S. Hrg. 107-725

THE EMPLOYMENT SITUATION: SEPTEMBER 2002

HEARING

before the

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

October 4, 2002

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON: 2002

cc 82-291

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: (202) 512-1800 Fax: (202) 512-2250
Mail: Stop SSOP, Washington, DC 20402-0001

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THE EMPLOYMENT SITUATION: SEPTEMBER 2002

Friday, October 4, 2002

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

The Committee met, pursuant to notice, at 9:35 a.m., in Room 1334, Longworth House Office Building, the Honorable Jim Saxton, Chairman of the Committee, presiding.

Present: Representatives Saxton and Watt; Senators Reed and Sarbanes.

Staff Present: Chris Frenze, Robert Keleher, Colleen J. Healy, Brian Higginbotham, Dianne Preece, Patricia Ruggles, Chad Stone, Matt Salomon, Nan Gibson, Donald Marron, and Jeff Wrase.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. I am very pleased to welcome BLS (Bureau of Labor Statistics) Commissioner Kathleen P. Utgoff to her first appearance before the Joint Economic Committee (JEC). We look forward to these monthly hearings and always hope for good news. We don't always get it, but most of the time we seem to. As you know, this Committee has a longstanding relationship with BLS, and we look forward to working with you in the years to come, Commissioner.

Dr. Utgoff. Thank you.

Representative Saxton. The employment data released today are consistent with other data showing moderate expansion of the U.S. economy. The unemployment rate in September was 5.6 percent, while household survey employment increased by 711,000. The payroll measure of employment was essentially unchanged in September, although it was revised upward to 107,000 jobs in August. Recent payroll data, employment data, reflect the economic slowdown evident in a host of data since the early months of the year 2000.

[The chart entitled, “Employees on Nonfarm Payrolls” appears in the Submissions for the Record on page 22.]

For example, the percentage of the population employed peaked in April of 2000, and the number of unemployment started increasing in the fall of 2000. The deterioration in manufacturing employment began even earlier. Manufacturing employment peaked at 18.9 million in April 1998, and has been trending downward ever since that time. Since April of 1998, 2.2 million factory jobs have been lost.

One major factor behind the economic slowdown that began in 2000 is the stock market decline. The hardest hit sectors have included technology and internet-related companies, resulting in investment losses for many employees, retirees, and other investors. Many will recall that the NASDAQ peaked in March of 2000, but the extent and speed of its decline is not so widely recognized.

If I may just at this point pause for a moment and point to the chart on the side here, we can see that peak that occurred and the rapid decline that occurred that I just mentioned during the year 2000. It is quite remarkable, I believe, as many who had invested in high-tech will know firsthand. After the peak in March the extent and the speed of the decline during the year of 2000 is really quite remarkable.

[The chart entitled, "Stock Price Index: NASDAQ Composite"appears in the Submissions for the Record on page 23.]

Between March of 2000 and January of 2001, the technology rich NASDAQ index actually fell from 4,800, a little bit above 4,800 actually, to about 2,657, a decline of 45 percent in just that very short period of time. Nearly $3 trillion of wealth was wiped out in this period, which ended in January of 2001. Contrary to some recent attempts at historical revisionism, clearly a huge investment meltdown was well under way before any changes in administration personnel and politics in 2001.

Let me also make the point that economic growth as measured by total output of goods and services; that is, GDP, fell dramatically in the middle of 2000 as well. In the second quarter of 2000, real GDP growth was at 4.8 percent. But in the second half of the year, growth had slowed to an annual rate of about one-fifth of that rate.

This chart that we have up also makes this point. And if we look carefully at it, we can see that at the beginning in the middle of 2000 we saw this unmistakable trend begin.

[The chart entitled, "Gross Domestic Product" appears in the Submissions for the Record on page 24.]

Industrial production, one of four major indicators used to determine the timing of recessions and expansions, peaked in June of 2000, then trended downward as well, as the chart that we are looking at clearly demonstrates. And so downward trends generally begin in the middle of 2000, which of course is something that is important to recognize.

[The chart entitled, "Industrial Production Index" appears in the Submissions for the Record on page 25.]

The economic and financial deterioration has caused the budget to swing into deficit. On its own, the 2002 impact of the Bush tax cut, scored at $38 billion, would have left a huge budget surplus amounting to over $250 billion. However, this economic and financial market deterioration since 2000 accounted for well over $300 billion in lost revenues and added spending, erasing the surplus and pushing the budget into deficit.

The economic slowdown so evident in 2000 turned into a recession in the first quarter of 2001. In the current issue at the *Atlantic Magazine*, Clinton administration chief economist, Dr. Joseph Stiglitz, stated: "The economy was slipping into recession even before Bush took office."

This is a Clinton administration chief economist speaking: "The economy was slipping into recession even before Bush took office, and the corporate scandals that are rocking America began much earlier."

That is his exact quote. And while I don't agree with his entire article, Dr. Stiglitz is right on the critical factual point regarding the origins of this recession.

The current economy has strengths and weaknesses, and there are valid reasons to favor policies to promote stronger economic growth. However, the factual record refutes attempts to link the economic slowdown with changes in tax policy. The steps taken in 2001 to relax monetary policy and reduce the tax burden softened the damage inflicted by the recession.

Given the potential of deflationary forces to undermine the current economic expansion, additional policy changes may be necessary. In particular, I would urge the Federal Reserve to consider an additional easing of monetary policy to prevent the possible danger of deflation to price stability. The Federal Reserve's draft actions in the recent past have demonstrated their ability to prevent potentially deflationary forces from damaging the U.S. as well as the international economy.

