. BLS officials generally support this conclusion.

The obstacle to increased use of CPS at the local level and the principal inaccuracies resulting from its present use are due to the limited sample size of the CPS. It would cost several millions of dollars to expand the sample size so that CPS could be used on a monthly or quarterly basis in most SMSAs and their component parts.

Yet, it must be kept in mind that billions of federal dollars are allocated based on unemployment data. The case is made in the earlier listed recommendations that the sample perhaps need only be expanded in the few states where the majority of these federal funds are allocated.

By dropping the present use of the CPS at the local level, less accurate unemployment and employment estimates will result in the 30 SMSAs as a whole and especially the nine existing "CPS" cities where it no longer will be used. Many BLS officials will admit to the fact that more accurate data will be sacrificed in the present "CPS" areas to produce possibly more accurate estimates in the less populated and outlying areas of states.

In addition, it is the CPS which allows estimates to be made about unemployment for various population segments, age, race, sex. This ability will be greatly reduced by dropping the use of CPS in calculating local area unemployment.

**Deficiencies of the Claims-Population Data Method:** The major deficiency of the new claims-based method is that it relies on administrative data consisting of unemployed persons insured under unemployment compensation systems.

However, the insured unemployed are significantly fewer than the total unemployed in an area. This fact is indicated in Table 1 which shows that on a nationwide basis the insured unemployed were less than 50 percent of the official total number of unemployed.

Although some attempt under the claims share method will be made to estimate new entrants, reentrants, unemployment insurance exhaustees and eligible people not filing claims, these estimates are likely to be undercounts for substate areas. The estimates for these groups probably will be most underestimated for cities since the procedures ignore age, race, education, and sex differences in populations.

On the question of the underestimates for those groups, one fact can be mentioned here. The estimate for unemployed, new entrants into the labor force will be based on a young adult population age factor; the same ratio that this group comprised of the total number of unemployed from the 1970 census will be used for the estimates. However, the 16-21 age group for whites has grown 1 percent per year and the 16-21 age group for blacks has grown 3 percent. The higher concentration of blacks in cities indicates that central city undercounts will be greatest.

Most important, to the extent that the unemployment estimates calculated from claims share method are used in developing local area estimates, the measure probably will be biased against cities. This is due to the fact that cities will contain the greatest number of jobs not covered by unemployment compensation systems, more of the types of workers within those types of jobs, and more persons not likely to be included within the claims share method for a variety of other reasons.

As Harold Goldstein pointed out in a recent paper for this Commission, the "insured unemployment include a smaller proportion of black, female and younger workers than are found in the ranks of the unemployed generally."

(Table 1.)

This fact easily is observed from Table 1. There are the exact population segments which will be more concentrated in cities. Also, since the Handbook or claims method probably will underestimate exhaustees and new entrants, and those groups are more concentrated in cities, the estimate for them will be biased against cities.

Further, a case can be made that "delayed" and "never" claimants, who are eligible for unemployment compensation, will be biased against the city. One reason is that there are more unskilled, low-wage jobs in cities and these jobs have higher quit rates. While they may be covered jobs, the worker will be less likely to file for his/her eligible claim because the total would be for so few dollars.

Thus, after reviewing these apparent deficiencies of the claims-based method, the only way BLS could claim the new method as "fair" to the cities is by maintaining that the census share method overestimates city unemployment much more than the claims share method underestimates it.

In this light, it is interesting to point out that the National Planning Association did a study in 1974 which compared data from the census share method to the alternative using the insured unemployed. Data from the 1960 census was used for the census share method and 1970 insured unemployed data was used for the insured unemployed method.

The estimates from each method were then compared with actual unemployed in the areas shown by the 1970 census. While neither method was shown to be accurate, Goldstein summarizes the findings by noting that "the insured unemployed method underestimated unemployment for central cities, counties with fast-growing black population and counties with rapid employment growth, as measured by payroll employment statistics, but overestimated unemployment for counties with the fastest employment growth as shown by the decennial censuses."

On the employment side, the accuracy of the new method also can be seriously questioned simply by pointing to published BLS data. Since employment for counties and cities will be estimated by multiplying population ratios times the labor market area employment estimate, the same employment-to-population ratio is assumed for both the city and the suburbs.

However, Table 2 illustrates that the ratio for the city is normally less than the suburb. In terms of the change from the census share method to the population ratio method, the bias toward overestimating city employment levels perhaps will tend to be "offset"

somewhat for non-CPS cities because of the procedures to be used.

