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before the

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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THE EMPLOYMENT SITUATION: FEBRUARY 2000

Friday, March 3, 2000

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

The Committee met, pursuant to notice, at 9:30 a.m., in Room 1334, Longworth House Office Building, the Honorable Jim Saxton, Vice Chairman of the Committee, presiding.

Present: Representative Saxton.

Staff Present: Chris Frenze, Robert Keleher, Darryl Evans, Colleen J. Healy, Howard Rosen, Daphne Clones, and Michael Kapsa.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Representative Saxton. Today's Bureau of Labor Statistics (BLS) report reflects the strong condition of the United States economy. Although employment growth was modest, the percentage of the population employed, the employment-population ratio, remains at a record level. The civilian unemployment rate is fluctuating around its lowest levels since the early 1970s. Although employment gains were soft in February, in the context of the performance of recent months' labor market conditions overall, they appear to remain very strong.

The employment data released today are consistent with other data reflecting strong growth in the economy. Moreover, the expansion of the economy has been accompanied without an increase in inflation. This is good news. Both unemployment and inflation have declined together during this expansion. Let me repeat that sentence. Both unemployment and inflation have declined together during this expansion. This, again, disproves one of the most mistaken assumptions in the postwar economic policy – the notion of a trade-off between inflation and unemployment. In other words, a good economy does not mean there will be inflation.

In several previous hearings of the Committee, I have explored this issue in great detail with Federal Reserve Chairman Greenspan. We have agreed that the Fed's policy of minimizing inflation through informal inflation targeting has brought significant economic benefits. The Fed's policy by bringing down inflation and interest rates has boosted the economy and reduced unemployment as well. Those who argued that this disinflation policy would raise unemployment were proven wrong.

As I have said many times, the thrust of the Fed's monetary policy has been extremely successful. Although Chairman Greenspan deserves enormous credit for successfully implementing this policy, the substance of the policy based on informal inflation targeting also is responsible for its very positive effects. More focus on the substance of Fed policy would provide a greater understanding of why this policy has worked so well and permit some demystification of monetary policy in general.

However, in recent explanations of changes in monetary policy, the Fed has moved in recent months to a rationalization drawing from concerns about economic growth, healthy labor markets, and the stock market. On the other hand, our research suggests that a focus on intermediate market price indicators, such as commodity prices, bond yields, and the value of the dollar together, are better signals of potential future inflation than other things. I am concerned that the Fed statements have led the markets to expect larger adjustments in monetary policy than are justified by the leading price indicators. I would like to get into that a little more during the question and answer session. In other words, a policy of sustained Fed interest rate hikes would not be supported by the data that is available at this time.

Commissioner, welcome again. We look forward to your statement, and thank you again for being here.

[The prepared statement of Representative Saxton appears in the Submissions for the Record.]

OPENING STATEMENT OF KATHARINE G. ABRAHAM, 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

Ms. Abraham. Thank you, Mr. Chairman. Let me just take a couple of minutes to make a few comments about the labor market situation and the information which we had released this morning. I would be interested in addressing any questions you might have for us.

The unemployment rate, which was at 4.1 percent in February, was little changed and has been below 4.2 percent since last October. A nominal increase of 43,000 in payroll employment in February followed a large weather-related gain of 384,000 in January. The average monthly gain for the two months, January and February, of 214,000 per month is about in line with the monthly average for 1999, which was 226,000.

In the goods-producing sector of the economy, construction employment fell by 26,000 in January. That decline followed an exceptionally large increase of 116,000 in January after seasonal adjustment, which reflected the unusually mild weather during the January survey reference period.

Manufacturing employment edged up by 5,000 in February. The Nation's factories have added 31,000 jobs over the past four months after having shed in excess of 500,000 jobs from March of 1998 through October of last year. Recent gains have been concentrated in durable goods manufacturing. While there has been no net gain in employment among nondurable goods manufacturers in recent months, the downward trend in employment in nondurable goods manufacturing has abated somewhat since last August or so. The factory work week and overtime hours each rose by two-tenths of an hour in February to 41.9 and 4.8 hours respectively.