Thank you again, Commissioner. And at this point we will turn to Senator Reed.

[The prepared statement of Chairman Saxton appears in the Submissions for the Record on page 20.]

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. Thank you very much, Mr. Chairman. Thank you for convening this hearing. I also want to welcome the new Commissioner of the Bureau of Labor Statistics, Dr. Kathleen Utgoff. Welcome, Commissioner. I look forward to working with you, and thank you for your testimony here today.

Today, there are more than 8 million unemployed Americans, and more than 1.5 million additional workers who want a job but are not counted among the unemployed. Payroll employment fell by 43,000 jobs in September. Long-term unemployment rose significantly in September, up by 111,000. Today, 1.6 million Americans have been unemployed for more than 26 weeks, twice as many as at the beginning of 2001.

Although the economy is clearly still in a slump, some might argue that the recession is over because GDP has shown some growth; but to bring the unemployment rate down significantly, we would need an annual growth rate of more than 3 percent and we are not getting that. Certainly, the job market recession is not over. The economy has lost over 2 million private payroll jobs since January 2001. We have yet to see the kind of strong job growth that signifies a real recovery. If this is an economic recovery, it looks just like the kind of jobless recovery we had in the early 1990s.

This is sobering and distressing news, which should be a call to action. The unemployed face a tough job market. Unemployment benefits provide some necessary relief for hard-pressed workers who have been unable to find a job during this downturn. It is estimated that over the next 5 months alone, 3 million jobless workers will be harmed if Congress fails to pass an extension of unemployment benefits. The Federal Unemployment Insurance Trust Fund currently has a $24 billion surplus, which is more than sufficient to provide additional weeks of benefits to workers who have or will soon exhaust their benefits.

We have already begun to see the human toll of unraveling economic progress as family incomes are falling for the first time in nearly a decade. Poverty is on the rise and families of all income levels are losing their health insurance.

The task before us as policymakers is to put the economy back on a path of strong and sustainable growth. Extending unemployment benefits to workers before the current program expires would not only help millions of families weather these difficult economic times, but it will also provide a boost to the economy without undermining our long-term fiscal discipline.

Mr. Chairman, I look forward to the testimony of Commissioner Utgoff on the state of our labor markets today. And also, I believe the President must step up to the issue and address the economy as effectively and as aggressively as he is addressing some of the issues of international security. Without presidential leadership, this situation will continue to deteriorate.

Thank you.

[The prepared statement of Senator Reed appears in the Submissions for the Record on page 26.]

Representative Saxton. Commissioner, once again, welcome. And we are very pleased that you are here and we are ready to hear your testimony.

OPENING STATEMENT OF KATHLEEN P. UTGOFF, COMMISSIONER, BUREAU OF LABOR STATISTICS; ACCOMPANIED BY KENNETH V. DALTON, ASSOCIATE COMMISSIONER, OFFICE OF PRICES AND LIVING CONDITIONS; AND PHILIP L. RONES, ASSISTANT COMMISSIONER OF CURRENT EMPLOYMENT ANALYSIS

Dr. Utgoff. Thank you very much for your welcome. I am very pleased and honored.

Representative Saxton. Commissioner, if you will pull the mike up.

Dr. Utgoff. Thank you very much. I am very pleased and honored to be the new Commissioner, and I am sure we will both try to work together for the future.

I have a prepared statement which I would like to submit for the record because it has many increases and decreases in it, and for the most part we really have not had much change over the last few months. So let me summarize the major changes in September, and we can discuss other changes later on in the questioning period.

In September of 2002, both the unemployment rate at 5.6 percent and the payroll employment were essentially unchanged. Payroll employment was essentially unchanged in September minus 43,000. In the prior 4 months, employment had increased by a total of 217,000, including a gain of 107,000 from the revised figures in August. In September, job losses in manufacturing and transportation offset gains in finance and health services as they have in previous months. None of the other major industry divisions, such as construction and retail trade, had statistically significant changes in employment in September. Manufacturing employment, which, as you have shown, has had declines throughout this downturn, the manufacturing employment decreased by 35,000 in September. Job losses have accelerated over the last 2 months following a moderation in declines from April to July.

This trend is evident in electronic equipment and industrial machinery, which lost 11,000 and 9,000 jobs in September, respectively. The manufacturing workweek was unchanged over the month, and factory overtime edged down by a tenth of an hour to 4.1 hours. Transportation employment fell by 26,000 in September. Trucking had an unusually large employment decline, and air transportation lost 12,000 jobs. Employment in air transportation has shown no clear trends so far this year following losses totaling 132,000 in the last 4 months of 2001.

Total employment as measured by the household survey as opposed to the payroll survey increased by over 700,000 after seasonal adjustment. Teenagers accounted for nearly half of the gain as the large seasonal decline in their employment that typically occurs in September was less than normal.

Thank you, Mr. Chairman. I would be delighted to, with my colleagues, answer any questions that you might have.

[The prepared statement of Commissioner Utgoff appears in the Submissions for the Record on page 27.]

Representative Saxton. Commissioner, thank you very much. Let me try to clarify, if I may, for the purpose of the record at least. The unemployment rate in August was 5.7 percent. Is that correct?

Dr. Utgoff. That is correct.

Representative Saxton. And the rounded number for September fell by a tenth of a percentage point to 5.6 percent.

Dr. Utgoff. That is correct.

Representative Saxton. Then we have some mixed news on our two surveys. We have the household survey, which showed job increases of 711,000 jobs, and we saw on the payroll survey a different story, a slight reduction in the number of jobs created of, what, 43,000?

Dr. Utgoff. Yes.