This is due to the fact that the new procedure will use the most recent population estimates. Since the population of the central cities generally has decreased since 1970, the population ratio will produce lower employment estimates for cities than the census share procedure.

However, for the 11 cities which have used CPS annual average employment ratios, the new population ratio on the whole would result in significant overestimates of employment and thus underestimates of the unemployment rate.

Again, published BLS data in Table 2 can be used to substantiate this fact.

(Table 2.)

Notably, BLS has planned as part of the new procedures to use Bureau of Economic Analysis (BEA) data to adjust Handbook employment data from place of work establishment to place of residence. It appears that this data may not be available in 1978.

To the extent that there is a significant amount of "in-commuting" in an area, the SMSA employment level will be overestimated if the BEA adjustments are not made. Consequently, the city employment level likely will be further overestimated in that case.

What the Existing Data Show: Perhaps the greatest criticism which can be lodged against BLS with respect to the "new" method is that it is proceeding with implementation despite so little data being available. BLS, of course, tries to argue that it will be using a more valid measurement and that it is an "apolitical" agency.

However, Congress passed allocation formulas for a number of programs based on a certain pattern of unemployment levels and rates. Whether or not the new method is more accurate than the old, and the above section surely makes its accuracy suspect, Congress must be concerned with any new set of procedures which will reduce the levels and rates of unemployment in central cities relative to suburbs. The little data which we have been able to collect clearly show a trend against the cities.

Non-CPS Cities: BLS has been letting it be known that it completed an eight-state simulation comparing the old and new procedures. There is an eight-state simulation, but it does not truly compare the old and new procedures. The new procedures which states will gradually move to for local jurisdiction data will be the claims-population ratio method. That is the method which likely will "hurt" the cities the most.

The simulation contains only one state which used that method. The rest of the states relied on the claims-population ratio method only down to the county level, with the old census share procedure being applied to the county totals or the city estimates. As discussed earlier, this latter combination of old and new methods is what most states will use in 1978, but it is not actually the "new" method.

Further, BLS wrote in a memorandum to Assistant Secretary of Labor Ernest Green that no evidence exists from the simulation that "the new estimating methodology works to the advantage or disadvantage of cities and counties."

This same claim has been made to other officials. First, BLS cannot validly make such a claim since the simulation does not involve the "new" method.

Second, even considering that the simulation involves the "interim" procedures, which is less likely to be biased against cities than the complete new method, the U.S. Conference of Mayors detailed analysis of the data shows even the "interim" procedure works to the disadvantage of the cities.

While unemployment increased in 18 cities and decreased in 25, this result constitutes a statistically significant trend against cities.

In other words, if one were to assume that the eight states had been randomly chosen and the "interim" procedure were applied on a nationwide basis, the procedure would work to the predominant disadvantage of the cities. And, while the unemployment rate increases in 20 cities and decreases in 14, with no change in nine, due to reductions in the levels of employment, this does not represent a statistically significant trend favorable to the cities.

It can be mentioned that unemployment levels become less important in federal programs once the minimum "trigger" rates are reached.

It should be pointed out that the eight states simply represent states which have been using the claims-population ratio method at the county level for the past two years, and, thus, are not a random sample, Colorado, Connecticut, Florida, Kentucky, North Carolina, Oklahoma, Pennsylvania, and South Carolina.

They are states which generally do not contain cities which are most likely to be hurt by the new procedures, ones with the largest population, most minority persons and the lowest persons.

Only Pennsylvania and Connecticut could be counted among such states and Philadelphia is not part of the simulation. Moreover, Miami is not included in the simulation.

A further note is that there are two SMSAs in the simulation which have been using the combined CPS-Handbook procedure. Again, the new procedures will drop the use of the CPS to figure labor market area unemployment.

However, the simulation does not do this for the labor market areas of Denver and Pittsburgh. Thus, the simulation does not even calculate the true effect of the "interim" method on these two cities. All this is to establish that BLS has made no real effort to judge the effect of the entire new method or the "interim" method before implementing new procedures.

Continuing a summary of the simulation data, as the city population gets larger, there is a statistically significant chance that the level of unemployment will decrease due to the new methodology and some tendency for the rate to decrease.

As the percentage of minority population becomes larger, there is a tendency for the rate and level of unemployment to decrease. Both these trends go in the direction predicted by the theory discussed in the previous section.