In mining, employment in oil and gas extraction continued to inch up in February. That industry has added 9,000 jobs since August of last year, undoubtedly reflecting the rise in oil prices that began early in 1999.

Job growth was sluggish throughout most of the service-producing sector in February. Employment in transportation and public utilities changed little over the month, and there were small job losses within transportation in both trucking and air transportation. Employment in public utilities continues to drift downwards.

Services employment showed essentially no growth in February after seasonal adjustment. This follows a gain in January which was a bit above the monthly average for the prior year. Some of the February weakness reflected declines in industries that had posted large weather-related increases in January. I am thinking in particular of agricultural services and amusement and recreation services, but other services industries that are less prone to unusual seasonal fluctuations also were weak in February. Employment in business services was essentially unchanged over the month. Its average growth per calendar year 1999 had been just under 50,000 jobs a month. Health services added only 6,000 jobs in February, about half its monthly average gain for the prior year or so. One notable exception to the general pattern of weak growth in the services industries was engineering and management services, which continued a strong growth trend in February, adding 15,000 jobs.

Employment in wholesale trade edged up in February at about half the pace it had been rising in 1999. At the retail trade level, employment was up by 33,000 in February, just under its average monthly gain for the calendar year 1999.

Finance, insurance, and real estate added about 10,000 jobs reversing a loss of 6,000 jobs in January.

Lastly with respect to the employment gains, Federal Government employment rose by 20,000 in February. All of that gain was due to the hiring of temporary workers getting ready to take the census.

Average weekly hours of production or nonsupervisory workers on private nonfarm payrolls edged down by a tenth of an hour over the month. Average hourly earnings for that same group of workers rose by four cents. Over the year average hourly earnings were up by 3.6 percent.

Turning to the data of our survey of households, as I already mentioned the unemployment rate was essentially unchanged in February at 4.1 percent and has been under 4.2 percent since last October. The jobless rates for most of the major demographic groups that we look at showed little change in February. The rate for teenagers did edge up to 14.1 percent, returning near to the level it had been at in December. The labor force participation rate ticked up a percentage point over the month, reaching a record high level of 67.6 percent, and as you commented in your opening remarks, the employment-to-population ratio held at its record high level of 64.8 percent.

In summary, then, the unemployment rate was little changed at 4.1 percent in February. And payroll employment rose marginally following a large weather-related gain in January.

As always, we would be happy to address questions you might have about the data.

[The prepared statement of Commissioner Abraham and the accompanying press release appear in the Submissions for the Record.]

Representative Saxton. Commissioner, thank you very much. I appreciate your thoughtful and concise statement, and for being here with us today to bring us continuing good news. It is certainly encouraging that the indications that we see by – I don't mean this in a funny way – but by looking in the rear view mirror show that we have continued over the past month to do quite well. If it were as easy to look ahead as it is to look at what we have accomplished, the policies of economic theory would be a whole lot easier to deal with. Unfortunately, we don't have that luxury, and so we try to look ahead as best we can, based on what we know about history and what we know about our expectations.

But let me just begin by saying that many of these things that we try to look ahead are difficult to do. But based on last quarter's unbelievable 6.9 percent increase in GDP (gross domestic product), and these historic unemployment numbers, which are as low as they have been in many decades, one might expect that we can continue to see some fairly significant economic growth just based on those several sets of facts. Wouldn't you agree?

Ms. Abraham. I am always reluctant for the reasons that you indicated to try to project into the future. I am a lot more comfortable talking about what we have seen.

Representative Saxton. You like your rear-view mirror like I do.

Ms. Abraham. That is, after all, the business we are in.