Representative Saxton. How do we – explain if you can how you think the difference occurred between the household survey and the payroll survey.

Dr. Utgoff. As you said, they come from two different survey instruments. The payroll survey comes from a fairly widespread survey of firms. Over 300,000 firms are surveyed in the payroll survey, and then the household survey comes from a survey of 60,000 households. So they can differ. And when they do differ, we tend to put more emphasis on the payroll survey since it is a much larger sample.

Representative Saxton. The response of people who are watching the economy this morning was quite surprising to me, particularly with regard to the market futures. When these numbers were released, people who are involved in trading, etcetera, took them as fairly optimistic. And I wonder if you can explain why that might be.

Dr. Utgoff. Well, the projections had been for a two-tenths increase in the unemployment rate. Compared to what the projections were, the actual situation was somewhat better.

Representative Saxton. So it was perceived as being positive because the anticipated unemployment rate was anticipated to go to 5.9 percent?

Dr. Utgoff. I can't be sure, but I think that is a reasonable explanation.

Representative Saxton. But instead it fell to 5.6 percent, which was interpreted as positive news?

Dr. Utgoff. That is correct.

Representative Saxton. I see. How much has the household measure of unemployment increased in the last two months?

Dr. Utgoff. I will have Mr. Rones answer that.

Representative Saxton. I think I may have said unemployment. I meant employment. I am sorry.

Mr. Rones. It has gone up about 1.1 million.

Representative Saxton. 1.1 million. And how would you characterize that?

Mr. Rones. Well, the increases are statistically significant. The next thing we would ask ourselves: Are they economically meaningful? And one thing that we have seen in looking at these data over the many years is it is not unusual to pick up substantial gains or losses in employment from the household survey in a short period of time. You can have a period, as we had this year, a long period with no growth and then suddenly pick up a lot of growth.

I would want to point out, though, that in both August and September, what we expect to happen based on past history is a large number of people leave the labor force, particularly teenagers. And what we had this month is there weren't as many employed both because as a trend towards less summer work among teenagers and because of the economy. So there were fewer people employed than normal, so now there are fewer to leave those jobs. We expected a large number to leave. We didn't get it. And that shows up as a seasonally adjusted employment increase. You might even call it a quirk in seasonal adjustment. I wouldn't put a lot of analytical weight into those two gains in employment.

Representative Saxton. I see. Let me back up a month, if I may. In the original data that we got from the August payroll employment data, the original number was significantly less than the revised number. The revised number came out sometime in late August, I believe. Can you tell us what the original employment – payroll employment – data looked like? And tell us what the revised number is. And tell us why you think that occurred.

Dr. Utgoff. The original number that we announced in August was 39,000. The revised number that we released today is 107,000. Each month we revise the past two months because additional data comes in from our payroll survey. And so every month we announce new data for that month and revisions of the prior two months.

Representative Saxton. Would you then expect that there may be some revision to the September numbers as well?

Dr. Utgoff. Yes. I do expect a revision.

Representative Saxton. Do you feel like it will be on the optimistic side or perhaps the pessimistic side?

Dr. Utgoff. If I said either of those, it would mean very bad things for our survey techniques.

Representative Saxton. I see. Thank you. Is the payroll – is the overall payroll employment level in September different in a statistically meaningful way than that of August?

Dr. Utgoff. No, it is not.

Representative Saxton. So we continue to see some moderate growth in the economy?

Dr. Utgoff. Yes.

Representative Saxton. Is that a fair statement? And how does the level of the index of aggregate weekly hours in September differ from that of the previous month?

Dr. Utgoff. I know that they have increased by a small amount. Let me see if I can get that exact number for you. Mr. Rones is looking it up.

Representative Saxton. While Mr. Rones is looking, it has been my observation that the length of the workweek has been increasing. And I wonder – and that is the reason I ask this question.

Dr. Utgoff. I'm sorry, I don't have glasses to read those very small numbers.

Mr. Rones. The index—

Representative Saxton. We are going to have to get them blown up for you.

Dr. Utgoff. Yes.

Mr. Rones. The index of aggregate weekly hours went up from August to September from 148.0 to 148.6. So it is up .6.

Representative Saxton. That is six-tenths of an hour? Is that correct?

Mr. Rones. Well, it is an index figure pegged to the 1982 level. So any aggregate hours above what we had in 1982 represent increases in the index above 100.

Representative Saxton. Let me ask – Commissioner, let me ask you this. Would it be a fair statement to say that if the length of the workweek is increasing, that it would be an indicator that there is some growth in the economy? As a matter of fact, I think it has been up for the last two months.

Dr. Utgoff. Yes.

Representative Saxton. And I believe—

Dr. Utgoff. Yes. It has been going up moderately in the last two months. But previous to that it had been falling .

Representative Saxton. I'm sorry?

Dr. Utgoff. Previous to that it had been falling.

Representative Saxton. Right. And my information is that this is a leading economic indicator. In other words, as the economy begins to expand, an employer has a number of choices to make. Obviously, if there is more need for labor he could hire more people. Or, as a first step, he can have the existing workforce work longer. And so this has historically been a leading indicator of perhaps things to come. So if one wanted to be optimistic, one could say the workweek is beginning to expand, and therefore optimistically we could expect positive things to happen in the future.

Dr. Utgoff. I think many economists do believe that hours, particularly hours of manufacturing, are a leading economic indicator.

Representative Saxton. Commissioner, thank you. And at this point we will ask Senator Reed if he has some questions.

Senator Reed. Let me yield to Chairman Sarbanes.