In terms of the magnitude of change, there was an average unemployment level decrease for cities of 3.7 percent while the number of unemployed for the counties as a whole increased 11.9 percent. For the cities



which experienced a decrease in unemployment levels, the average decrease was 11.7 percent. For the cities which increased, the average increase was 11.1 percent.

For counties which experienced a decrease in the number of unemployed, the average decrease was 19.3 percent. For the counties which increased, the increase was 35.1 percent. Taking all cities together, the ones increasing and the ones decreasing, there was a trend of cities with the highest percent of minority population to have the largest average decrease in the number of unemployed.

Looking specifically at the difference between the census share and "interim" procedures for the five largest cities in the "simulation," Denver, Pittsburgh, Oklahoma City, Tulsa, and Jacksonville, while the unemployment rates for these cities generally do not drop because of decreases in the employment levels, the level of unemployment is reduced for all five. The decreases in the numbers of employed range from 3.6 percent to 7.8 percent.

One city not in the "simulation," but for which the State of Georgia made data available, was Atlanta. Under the "census share" procedure, the official 1976 annual monthly average unemployment level was 29,256 and the unemployment rate was 10.3 percent.

Under the long-run "new" methodology, claims-population ratio at the city level, the average unemployment was reduced by about one-third to 19,006 and the unemployment level was reduced to 199,018 from 255,738. These figures were not able to take into account the effect of the dropping of the use of the CPS in calculating SMSA totals. That effect very well may reduce the SMSA's unemployment level and, consequently, the city's even further.

Although the State of Georgia has the capability of using the new claims-population ratio method to the city level, it will be using the "interim" procedure in 1978, claims share to the county level and census share then to the city level.

Data provided by the State of Georgia shows that the "interim" procedure would have reduced the July 1977 level of unemployment from 23,400 to 22,700 and increased the unemployment rate from 8.2 percent to 8.3

percent. Thus, the "interim" does not work to the disadvantage of Atlanta nearly as much as the long-run "new" method.

The full "new" method would have reduced Atlanta's CETA funds by \$14 million in fiscal year 1977. Under Title I of the Public Works Employment Act of 1976 (PEWA), the City of Atlanta and the Atlanta School Board would have lost \$5 million out of a total allocation of \$13.9 million from September 1976 through July 1977.

Under Title II of PEWA, the city would have lost \$0.6 million out of a total allocation of \$2.0 million for July 1976 through June 30, 1977. To estimate program dollars lost, one obviously has to assume that the "rest of the world" basically remains constant.

In the light of the apparent more negative effects for cities of the full "new" method versus the "interim" one, it is interesting to look at the simulation data for the cities in Connecticut, the one state in the simulation which has been using the long-run new procedures.

Of the 13 cities and towns in the simulation, eight experienced decreases in unemployment under the new method. Of the three largest Connecticut prime sponsor cities under CETA, Bridgeport, Hartford and New Haven, all three exhibited decreases in the level of unemployment, with the decreases averaging 23.1 percent. Moreover, all three cities had their unemployment rates reduced with Hartford's decreasing 1.5 percentage points.

Summarizing, the data from the BLS so-called simulation clearly indicates that the "interim" procedure will work to the disadvantage of non-CPS cities, especially the larger cities with the largest numbers of low-income and minority persons.

Additional statistics, as well as simulation data, points to an even greater negative effect of non-CPS cities from the full "new" method. Again, non-CPS cities are most of the cities in the country.

CPS Cities: As explained earlier, there are two types of CPS cities for purposes of discussion in this document. CPS cities in the purest sense are those 11 cities which have used annual average CPS ratios to calculate monthly unemployment and employment.

"CPS cities" also refers to the rest of the cities in the 30 SMSAs which have used CPS annual averages to adjust Handbook data to calculate SMSA estimates. These other cities within the 30 SMSAs have then "census shared" the SMSA data to arrive at the city unemployment and employment levels.

Very little data is available with respect to the issue of dropping the use of CPS for calculating an SMSA's total unemployment level. Atlanta is one of the cities within the 30 SMSAs; however, as pointed out in the previous section, the SMSA totals still were based on CPS averages.

It is difficult to gauge the effect that it will have on central city estimates. The effect obviously depends on a number of factors, including the size of the particular city and percent of the SMSA's population it comprises. It can be said that there will likely be shifts in the relative levels of unemployment between labor market areas of a state.