Representative Saxton. I understand. Let me just say we are really in an historic period of our economy. At the end of March, we should celebrate. We will have been through nine years, 108 continuous months, of positive economic growth. That is pretty neat. But if you look at it in terms of the last two decades, it becomes even better news because we experienced 92 months of positive economic growth during the 1980s, and then we had a very mild downturn around the beginning of the new decade, about nine months, and then we started this period of 108 months of economic growth. So this is quite historic.

Can you just say to this – and this is a rear-view mirror question, but I think it is very important – what happened to the rates of inflation generally during the last 108 months of economic growth?

Ms. Abraham. 108 months takes us back to—

Representative Saxton. Takes us back to the end of the first quarter of 1991.

Ms. Abraham. If we look at the data that I have readily at hand, in 1999, the rate of growth in consumer prices taking all items together was 2.7 percent. In 1991, it had been 3.1 percent. So taking the long view, we are roughly in line with where we had been 8 years earlier. The rate of growth of prices was slightly lower in 1997 and 1998 than it was in 1999. That reflects declines in energy prices during 1997 and 1998 that subsequently have been reversed. That is the most global measure that the Bureau of Labor Statistics produces.

Representative Saxton. Certainly we can say that during this period of economic growth, there has been no demonstrated increase in rates of inflation.

Ms. Abraham. I think that is a fair statement. There has been no apparent acceleration in the rate of growth of prices over that long period of time looking at the consumer level.

Representative Saxton. If you note on that chart up to your left and my right, we note that inflation and unemployment rates have actually, as you correctly pointed out, fallen together during this period of time; is that correct?

[The chart entitled, “Inflation and the Unemployment Rate Fall Together Since 1992,” appears in the Submissions for the Record.]

Ms. Abraham. Unemployment has gone down, and the rate of growth of consumer prices has gone down. We are looking at this sort of long period of time. It might be that rather than looking at the CPI-U (core Consumer Price Index), which is what I was referring to and what is graphed here, that you might instead want to take a look at the new CPI (Consumer Price Index) research series that we have started producing.

What the CPI research series attempts to do as best we can is to answer the question of how the CPI would have behaved had we been using current methods to produce it back in the past. Our analysis of that suggests that changes in methods that we have introduced have had a slight depressing effect on the rate of growth of the Consumer Price Index, maybe over that period as much as half a percentage point. It is not going to change the broad outlines of the picture.

Representative Saxton. So the chart does accurately reflect two—

Ms. Abraham. It accurately reflects what has happened to the Consumer Price Index.

Representative Saxton. Namely that it has come down.

Ms. Abraham. Namely that it has come down. If you were to use instead the CPI research series, which is more consistent over time, the decline wouldn't have been quite as great.

Representative Saxton. But the concept is still the same.

Ms. Abraham. It would not change your qualitative assessment of what had happened.

Representative Saxton. It also shows on that chart that unemployment has fallen along with inflation; is that correct?

Ms. Abraham. Over that period unemployment has come down as well.

Representative Saxton. During that time, to look at it another way, the 1999 monthly average increase in job growth was about 234,000 jobs, so we have been putting more people to work all of this time.

Ms. Abraham. I haven't performed exactly that calculation, but that is in line with the number I have in my head.

Representative Saxton. Something called the participation rate, which is quite important, is currently at 67.5 percent, which is an all-time high; is that right? The participation rate for anyone who may be listening or may be here who isn't familiar with the term is the percentage of U.S. citizens who are gainfully employed; is that correct?

Ms. Abraham. The participation rate is the share of the working-age population who are either working or looking for work. That is at an all-time high. The share that are employed is also at an all-time high. So both of those are at all-time highs.

Representative Saxton. All-time high meaning great news.

Ms. Abraham. All-time high means a lot of people are working.

Representative Saxton. In terms of our economy, we know that we have seen some increases – some monetary policy that we refer to as tightening, which has resulted in increases in interest rates, and we have had four increases of 25 basis points for some reasons, which I am sure are clear to some and maybe not so clear to others. But as we look at these increases in interest rates, and as I pointed out earlier, it is the informal aim of Fed policy to target inflation, and the Fed has successfully done so. But one of the worries that the Fed has talked about as a basis upon which to justify these four increases; that is – pressure to increase wages or cost of employment because of potential labor shortages, since we seem to be down so low in terms of our rates of unemployment and, conversely, by the high rate of participation.