Senator Sarbanes. Thank you Senator Reed. I have a nomination hearing that I have to hold somewhat later this morning. I appreciate this opportunity to go ahead.

First of all, I want to say to Chairman Saxton, this may be the last meeting of this Committee in this Congress perhaps, although if we were to come back, we might have another one. And I know that the chairmanship of the Joint Economic Committee in the next Congress will shift to the Senate side.

Representative Saxton. That is correct.

Senator Sarbanes. I want to thank Chairman Saxton for the way in which he has conducted the Committee hearings in the course of his tenure. I think he has been very fair to all of us, and I very much appreciate that.

Representative Saxton. Well, thank you, Senator, and I appreciate those comments. That is very kind of you.

Senator Sarbanes. And Commissioner Utgoff, I want to welcome you. I think this is your first appearance before the Joint Economic Committee.

Dr. Utgoff. Thank you, Senator.

Senator Sarbanes. We wish you well in your position as the Commissioner of Labor Statistics.

You have had some very distinguished predecessors, Katharine Abraham, your immediate predecessor. And of course, before her, the legendary Janet Norwood, who was considered really one of the preeminent career civil servants in the government and a woman of great force, and we enjoyed her tenure as Commissioner.

In fact, I was listening to some of these questions as they were being put to you, and I know there will be many others that will come. And I commend to you going back perhaps and reading the transcript of some of Janet Norwood's appearances here. It will give you a good handle on how to handle questions coming from the Members of the Congress. She was a master at that, I have to say.

I noticed you worked for the Council of Economic Advisers; and as an alumnus of that staff, I am obviously impressed by that. And I know you have held a number of other significant positions, and actually come to us from being the Director of the Center for Naval Analysis.

I just want to make one comment. This Committee historically has worked very closely with the Commissioner to sustain the professionalism of the Bureau. There have been occasions – fortunately, not too frequently, but there have been occasions in the past. And I have been on this Committee now a long, long time, so I have had a chance to watch it when there has been an effort to politicize the Bureau and the work of the commission – and of some Commissioners. The Commissioners have always resisted that, and I laud them for that. And this Committee has always tried to sustain the professionalism of your office, and I think there is a very fine tradition there. I know you are certainly committed to upholding it. And I for one as a Member of this Committee want to indicate to you that we certainly would support you in every way if by some chance the professionalism of the office should be menaced in any way. And I just wanted to put that on the record. And I wish you well in your new position.

Dr. Utgoff. Thank you. I have discussed this with Secretary Chao, and she feels exactly the same way you do.

Senator Sarbanes. Good. Now, I am interested in the long-term unemployed, because I am interested, as Senator Reed mentioned, in the unemployment insurance issue, specifically the extension of the unemployment insurance benefits. We have extended benefits in every previous recession, often almost always more than once. I mean, we extended them more than once in each particular recession. This time we have extended benefits once, by 13 weeks, but that extension expires at the end of this calendar year. For many people, the use of the extension has already expired. They have run the string and they are no longer eligible to draw benefits. But even those eligible, when they get to the end of the year, even if they are in only the first, second, or third week of their extension, the 13-week period, they fall off the cliff, as I understand it, at the end of this year and could no longer draw unemployment benefits. So you have the people who have used them up, the people who are about to use them up, and the people who would have some left but come to a termination at the end of the year regardless of what they have left, and I think this is a very serious problem.

Now, let me just explore this with you a little bit. My understanding is that the number of long-term unemployed – and here I am using the standard of more than 26 weeks. I think you also use a more than 15-week standard, if I am not mistaken. But as measured by the standard of more than 26 weeks, which is of course the standard unemployment insurance benefit period, unemployment has more than doubled since the beginning of last year. My figures would show it has gone from 648,000 to almost 1,600,000. Is that correct?

Dr. Utgoff. That is correct.

Senator Sarbanes. Now, I also understand that just in the course of a year; namely, from last September to this September, it is just shy of having doubled, going from about 800,000 to just under 1.6 million.

Dr. Utgoff. Correct.

Senator Sarbanes. So we have got 1.6 million people there who have been unemployed for more than 26 weeks. Is that correct?

Dr. Utgoff. That is correct.

Senator Sarbanes. Now, you also use a more than 15-week standard, is that correct?

Dr. Utgoff. Yes.

Senator Sarbanes. And what does that show us over – let us say over a year's period?

Dr. Utgoff. From September to September, or from September, it has gone from almost two million to almost three million.

Senator Sarbanes. So that is a pretty rapid run-up as well. I am told that the workers unemployed for more than 26 weeks now make up almost 20 percent of the unemployed. Is that correct?

Dr. Utgoff. We can get that number for you in just a minute. Mr. Rones is looking for it.

Yes. That is correct. It was 19.5 percent.

Senator Sarbanes. Pardon?

Dr. Utgoff. Yes, you were correct. It was 19.5 percent.

Senator Sarbanes. Right. So the number of unemployed workers in this instance, 26 weeks or more, is now at 19.5 percent of the total of the unemployed?

Dr. Utgoff. Yes.

Senator Sarbanes. Now, my information is that that is the highest percentage since 1994; in other words, eight years ago?

Dr. Utgoff. Just a moment. I am not sure we have with us the data that is back that far.

Senator Sarbanes. Yes.

Dr. Utgoff. I am sorry, we don't have that, but I will be glad to send the number to you.

[Information provided to Senator Sarbanes from Commissioner Utgoff appears in the Submissions for the Record on page 53.]

Senator Sarbanes. Well, I would be happy to receive that. But let me assert it, and then you can send us further information, particularly if my assertion is not correct.