For example, State of California officials indicated to Conference of Mayors staff that unemployment for the San Francisco-Oakland SMSA will be reduced by the new procedure and, therefore, for the major cities within the area. The data for the Baltimore SMSA reviewed below show a dramatic shift of the unemployment level out of the SMSA.

We have been able to gather data on a few of the 11 CPS cities that have used CPS ratios to measure employment and unemployment within the city. Unemployment and employment for Philadelphia and Baltimore will be calculated in 1978 by the entire "new" method. The data show the concern discussed earlier about possible overestimates of employment levels to be fully borne out.

Under the new procedure, the 1976 annual average unemployment level for Philadelphia remains approximately the same. However, the level of employment is increased from 604,000 to 710,000, thereby causing the unemployment rate to decrease from 11.3 percent to 9.9 percent. This reduction in only the rate of unemployment would have cost Philadelphia about \$6.6 million in CETA Title II and VI stimulus dollars out of a total grant of \$64.2 million.

The new method would have reduced the October 1977 level of unemployment in Baltimore by 5.9 percent. Since the data for Baltimore were based on new SMSA totals which were recalculated after dropping use of CPS averages, as was true with Philadelphia, it provides some indication of the possible effect on unemployment levels for cities within the other SMSAs where CPS has been used to calculate the SMSA figures.

Interestingly, the reduction in the level of unemployment for Baltimore is very much due to an 11 percent reduction in the level of unemployment for the SMSA as a whole. This reduced unemployment level for the SMSA results in higher levels of unemployment in the rural counties of the state.

On the employment side, the level of employment for Baltimore is increased by 12.5 percent from 311,808 to 350,743, again, as with Philadelphia, in the direction and magnitude predicted by the "theory" put forth earlier. The 350,743 level would mean employment in Baltimore has remained unchanged for the last seven years since the 1970 census showed the city's employment to be 352,700.

Other existing data further indicate how inaccurate this result is. Using the 1975 CPS employment levels for Baltimore and its suburbs and the 1975 population estimates for the total population, the 1975 employment to population ratio for Baltimore was 36.0 percent and 41.7 percent for the suburbs.

The official October 1977 employment level for Baltimore indicates an employment to population ratio of 37.5, a figure consistent with the 36.0 percent for 1975. The new method for estimating employment, however, gives a 42.3 percent employment to population ratio for the city, a figure almost the same as the 1975 one for the suburbs.

Further, the new method reduces the October 1977 unemployment rate for Baltimore from 8.9 percent to 7.6 percent. If the October results indicate a pattern that would have held for other months, Baltimore would have lost about 10 percent of its CETA Titles II and VI funding.

It cannot be overemphasized that the little data that is available outside of the "simulation" have only

become available through requests from city officials to state labor market information agencies.

Some data was given to us for Chicago and Detroit. However, neither of these CPS cities will be using the full "new" method in 1978. Chicago will use the "interim" procedure with Cook County's estimates being based on the new claims-population ratio method and Chicago estimates being "census shared" from the Cook County totals.

At first glance of the available data, Chicago would seem to be helped by the "interim" procedure, with the level of unemployment increasing. However, it is expected that the official or revised unemployment estimates for 1977 will show little difference from the results of the "interim" procedure.

Moreover, the data indicates that the "interim" procedure greatly overestimates Chicago's share of the SMSA's employment level.

Most importantly, Chicago fully expects the new method that will be used in future years to produce results similar to those of Philadelphia and Baltimore. Therefore, Chicago is opposed to the new procedures.

The same is true in Detroit, where the only "new" method in 1978 will be the dropping of CPS and use of the old census share method for both county and city estimates. This old procedure will increase the level of unemployment for Detroit for the short time it is used. However, preliminary sample data in Detroit indicates that the actual new method eventually to be used will significantly reduce the rate of unemployment for Detroit.

Future Data Comparisons: BLS officials have told the Conference of Mayors that data will be available in March 1978 so that a full comparison of the old and new methods can be made by Congress. Since most areas will not have the capability to use the actual new method for at least a year, no such comparison will be able to be made.

What BLS is referring to is that whatever procedures will be in effect in 1978 will be applied where possible to 1977 data. However, even in this respect, a comparison between "old" and "new" 1977 data will be impossible. This is due to the fact that BLS at this

time apparently is not planning to make the normal end of the year revisions using the new CPS averages for the present 1977 official estimates.