And I wonder if you would be able to talk about, for example, hourly wages. Have hourly wages increased or decreased – the percentage of increase or decrease, has it gone up, or is it falling in, say, the last two or three years?

Ms. Abraham. The statistic that we have that looks at that relates to the hourly earnings of production or nonsupervisory workers derived from our payroll survey. That group accounts for about 80 percent of the total payroll employment, so it doesn't cover quite everyone. As of February, the year-over-year increase in hourly earnings was running at about 3.6 percent. A year earlier, that is, the change from February 1998 to February 1999, the year-over-year change had been 3.7 percent; the year earlier, 4.2; the year before that, 3.9. So the year-over-year change in that average hourly earnings measure is actually just a bit below where it had been two to three years earlier.

Representative Saxton. When I heard this conversation – and, of course, I am not an economist so I have to interpret it from my business background and so on – when I heard the discussions about increased wage pressures, I came to the conclusion in my mind that the rate of change was probably an increase, but you are telling me the percentage of change over the last several years has actually been a decrease, is that right, in wages?

Ms. Abraham. At this point the year-over-year rate of growth in average hourly earnings is actually a bit below where it had been two to three years ago.

Representative Saxton. So the trend is down?

Ms. Abraham. It is lower now than it had been two or three years ago. There had been a long period of time beginning in 1992/1993 where you were seeing an upward trend in the rate of growth of average hourly earnings, but along about 1998, that stopped, and since then the rate of growth has actually backed off a bit from where it had been.

Representative Saxton. I would say it has been a bit. It has been, as a matter of fact, six-tenths of a percentage point over those three years. Six-tenths of a percent is quite significant, I think, particularly in light the trend still seems to be headed lower. Of course, we don't know that. We don't have a front-view mirror, so we can't say that.

Ms. Abraham. Right. The year-over-year rate of growth is, as you say, down about six-tenths of a percentage point from where it had been a couple years ago. That is up from the very, very, very low levels of 1992 and 1993, when it had been 2.7, 2.5 percent year-over-year change, but down from a couple years ago.

Representative Saxton. I just want to say the assumption that I made that these percentages were increasing was an incorrect assumption that I made when, in fact, over the last three years the trend in terms of wage pressure has been decreasing, not increasing as I thought.

Ms. Abraham. As captured by this measure.

Representative Saxton. Let me turn to another measure which you have calculated – you do calculate unit labor costs in the economy; do you not?

Ms. Abraham. We do indeed.

Representative Saxton. Can you describe what unit – what the term "unit labor costs" means?

Ms. Abraham. The unit labor cost measure is derived by basically taking a look at what is happening to a different and more comprehensive measure of average hourly compensation, which tells you about the trend in the costs of labor that employers are hiring, and comparing that to what is happening to output per hour, the labor productivity in the economy, which is equivalent to what is happening to the labor costs per unit of output that is being produced.

Representative Saxton. In other words, the unit labor cost is a measure of increases or decreases in cost per unit.

Ms. Abraham. The unit labor cost measure is a measure of the labor costs associated with producing a unit of output.

Representative Saxton. Thank you. You said that a lot more clearly than I did.

Now, over the same period that we discussed previously relative to hourly wages, unit labor costs, according to your research, the percentage has been a percentage of decrease; is it not?

Ms. Abraham. Right. It might help to go through the pieces. Average hourly compensation, according to this broader measure, is actually rising at a more rapid pace as of 1999 than it had been a couple years earlier, but productivity is also rising more rapidly than it had a couple of years earlier. I am looking at the numbers for the nonfarm business sector. And the consequence of those two things netted together is that unit labor costs are rising. They rose at 1.1 percent in 1999 as compared to 2.1 percent in 1998, 2 percent in 1997, .7 percent in 1996.