My understanding is that at 19.5 percent for workers 26 weeks or more as a percent of the total unemployed, it is the highest percentage since the end of 1994. I understand the average number of weeks unemployed has risen by 1.6 weeks to 17.8, and that the median has risen from 1.1 weeks – has risen by 1.1 weeks to 9.5 weeks. Does that jibe with your figures?

Dr. Utgoff. My recollection is that it does. The duration declined from the measures that you used in the previous two months, and it has again moved up in the last month.

Senator Sarbanes. Is it fair to conclude, looking at these figures, that the problem of long-term unemployed and all its manifestations is one that is increasing as we look at the figures?

Dr. Utgoff. I would say it has been more stable, the duration of unemployment and the mean duration of unemployment, for the last 3 months since I have been Commissioner. But in general, in a slowdown the average duration of unemployment does increase. But the pattern over the last few months has been just as the other statistics that we talked about.

Senator Sarbanes. Well, what do your figures show on unemployment claims? Unemployment insurance claims?

Dr. Utgoff. I know that the average – the moving average is something like – for the initial claims is a little over 400,000. But we can get that number for you.

The initial claims for the last week were 417,000, the preliminary figures.

Senator Sarbanes. Well, let me just run them for a month. What were they for the beginning of August of this year? I mean, just a couple months ago.

Dr. Utgoff. 382,000.

Senator Sarbanes. 382,000. And they are now at what?

Dr. Utgoff. 416, the preliminary figures.

Senator Sarbanes. So that is a 10 percent increase just over a couple of months, is that correct?

Dr. Utgoff. Yes, about nine percent, actually.

Senator Sarbanes. Mr. Chairman, I just want to close with this observation from this line of questioning. It seems to me very clear that we have an increasing problem with respect to long-term unemployed. And of course, the theory of the unemployment insurance system is that these are working people. You can't get unemployment insurance if you haven't been working. So you have to have a work record in order to qualify for it. I want to be very emphatic about that.

The theory is that you sustain people for a while, the economy picks back up, job openings become available, and they are able to go back to work. But that is not happening in the current situation, and so we have this growing problem with respect to the unemployed. And what we have done in previous recessions in order to deal with that is we have extended the unemployment insurance period. And there is a major effort now under way, certainly in the Senate – I don't know what is happening in the House – to do such an extension, certainly before we leave here; otherwise, we are going to have people who are just going to be confronted with this, are going to come right up against this situation of in effect falling off the edge of the cliff.

Now, Senator Reed and I and others have joined in an effort to do this extension. We did it five times in the early 1990s when we were confronting that recession. And all of the figures that we have here, to my view, strongly support doing so again. I mean, there is doubling and more than doubling of the long-term unemployed people more than 26 weeks. This fairly sharp rise in the new unemployment insurance claims indicates a worsening in the labor market, and we are pushing hard on the Senate side to get unemployment insurance benefits extended, and I hope we will be able to do the same thing on the House side.

Representative Saxton. Well, thank you very much, Senator, and thank you for your kind remarks at the beginning of your questions. I really appreciate that. I have tried to run this Committee in a bipartisan and fair way, because I think it is important that the American people have the benefit of good information from these public hearings. I would like to make one point.

Senator Sarbanes. Go ahead.

Representative Saxton. Go ahead.

Senator Sarbanes. I will hear you, and then I just want to make one point.

Representative Saxton. Okay. Fine. I just wanted to make sure that you understand, Senator, that I fully sympathize with people who are long-term unemployed. That is very important. But the real answer to the long-term unemployed – while the temporary answer is, you are correct, is to extend unemployment benefits. I have no quarrel with that whatsoever – the long-term answer is obviously to get people back to work, and we have made some strides in that direction.

I just wanted to share with you the data that is reflected on this chart on employees on non-farm payrolls. It is fairly obvious that back in the middle of 2000 a trend began which manifested itself into a recession in the first quarter of 2001, where we were seeing very productive job growth during the years prior to 2000, but in 2000 the trend began which showed that we were producing less growth in the job market. And as the arrows on the chart clearly demonstrate, that trend has been reversed. And we are beginning now to – we began, actually, in the middle of 2001, to see job growth return to the economy. And, as a matter of fact, during the last several months we have been in the positive, on the positive side.

So we are pleased that we have got this continuing growth in jobs. And of course this month we saw a flattening of the growth rate, and that is unfortunate. But the basic trend over the last year and a half or so has been to push us back on to the positive side.

Senator Reed, would you like to—

Senator Reed. I am going to – Senator Sarbanes, did you have a comment?

Senator Sarbanes. Mr. Chairman, for the sake of sort of the completeness of the record, you quoted Joseph Stiglitz earlier, and I would like to expand the quote a bit so we have it in full context.

Representative Saxton. You can expand it as your quote. I said that I didn't agree with everything that Mr. Stiglitz said in his statement. But if you want to quote him, that is fine.

Senator Sarbanes. What I am going to quote he said directly before what you quoted. So I will give the full quote:

"It would be nice for us veterans of the Clinton administration if we could simply blame mismanagement by President George Bush's economic team for this seemingly sudden turnaround in the economy, which coincided so closely with his taking charge. But although there has been mismanagement and it has made matters worse" – that came just before your quote – "the economy was slipping into recession even before Bush took office."

Representative Saxton. That is right.

Senator Sarbanes. "And the corporate scandals that are rocking America began much earlier."

Of course, we are trying to deal with those corporate scandals.

Representative Saxton. We both are, Members of both parties, that is correct.

Senator Sarbanes. But I just wanted to get that into the record. Thank you very much.

Representative Saxton. Senator Reed.