If anyone then tries to compare the two sets of data, he would be comparing a CPS revised set of data under the new procedures to the CPS unrevised "official" 1977 monthly estimates. Such a comparison obviously would not be truly comparing the effect of the new method.

#### Attachment 1

### "OLD" AND "NEW" METHODS FOR COMPUTING UNEMPLOYMENT

#### 1. "Old" Method

##### A. Statewide Unemployment and Employment:

- (1) Annual average unemployment and employment data (i.e., done once a year) from the twelve monthly national Current Population Surveys (CPS) of households.
- (2) Monthly state employment and unemployment estimates done through use of BLS Handbook or "70-step" method. For unemployment figures, this means mostly unemployment insurance claims data is used. Estimates are made also for new entrants and reentrants into the labor force.
- (3) Official monthly statewide employment and unemployment derived after adjustments or benchmarking of Handbook data to the state annual CPS average.

##### B. Labor Market Area (LMA) Data:

(Note: A multicounty LMA is almost always the same as the Standard Metropolitan Statistical Area (SMSA). A single county LMA is one exception.)

One of two ways, depending on data available.

- (1) BLS Handbook estimates each month are done for employment and unemployment.

Again, this means the number of unemployed is based mainly on administrative unemployment claims data. Adjustments are made to ensure that LMA estimates add to statewide total. For employment in most LMAs as part of the Handbook method, the BLS place of work or "790 series" is used.

- (2) For 30 SMSAs, CPS sample has been reliable enough to derive an annual average for employment and unemployment. The BLS Handbook estimates are then adjusted each month to the CPS annual SMSA average.

Point: Combined use of CPS and Handbook data is considered more accurate than sole use of Handbook data.

C. County Data:

- (1) For counties which were part of a multi-county LMA, the unemployment and employment figures were computed through the "census share" method. The "census share" method assumes that the county employment and unemployment levels bear the same proportion or ratio of each month's LMA estimates as it did in the 1970 census.
- (2) For single- or independent-county LMAs, an independent or "shortened 36-step" Handbook method will continue to be used.

D. City Data:

- One of two ways, depending on data available.
- (1) City's employment and unemployment is "census shared." In other words, it is assumed that employment and unemployment in an area bears the same proportion of each month's metropolitan area estimates as it did in the 1970 census.
  - (2) In 11 largest cities (Baltimore, Chicago, Cleveland, Dallas, Detroit, Washington, D.C., Houston, Milwaukee, New York,

Philadelphia, St. Louis), CPS data has been reliable enough to get one annual average ratio of employment in the city to employment in the metropolitan area and one annual average ratio of unemployment in the city to unemployment in the metropolitan area. Then, the monthly data for the city is derived by applying each of the ratios to the employment and unemployment estimates for the metropolitan areas. (Rates for cities as well as other areas obviously are calculated from the estimate of the number of employed and unemployed which total to labor force estimates.)

Point: These cities up to now have not used "census share" but have relied on these CPS ratios.

- E. Above data for each area is revised once a year based on more up-to-date CPS benchmarking and relationships to state totals.

2. "New" Method

- A. Statewide Employment and Unemployment:  
 BLS is moving toward use of monthly CPS (versus annual average in the past) data to derive the state's employment and unemployment.
- (1) Only seven states initially (January 1978) will be able to use CPS monthly data. Other states will be phased in until all states by 1981 will be using monthly CPS for statewide data.
  - (2) States which do not use monthly CPS data will do a six-month moving average of the ratio of the CPS six-month average to the Handbook six-month average (versus once a year in the past) to estimate employment and unemployment. An independent monthly Handbook estimate will also be done. The monthly Handbook estimate will then be adjusted to the six-month moving average



ratio to get the official statewide employment and unemployment figures.

B. Labor Market Area (LMA) Data:

For all areas (except Los Angeles and New York where reliable enough monthly CPS data exist), employment and unemployment will be calculated by linking the state "CPS" to the Handbook estimates for each area. (Adjustments are made in the case of interstate LMAs.) For Handbook unemployment estimates, this means that unemployed will continue to be mainly figures from claims data plus an estimate of the number of unemployed not covered by unemployment compensation systems but who are considered "experienced" unemployed. In addition, an estimate based on age factors is done for the numbers of new entrants and reentrants into the labor force.