Representative Saxton. Now I am confused. The figures that I have here for 1998 appear to be that labor costs were rising by 3 percent or a little bit more than 3 percent.

Ms. Abraham. I am not sure. We produced numbers for the nonfarm business sector and for the business sector, and it may be that we are looking at different ones.

Representative Saxton. Nonfarm – yes, I am looking at the nonfarm business sector unit labor costs.

Ms. Abraham. The nonfarm business sector unit labor cost figures I have are 1.1 percent. This figure is the percent change between the fourth quarter of 1998 and the fourth quarter of 1999. I am sure that there is just something different in the many numbers that come out of this that you are looking at than I am looking at.

Representative Saxton. I have a little graph here based on nonfarm business sector unit labor costs that you produced that shows that in the middle of 1998 the unit labor cost was roughly 3.25 percent or thereabouts, and that at the beginning of the last quarter of 1999, the nonfarm business sector unit labor costs appear to be, as you correctly pointed out, about 1 percent. These are year-over-year measures I am told.

Ms. Abraham. The fourth-quarter-to-fourth-quarter or year- over-year. One figure for the change between the third quarter of 1997 and the third quarter of 1998 is 3.3 percent, which appears to be similar to what you have.

Representative Saxton. It is year-over-year.

Ms. Abraham. Your number for 1999 is?

Representative Saxton. Looks like the beginning of the last quarter through the third quarter of 1999 about 1 percent.

Ms. Abraham. The year-over-year change for 1999 that I have as opposed to the fourth-quarter-to-fourth-quarter change is 1.8 percent, and then for 1998 it was 2.4 percent.

Representative Saxton. All right. Our numbers are a little different, but it would be fair to say that over that two-year period, the trend in terms of nonfarm business sector unit labor costs, the trend has been down; is that correct?

Ms. Abraham. It would certainly be fair to say that over the last few years, that number is a bit lower in the most recent year than it had been in the prior two years, and roughly in line, given the variability in these series, with what it had been the year before.

Representative Saxton. So that would certainly not support the notion that unit labor costs are on the increase. Quite conversely, they appear to be on the decrease.

Ms. Abraham. Helped by more rapid growth in productivity in recent years, the rate of growth in unit labor costs has been quite modest.

Representative Saxton. You have mentioned productivity. I think that is important. I have some numbers here that you developed referred to as nonfarm business sector output per hour. You just indicated that the trend in terms of output or productivity is up; is that correct?

Ms. Abraham. Correct.

Representative Saxton. That means we are individually more productive and more productive as a society probably because of changes in technology?

Ms. Abraham. That likely has been a contributing factor.

Representative Saxton. And, in fact, we look at the decade of the 1990s, the trend in productivity has been up during the entire decade, hasn't it?

Ms. Abraham. Starting from 1993 and going forward, it has been generally trending up since then.

Representative Saxton. So I guess one could say because we have become more productive because of technology and other factors, that it has helped our people be more productive, and therefore the unit cost has come down.

Ms. Abraham. The more rapid the rate of growth in productivity holding whatever increases there are in what people are being paid, the less unit labor costs are going to go up.

Representative Saxton. This certainly mitigates against worries about inflation, doesn't it?

Ms. Abraham. Increases in productivity, I think, are unambiguously good news.

Representative Saxton. And unambiguously good news and in the unambiguous notions that you include would be that which we call inflation, right?

Ms. Abraham. It crosses over into things I am not wholly comfortable discussing.

Representative Saxton. I understand, but for purposes of my discussion and my understanding of the economy, what I guess I have been trying to say here is that wage pressures are not evident. Increases in wages, pressures and worries, therefore, about inflation do not appear to be evident. Unit costs, the rate of growth in unit costs, has come down, and productivity has gone up, all leading one to conclude that because we are productive and because costs appear to be trending down, that there is no need, therefore, to worry about inflation based on labor shortages.

Do you want to respond?