Senator Reed. I wonder if Mr. Watt might—

Representative Watt. Sure. I appreciate the gentleman allowing me to go, because I do have to catch a plane at some point today, too.

But I want to try to establish a couple of benchmarks here so we can kind of get this in context. Three benchmarks timewise I think are important. January of 2001, which is the time, coincidentally, that there was a change of administration. August of 2001, which I presume would reflect the numbers before the events of September 11, rather than using the September of 2001, which I presume would reflect some of the impact of the events of September 11. And then August of 2002, which would be a year following the events of September 11. And so I have kind of set up a chart here, and I ask you to help me do the continuity on those three dates, but with the left side of my chart reflecting the total white unemployment, the total black unemployment, the black unemployment composites for persons between 16 and 19, and the black men statistics for the age 16 to 19. I believe you have all of those figures. I presume you would.

Dr. Utgoff. Yes. It may take us a moment to find them.

Representative Watt. Can you just walk me through one by one here so we get a real perspective of what impact whatever forces are having on unemployment and perhaps get a picture of the disparate impact between white employees and black employees? Can we start with January of 2001? Would you give me the composite white unemployment figures?

Dr. Utgoff. Just a moment.

Representative Watt. Percentage. I am just looking for percentages now; I am not looking for gross numbers.

Dr. Utgoff. 3.6.

Representative Watt. 3.6 would be the composite men and women white?

Dr. Utgoff. Yes.

Representative Watt. And in August of 2001, what was that figure?

Dr. Utgoff. August of 2001, it was 4.3 percent.

Representative Watt. And in August of 2002?

Dr. Utgoff. It was 5.1 percent.

Representative Watt. Okay. Now, could you give me the same numbers composite black men and women overall, January 2001?

Dr. Utgoff. January 2001, it was 8.2 percent.

Representative Watt. And August of 2001?

Dr. Utgoff. Nine percent.

Representative Watt. And August of 2002?

Dr. Utgoff. 9.6.

Representative Watt. And then black composite men and women 16 to 19, January 2001?

Dr. Utgoff. January 2001, it was 27.5 percent.

Representative Watt. August of 2001?

Dr. Utgoff. 30.1 percent.

Representative Watt. And August of 2002?

Dr. Utgoff. 30.5 percent.

Representative Watt. And for black men only, ages 16 to 19, January 2001?

Dr. Utgoff. I am told that we don't have the historical record for that group because we don't seasonally adjust it.

Representative Watt. Well, I am looking at something that gives me back to September of 2001 here, seasonally adjusted household data. Is that – this is not your information?

Dr. Utgoff. I am sorry, Representative Watt. I misspoke. We just do not have it with us right now.

Representative Watt. Okay. Let me – I don't have January of 2001, but I do have August of – let us see. Well, I have September of 2001, which would be for black men 28 point—

Representative Saxton. If I may just interrupt, and remind my friend Mr. Watt that we have one unlimited statement – a time limit on each side. The Senator used the unlimited time. So if you could – in fairness, I will not cut you off, but would you get to your point?

Representative Watt. I am about to get to the point.

Representative Saxton. Thank you.

Representative Watt. I think in August of 2002, according to my information, is 30.5 again, for black men. I am sorry. I believe that is right, but I could be wrong.

The point I am trying to make is I presume these figures show a substantially more adverse impact, a greater adverse impact of whatever the conditions are on African Americans as opposed to the rest of the populations.

Dr. Utgoff. Mr. Rones has the figures on that.

Representative Watt. Okay.

Mr. Rones. I just took the figures that you had asked for from the beginning of 2001 until the current figure, and you look at the increase in the unemployment rate. The absolute increase is about the same for each, about a point and a half on their rates. But because the black rate is considerably higher, really double the white rate, so you actually end up having the white rate increasing at a much faster rate, 42 percent over that period as compared to half that, about 17 percent.

Representative Watt. Okay. Well, that is fair. You are saying that the actual increase is less dramatic?

Mr. Rones. That is right. The key point of course is that the black rate is twice as high as the white rate. And that is the case – or that has been the case historically regardless of the business cycle. But the increase – the rate of increase has been a bit more for whites than for blacks.

Representative Watt. I am not sure I understand that. But 27.5 to 30.5 in my calculation is 3 percent. And 8.2 to 9.6 – I am sorry. 3.6 to 5.1 is 1.5 percent. I don't – maybe your math is different than my math.

Mr. Rones. I was—

Representative Watt. But the picture is the same. The point is—

Representative Saxton. Mr. Watts, if you could sum up at this point, we would appreciate it.

Representative Watt. I am trying to sum up.

Representative Saxton. Thank you.

Representative Watt. If you will let me sum up. Black unemployment is substantially higher in this picture than white unemployment?

Mr. Rones. That is correct.

Representative Watt. Okay.

[Information provided to Representative Watt from Commissioner Utgoff appears in the Submissions for the Record on page 55.]

Representative Saxton. Thank you very much, Representative Watt. Good point.

Senator Reed.

Senator Reed. Thank you very much, Mr. Chairman. And let me begin by associating myself with Chairman Sarbanes' remarks, as you wind up your tenure. It has been a pleasure working with you and cooperating with you, and thank you again for your even-handed discharge of your responsibilities.

Representative Watt. And if the gentleman would yield, I should have said that, also. That has been my experience.

Representative Saxton. I appreciate all your kind remarks. Thank you.

Representative Watt. Except for the time that you dispense out; aside from that.