Point: Except for Los Angeles and New York, the use of CPS area annual data combined with Handbook estimates (which had been in 30 SMSAs) will be dropped.

C. County Data (for multicounty LMAs):

(1) Unemployment Numbers: These will be mainly derived from unemployment insurance claims data by county of residence. (Not all states have this data available right now, but all will within a couple of years.)

Detailing the way the unemployment level will be arrived at, the number of "experienced" unemployed (those receiving unemployment compensation and those who had worked for uncovered employers) will be derived from the ratio of the number of county resident claims to the number of LMA claims. This ratio will be multiplied by the experienced unemployed total for the LMA (those filing claims and an estimate of those uncovered). In addition, the unemployment level (less than

30 percent of the number of county unemployed) will be derived for new entrants and reentrants by using ratios of the county 14-19 age group 1970 population and adult age 1970 population to the 1970 LMA population for each of these age groups. Each of these ratios will then be multiplied, respectively, by the LMA estimate for the number of unemployed among new entrants (14-19 age group) and the LMA estimate for the number of unemployed among reentrants (adult age group).

- (2) Employment Numbers: These will be calculated on the basis of a population disaggregation of area employment. The most current population estimates will be used. (At the moment 1975 estimates are available.) The disaggregation will mean that the most recently available population ratio of the county's population to the LMA's population will be multiplied by the estimates of the LMA employment level.
- (3) Unemployment rates calculated from (1) and (2) (i.e., (1) and (2) add up to the labor force base).

D. City Data:

- Two ways depending on availability of data.
- (1) If unemployment compensation claims are not available by residence down to the city level, unemployment and employment will be "census shared" from the county totals.
  - (2) If unemployment compensation claims data is available by residence down to the city level for all cities in the state of 25,000 or more, unemployment numbers will be based mainly on the claims data (i.e., same disaggregation procedure county to city level as from LMA to county level). Employment will be calculated by taking the ratio of the city's most recent popu-

lation estimate to the metropolitan area's population estimate. This ratio is then multiplied by the employment estimate for the area to arrive at the city's employment.

- Point: The 11 large cities referred to earlier never did use census share to estimate employment for the city. Again, they used a ratio of employment in the city to employment in the metropolitan area derived from CPS. Except for New York City where the CPS data is reliable enough to use on a monthly basis, and Washington, D.C., which will be treated as a state and use its own "CPS-type" estimate, the other cities will assume that the relationship of employment in the city to that of the metropolitan area will be the same as the most recent population relationship. (Los Angeles SMSA will be able to use monthly CPS data.)
- E. The unemployment figures will be revised each year based on population and CPS estimates.

## Attachment 2

SUMMARY OF CHANGES IN LOCAL AREA UNEMPLOYMENT STATISTICS, EFFECTIVE JANUARY, 19781. Changes related to CPS use

	FORMER METHOD	REVISED
STATE	<ol style="list-style-type: none"> <li>1. Benchmarked annually to CPS.</li> <li>2. Extrapolated monthly by Handbook change.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ten states use monthly CPS.</li> <li>2. Others: same as formerly except for use of six month moving average extrapolator.</li> </ol>
SMSAs/LMAs	<ol style="list-style-type: none"> <li>1. Thirty large SMSAs same as state estimates.</li> <li>2. Other states: Handbook estimates adjusted to state CPS and for additivity.</li> </ol>	<ol style="list-style-type: none"> <li>1. Los Angeles &amp; New York City use monthly CPS.</li> <li>2. All others: Handbook estimate adjusted to state CPS and for additivity.</li> </ol>
COUNTY OF MULTI-COUNTY LMA	<ol style="list-style-type: none"> <li>1. Census shared from LMA.</li> <li>2. States having resident claims have option of using claims - based unemployment/population - based employment disaggregation procedures to disaggregate from LMA.</li> <li>3. In 11 large SMSAs, CPS-share central city from SMSA monthly estimates.</li> </ol>	<ol style="list-style-type: none"> <li>1. Mandated use of claims-based unemployment/population - based employment disaggregation procedures if resident claims are available.</li> </ol>
SUB-AREAS	<ol style="list-style-type: none"> <li>1. Sub-areas with Census employment and unemployment data available are census-shared from next larger area.</li> <li>2. When census employment and unemployment data are not available, population share from next larger census shared area.</li> </ol>	<ol style="list-style-type: none"> <li>1. Any sub-area with resident data (cities of 25,000 or more in this region) will use claims-based unemployment population based employment disaggregation.</li> <li>2. Other sub-areas with census employment and unemployment data available will be census shared from next larger area.</li> <li>3. When census employment and unemployment data are not available, population share from next larger census-shared area.</li> </ol>