Ms. Abraham. I was treating that as a statement.

Representative Saxton. Thank you.

As you have heard me say before, Commissioner, we on the Joint Economic Committee (JEC) – and, I believe it is fair to say, many others who watch the economy closely and try to look in our rear-view mirror to learn lessons from history, and to look out the windshield to try to figure out where we are going – we have looked at some long-term market price indicators to try to look ahead. We have looked at commodity prices because we believe that what is happening relative to commodity prices today probably has something to do with the statistics that you will collect and evaluate tomorrow. We have looked at long-term bond yields as well as commodity prices because certainly trying to figure out what is going to happen down the road when institutions and people invest, they try to invest at rates that will be productive in years ahead, and we also look at the value of the dollar, those three things: the value of the dollar; Treasury bond yields, long-term bond yields; and commodity prices.

Now, I would like to talk about each of these just for a moment. Commodity prices over the last five or six years have trended down, and in 1999, they did bump up slightly, but they have leveled off again. We see fairly steep declines in commodity prices up until 1999, and then there was an increase, but they are still far below, that is, commodity prices, what they were five years ago, which is certainly encouraging from trying to figure out what is going on with inflation. The 10-year Treasury bond price has also had a little tick upward. In fact, it was quite significant, and now it has trended down, but in spite of the fact it has ticked upward, it is still far below what it was a decade ago. And the value of the dollar weighed against other currencies is also in good shape. So as we look at what may happen in terms of inflation down the road, we see very little evidence that there is a lot to worry about here.

Do you have any statistics at all that you can reflect on that would either confirm or disagree with the general statements that I just made relative to these issues?

Ms. Abraham. I think the statistics that we have in terms of what the recent history has looked like that are most relevant are statistics from our Producer Price Index (PPI) program on what has happened to crude nonfood materials. Maybe you could just comment briefly on what those have shown.

Mr. Dalton. As Katharine said, this is the crude materials component of the Producer Price Index, and it is probably not the same measure that you are referring to as an index of commodities. I am not sure which measure you are using. But in general it is true that if you exclude energy, looking over the past several years, commodity prices have declined, and in 1999 they did go up. So we can confirm roughly what you said about the commodity prices.

Representative Saxton. May I ask you, the figures that I have show the commodity prices excluding energy did go up during the first half of 1999, but then they leveled out. Is that what you show?

Mr. Dalton. No. For all of 1999, we show this component, which is crude nonfood materials less energy, going up 13.6 percent.

Ms. Abraham. But you don't have month-by-month data at hand?

Mr. Dalton. I don't, but I do have the year-over-year for January, and that is 16.9 percent. I am not sure that you can say that it is trailing off.

Ms. Abraham. I think we need to get the month-by-month numbers and provide them for the record.

[Response of Commissioner Abraham to Representative Saxton regarding commodity prices; chart entitled, “PPI Crude nonfood material less energy” appears in the Submissions for the Record.]

Representative Saxton. You mentioned energy. May I just pursue this for a moment? When we talk about the broadest measure of inflation related to CPI, we include both food and energy prices in the broadest measure; is that correct?

Ms. Abraham. Right.

Representative Saxton. So when we consider inflation that may be in the economy today and include energy, it shows that energy has pushed prices upward significantly. Would that be true?

Ms. Abraham. That is correct. Over the past year as a whole energy prices have risen quite rapidly, and they have pushed our topside measures that include energy up.

Representative Saxton. My constituents can verify that, particularly those who heat with oil.

Ms. Abraham. Right.

Representative Saxton. The price of oil climbed from probably under 80 cents to two dollars this winter, primarily, I suppose, because of supply and demand. Is that a fair statement?

Ms. Abraham. It seems likely to be what was going on.

Representative Saxton. If one were to worry then about the cost of production going up because energy prices have increased significantly, one would have a valid concern.

Ms. Abraham. Right.