Senator Reed. Well, let me just jump right in now, and comment, if I may, on the chart. I will readily acknowledge that I am a graduate of plebe mathematics at West Point. But it looks to me like that for the last months on that chart the slope is negative, and that this could be the classic unfolding of a double dip recession, where you have employment increases and then the numbers begin to turn around and start going down again. It just – let me refer it to the experts.

The last few months there suggest a negative slope on the curve and that employment is falling?

Representative Saxton. If I may just point out to the gentleman that the revisions aren't in that chart. They just came out today, and you wouldn't see that dip if the revisions were in the chart.

Senator Reed. All right. Well, that is why I wanted to clarify the charts, because unrevised the chart suggests that the curve rose, and the line – the positive slope, increasing employment of the negative slope. So we will look for the revisions.

I have a chart, too. This is a chart here. But the chart I would like to suggest is one that looks at the comparison between the changes of unemployment in the last major recession in the early 1990s and the data that we have today. And the black line is the 1990s, and the red line is the current. And one thing it seems to suggest is that even though growth took hold, the job market lagged significantly with increased unemployment growth.

And, Commissioner, is there anything in the numbers that would suggest that we are not going to see a duplication of this phenomenon, that even with positive economic growth we are still going to see increased unemployment rates?

Dr. Utgoff. I think it is very hard to predict the future. There are mixed signals in the economy. And so I don't – myself don't see anything that would lead to a repetition of the early 1990s recession.

Senator Reed. Let me also turn to another issue, and that is the issue of part-time employment. Apparently, the number of people unemployed for more than 26 weeks declined in July and August. The number of people who worked part time for economic reasons increased by more than twice as much. And more than 4.2 million people remained in involuntary part-time work in September. This could be a situation where again the good jobs are hard to get and people are just taking anything they can get to make ends meet.

Do you have any insights about this part-time employment situation?

Dr. Utgoff. Well, Mr. Rones tells me and shows me the figures that say the number who are working part time for economic reasons has not really changed over the last year. It was about 4.1 million in last September, and it is 4.2 million in this September.

Senator Reed. So you see no trends emerging from people who are working part time involuntarily?

Dr. Utgoff. I am just looking at this, and I don't see any trends in the data that we have with us today.

Senator Reed. Now, there is another aspect of work, and that is temporary employment. And from the information I have, nearly two-thirds of the new jobs in private service-producing industries this year have been temps. Firms do not appear to be making the kinds of commitments to long-term employment that they have in the past.

Does this high proportion of temporary hire suggest that business is still very uncertain about the future and is just sort of hedging their bets?

Dr. Utgoff. Well, I think many economists look at help supply, as it is called now, as a leading indicator, and that when that rises, when employment help supply rises, that foreshadows hiring of permanent workers.

Senator Reed. But would you characterize it as you did initially, that we are still in a period of significant uncertainty? That it could go either way? That this is, with temporary workers, with part-time employment, businesses are still able to reverse course if there is not sufficient demand?

Dr. Utgoff. That is true.

Senator Reed. So put another way, you are not seeing a robust, strong, vigorous, unalterable growth in GDP or anything else, that this is a time of economic uncertainty and challenge?

Dr. Utgoff. I think that is the consensus forecast.

Senator Reed. One of the other aspects of the employment numbers has been the significant increase in government employees. 41,000 individuals were hired, many of them for the Transportation Security

Administration. Without this government hiring, what would the numbers look like in terms of unemployment rates or—

Dr. Utgoff. Let me – we will get those figures and compare them to the unemployed and give you an unemployment rate without government workers in it for the record.

Senator Reed. Okay. But what would be your sense?

Dr. Utgoff. There has been substantial government employment.

Mr. Rones. In terms of the employment, if you take the government figure out this month, we had a decline of 47,000, because overall government didn't change. As you point out, there were some increases in the Federal Government figure. Last month, in that revised figure, half of the gain was in government. So we had 107,000 increase in employment, as we mentioned earlier, but only 54,000 of that was in the private sector.

Senator Reed. So the irony here is that these numbers might reflect vigorous government hiring as much or more so than a private sector that is beginning to expand?

Dr. Utgoff. The government hiring figures have been a substantial fraction of the total employment increase in the last several months.

Senator Reed. Let me turn in the final time that I have to the issue of job losses, particularly in the manufacturing sector. One of the fears that we all have is that we are losing, perhaps on a permanent basis, manufacturing jobs, which are some of the best jobs in our economy, with health benefits. And this I think is particularly heightened by the recent Census Bureau information, that income is falling, poverty is increasing, health benefits and health coverage are decreasing dramatically for Americans. And here we have jobs that usually pay well and have health benefits, and they seemed to be going away. This loss seems to be escalating. After losing only an average of 10,000 jobs a month since December, factory payroll shrank by 68,000 in August and another 35,000 in September.

How pervasive are these declines? Do you see this as some type of aberration, or is this an erosion of jobs that won't be stemmed?

Dr. Utgoff. Well, I think it is fair to say that the erosion within manufacturing has been broadly across all manufacturing industries. Other than that, I am not sure what is going on in manufacturing. That would be very hard to predict.

Senator Reed. Well, again, you know, the fear that we have – and it is a significant one – is that these are the good jobs, that if they go away people might find themselves, as the numbers might suggest, with only part-time work, trying to make ends meet, looking for that job that will replace the good job they had.

And what I find – and I know my time has expired – what I find anecdotally as I go about Rhode Island is that when I was younger the unemployed seemed to be entry level workers who seasonally got put out of work or went from one job to another in a sort of transient fashion. Now I am finding 50-year-old professionals, middle management people that have lost their jobs not because of their own shortcomings but because the job went away, the factory went away, and that is an increasing concern.