II. Changes related to Handbook estimate

Technically, it is no longer necessary to compute a Handbook estimate for those ten states and two metropolitan areas who will be using monthly CPS data directly. (However, states will be asked to prepare Handbook estimates for research purposes.) Estimates for all other states, SMSAs, LMAs, independent cities and counties not in an LMA must start with an independent Handbook estimate. The changes noted below apply to all Handbook estimates.

PROCEDURE	FORMERLY	REVISED
1. Adjust place of work employment to place of residence.	Census - 790 ratios	BEA (Bureau of Economic Analysis) ratios were going to be used. They now may not be available for 1978.
2. Use of continued claims counts as basic building block for unemployment estimate.	Generally, claims data used are weeks claimed by local office of filing. Claimants with earnings below state forgiveness level are counted as totally unemployed.	Contracting states use an unduplicated count of totally unemployed claimants by county of residence.
3. Agriculture employment benchmarked.	Adjusted quarterly to the Department of Agriculture Statistical Reporting Service (SRS).	Benchmarked annually at time of 790 benchmark to latest available SRS.
4. High unemployment entrant "B" factor (assumes decline in entrant/reentrant LF in times of high unemployment).	When state "triggers" on all areas in state "trigger" on.	Areas "trigger" on only when the rate for the area meets the trigger criteria.

## Exhibit 2

LEGISLATIVE REQUIREMENTS FOR LOCAL AREA UNEMPLOYMENT DATA

<u>Law</u>	<u>Purpose</u>	<u>Administrative Agency</u>	<u>Coverage of Act</u>	<u>Data Provided</u>
CETA 1973 PL 93-2 3 Title I	To allocate money to local governments to provide comprehensive manpower services	Employment & Training Administration (Labor)	Units of local government 100,000 + population (approx. 450) prime sponsors	Previous year annual average unemployed and rate (Allocations based on area's share of national unemployment.)
CETA 1973 PL 93-203 Title II	To allocate money to local governments to provide transitional public service employment	ETA (Labor)	Units of local government 100,000 + population, areas of substantial unemployment of 10,000 + population within a prime sponsor, and program agents with 50-100,000 population (approx. 700)	Monthly for previous 12 months Number of unemployed; unemployment rate. (Must be equal to or in excess of 6.5 percent for 3 consecutive months.)
CETA 1973 PL 93-567 amended by PL 94-444 Oct. 1, 1977 Title VI	To allocate emergency funds to local governments to provide transitional public service employment	ETA (Labor)	Units of local government with 50,000 + population (approx. 800)	Monthly for previous 12 months Number of unemployed and rate. (Number of unemployed in area of substantial unemployment and number unemployed in excess of 4.5 percent.)
PWEDA 1965 PL 89-136 amended by PL 94-487 Oct 12, 1976 Title IV	To grant Federal financial assistance to communities with substantial and persistent unemployment for the purpose of building public works projects to assist in economic development	Economic Development Agency (Commerce)	All States and units of local government and cities of 25,000 + population (approx. 2,000)	Monthly for previous 48 months for all counties and labor market areas; includes areas where unemployment rate has been in excess of 6 percent
PWEA 1976 PL 94-369 amended by PL 95-28, May 13, 1977 Title I	To grant Federal financial assistance to communities for the purpose of building public works projects	EDA (Commerce)	All States and units of local government including cities of 25,000 + population (approx. 2,000)	Twelve most recent consecutive months. Priority given to areas where unemployment rate exceeds 6.5 percent for 12 most recent consecutive months
PWEA 1976 PL 94-369 amended by PL 95-30 May 23, 1977 Title II	To allocate Federal monies to units of State and local government to coordinate budget-related actions of State and local governments with Federal efforts to stimulate economic recovery	Office of Revenue Sharing (Treasury)	All units of general local government (approx. 40,000)	Unemployment for penultimate calendar quarter and last month of that quarter for counties and cities with a population of 25,000 or more. Terminates when National unemployment rate is lower than 6 percent. States and local areas must have unemployment rates in excess of 4.5 percent.