Representative Saxton. On the other hand, once again you and I are looking in the rear-view mirror at what happened in the past, and we have to therefore to try to project what is going to happen in the economy, we can't just do that. We have to look ahead at what may happen in the future, and if the cost of energy increased because of supply and demand, then it might be useful to try to figure out what is going to happen to supply and demand in the future relative to what our economic policies might be as a reaction to that. True?

Ms. Abraham. Mm-hmm.

Representative Saxton. I noticed in the newspaper this morning on that subject there is an article that says, three oil ministers agree to boost output. Oil ministers from Saudi Arabia, Venezuela and Mexico said yesterday that they plan to boost world oil supplies after a scheduled cut in production expires later this month. I am not certainly an expert in knowing what that means except that my understanding of the law of supply and demand says when the supply increases, the price does not increase, conversely it decreases, and therefore one might expect that the spike that we have seen in energy prices may be coming to an end. Can you react to that?

Ms. Abraham. I can't forecast what is likely to happen to energy prices. I can say that if you look over the last year, the most inclusive measure that we have of consumer prices, the Consumer Price Index, inclusive of food and energy, went up 2.7 percent. Excluding food and energy from the calculation, and therefore removing the effects of the big increase in energy prices, the increase in that measure was just 1.9 percent.

Representative Saxton. I am sorry, I didn't quite get that.

Ms. Abraham. The overall CPI went up 2.7 percent over the last year. The CPI, excluding food and energy, went up by 1.9 percent, so it is repeating what we talked about earlier, clearly the case that the run-up in energy prices has been a significant factor in the overall rate of growth.

Representative Saxton. Sure. We all agree that one of the causes is that the oil-producing states decided to limit production, therefore decreasing supply, and the price shot up. Now what I am saying is that if this newspaper article which is – I will have to call the Secretary of Energy Bill Richardson because he is quoted here, but it looks like he is doing a good job. I know he has been on the circuit. We now read here in the opening paragraph, ministers from Saudi Arabia, Venezuela and Mexico said they are going to increase the supply. That is good news, good news for the economy, and we can expect that perhaps the other element in our economy which has been worrisome over the last several months, energy prices, may be expected to stop the increase.

Now, I just have one other question, and I know that this is a futuristic question as opposed to evaluation of what has happened in the economy. We know that the Fed has indicated a bias toward future interest rate increases apparently because of their worries about inflation. Now, you and I have talked, or I have talked and you have helped me a great deal to understand these issues, but while we were talking about labor costs, I think we both agree that over the last couple of years in terms of unit labor costs as well as increases in wage – rates of increase or decrease in wages, that those pressures seem to be either dissipated or in the process of – we can anticipate that they will be dissipated, and I am just curious if you have any thoughts as to why the Fed continues to have a bias toward more interest rate increases.

Ms. Abraham. No, I don't.

Representative Saxton. I thought that might be your answer.

Well, it is a question that I have. I am not sure that I am worried significantly about increases in rates of costs of living. I know that the Fed apparently has anticipated, I guess it is fair to say, several more increases, but based on our studies at the Joint Economic Committee, we come to a slightly different conclusion. And again, I want to go back and just say I have complimented over and over again in this forum and in other places the performance of the Fed under Chairman Greenspan's leadership. I am just trying to understand what it is that they see that are not evident in your statistics and not evident in the indicators of future inflation that we look at.

So, Commissioner, I don't think I have any further questions at this point. I want to thank you for being with us today. I am sure that had

Congress been in session for the last two days, we would have had several other Members here to ask questions as well. Thank you for being with us, and we will look forward to seeing you again in the future.

Ms. Abraham. Thank you, Mr. Chairman.

[Whereupon, at 10:17 a.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

I am pleased to welcome Commissioner Abraham and her colleagues to this hearing on the monthly employment situation.