My time has expired. I thank the Chairman. Thank you, Commissioner. Thank you.

Representative Saxton. Commissioner, thank you very much for being with us this morning. We have enjoyed having you here. We have had a good exchange. And so I would like to again thank my colleagues for their kind words, and thank you again, Commissioner, for being here. The hearing is adjourned.

[Whereupon, at 10:35 a.m., the Committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

I am very pleased to welcome BLS Commissioner Kathleen Utgoff to this first appearance before the Joint Economic Committee. As you know, this Committee has a long-standing relationship with BLS, and we look forward to working with you in coming years.

The employment data released today are consistent with other data showing moderate expansion of the U.S. economy. The unemployment rate was 5.6 percent, while household survey employment increased by 711,000. The payroll measure of employment was essentially unchanged in September, although it was revised upward to 107,000 in August. Recent payroll employment data reflect the economic slowdown evident in a host of data since the early months of 2000.

For example, the percentage of the population employed peaked in April of 2000, and the number of unemployed started increasing in the fall of 2000. The deterioration in manufacturing employment began even earlier. Manufacturing employment peaked at 18.9 million in April 1998, and has been trending downward ever since. Since April 1998, 2.2 million factory jobs have been lost.

One major factor behind the economic slowdown that began in 2000 is the stock market decline. The hardest-hit sectors have included technology and Internet-related companies, resulting in investment losses for many employees, retirees, and other investors. any will recall that the NASDAQ peaked in March of 2000, but the extent and speed of its decline is not so widely recognized.

Between March 2000 and January 2001, the technology rich NASDAQ index fell from a level of 4803 to 2657, a decline of 45 percent. Nearly $3 trillion of wealth was wiped out in this period ending in January of 2001. Contrary to some recent attempts at historical revisionism, clearly a huge investment meltdown was well underway before any changes in Administration personnel and policies in 2001.

Economic growth, as measured by the total output of goods and services (GDP), fell dramatically in the middle of 2000. In the second quarter of 2000 real GDP growth was 4.8 percent, but in the second half of the year growth had slowed to an annual rate of about one-fifth that rate. Industrial production, one of four major indicators used to determine the timing of recessions and expansions, peaked in June of 2000, then trended downward through the end of the year.

The economic and financial deterioration has caused the budget to swing into deficit. On its own, the 2002 impact of the Bush tax cut, scored at $38 billion dollars, would still have left a huge budget surplus amounting to over $250 billion. However, this economic and financial market deterioration since 2000 accounted for well over $300 billion in lost revenues and added spending, erasing the surplus and pushing the budget into deficit.

The economic slowdown so evident in 2000 turned into a recession in the first quarter of 2001. In the current issue of *The Atlantic* magazine, Clinton Administration chief economist, Dr. Joseph Stiglitz, stated "…the economy was slipping into recession even before Bush took office, and the corporate scandals that are rocking America began much earlier." While I do not agree with his entire article, Dr. Stiglitz is right on the critical factual point regarding the origins of the recession.

The current economy has strengths and weaknesses, and there are valid reasons to favor policies to promote stronger economic growth. However, the factual record refutes attempts to link the economic slowdown with changes in tax policy. The steps taken in 2001 to relax monetary policy and reduce the tax burden softened the damage inflicted by the recession.

Given the potential of deflationary forces to undermine the current economic expansion, additional policy changes may be necessary. In particular, I would urge the Federal Reserve to consider an additional easing of monetary policy to preempt the possible danger of deflation to price stability. The Federal Reserve's deft actions in the recent past have demonstrated their ability to prevent potentially deflationary forces from damaging the U.S. as well as the international economy.

PREPARED STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Thank you, Chairman Saxton, for convening this hearing. I also want to welcome the new Commissioner of the Bureau of Labor Statistics, Dr. Kathleen Utgoff. I look forward to working with you and thank you for your testimony before us today.

Today, there are more than eight million unemployed Americans, and more than 1.5 million additional workers who want a job, but are not counted among the unemployed. Payroll employment fell by 43,000 jobs in September.

Long-term unemployment rose significantly in September, up by 111,000. Today, 1.6 million Americans have been unemployed for more than 26 weeks – twice as many as at the beginning of 2001.

Although the economy is clearly still in a slump, some might argue that the recession is over because GDP has shown some growth. But to bring the unemployment rate down significantly we would need an annual growth rate of more than 3 percent, and we are not getting that. Certainly the job market recession is not over. The economy has lost over 2 million private payroll jobs since January 2001. We have yet to see the kind of strong job growth that signifies a real recovery. If this is an economic recovery, it looks just like the kind of jobless recovery we had in the early 1990s.

This is sobering and distressing news, which should be a call to action.

The unemployed face a tough job market. Unemployment benefits provide some necessary relief for hard-pressed workers who have been unable to find a job during this downturn.

It's estimated that over the next five months alone, 3 million jobless workers will be harmed if Congress fails to pass an extension of unemployment benefits. The federal unemployment insurance trust fund currently has a $24 billion surplus, which is more than sufficient to provide additional weeks of benefits to workers who have or will soon exhaust their benefits.

We have already begun to see the human toll of unraveling economic progress as family incomes are falling for the first time in nearly a decade, poverty is on the rise, and families at all income levels are losing their health insurance.

The task before us as policymakers is to put the economy back on a path of strong and sustainable growth. Extending unemployment benefits to workers before the current program expires will not only help millions of families weather these difficult economic times, but it will also provide a boost to the economy without undermining our long-term fiscal discipline.

Mr. Chairman, I look forward to the testimony of Commissioner Utgoff on the state of our labor markets.