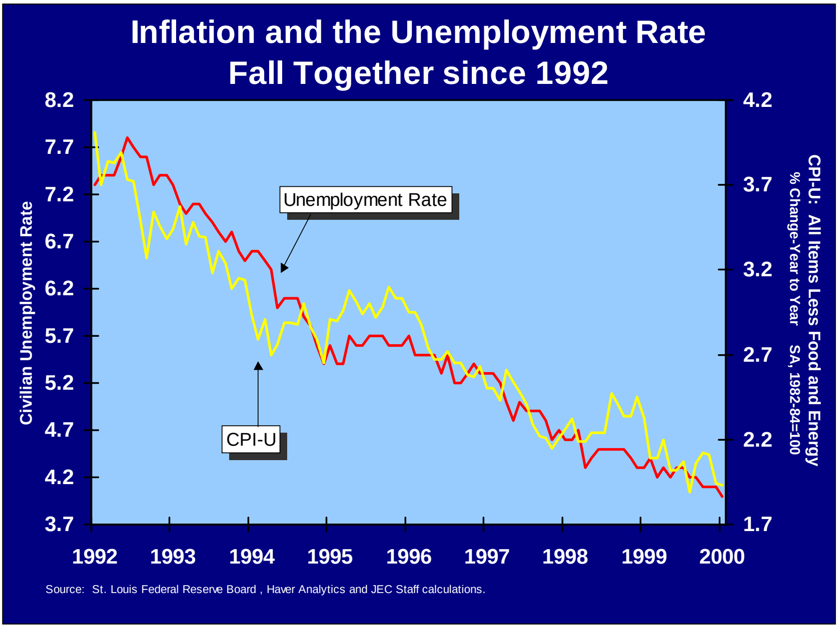
Today's report reflects the strong condition of the U.S. economy. Although employment growth was modest, the percentage of the population employed - the employment- population ratio - remains at a record level. The civilian unemployment rate is fluctuating around its lowest levels since the Nixon Administration. Although employment gains were soft in February, in the context of the performance of recent months labor market conditions overall appear to remain quite strong.

The employment data released today are consistent with other data reflecting strong growth in the economy. Moreover, the expansion of the economy has been accompanied without an increase in inflation. Both unemployment and inflation have declined together during this expansion. This again disproves one of the most mistaken assumptions in postwar economic policy, the notion of a tradeoff between inflation and unemployment.

In several previous hearings of the Committee, I have explored this issue in some detail with Federal Reserve Chairman Greenspan. We have agreed that the Fed's policy of minimizing inflation through informal inflation targeting has brought significant economic benefits. The Fed's policy, by bringing down inflation and interest rates, has boosted the economy and reduced unemployment as well. Those who argued that this disinflation policy would raise unemployment were proven wrong.

As I have said many times, the thrust of the Fed's monetary policy has been extremely successful. Although Chairman Greenspan deserves enormous credit for successfully implementing this policy, the substance of this policy based in informal inflation targeting also is responsible for its very positive effects. More focus on the substance of Fed policy would provide a greater understanding of why this policy has worked so well and permit some demystification of monetary policy in general.

However, in recent explanations of changes in monetary policy, the Fed has moved in recent months to a rationalization drawing from concerns about economic growth, healthy labor markets, and the stock market. On the other hand, our research suggests that a focus on intermediate market price indicators such as commodity prices, bond yields, and the value of the dollar together are better signals of potential future inflation. I am concerned that Fed statements have led the markets to expect larger adjustments in monetary policy than are justified by the leading price indicators. In other words, a policy of sustained Fed interest rate hikes would not be supported by the price data available at this time.



Inflation and the Unemployment Rate
Fall Together since 1992
Civilian Unemployment Rate
8.2
7.7
7.2
6.7
6.2
5.7
5.2
4.7
4.2
3.7
4.2
3.7
3.2
2.7
2.2
1.7
CPI-U: All Items Less Food and Energy
% Change-Year to Year SA, 1982-84=100
Unemployment Rate
CPI-U
1992
1993
1994
1995
1996
1997
1998
1999
2000
Source: St. Louis Federal Reserve Board , Haver Analytics and JEC Staff calculations.