

THE EMPLOYMENT SITUATION: SEPTEMBER 2001

HEARING

before the

**JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES**

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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October 5, 2001
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THE EMPLOYMENT SITUATION: SEPTEMBER 2001 Friday, October 5, 2001

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, Smith, and Watt; Senators Sessions and Reed.

Staff Present: Chris Frenze, Robert Keleher, Darryl Evans, Brian Higginbotham, Matthew Salomon, Daphne Clones-Federing, and Russell Comeau.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. I would like to welcome the Commissioner to the Committee once again to report on the release of new employment and unemployment data for September. According to the most recent economic data, the economic slowdown that began in the middle of 2000 continues. There was a prospect of economic improvement in the near future, but that has been overtaken by the horrific events of September 11. The potential rebound predicted by the consensus forecast and blue chip economists has now been erased by the economic event of the terrorist attacks. However, the American people and the economy have demonstrated tremendous resilience in the face of these terrorist attacks.

The September employment data reflect the weakness of the economy, evident before the terrorist attacks. Payroll employment declined by 199,000 in September. Once again, the payroll declines were focused in the manufacturing sector, as has been the trends for some months, and only add to the previous severe job losses in manufacturing underway since the middle of 2000, bringing the total to over a million jobs lost. The unemployment rate remains at 4.9 percent. The economic situation obviously is reason for concern.

According to a recent Committee report, it is likely that the downward drift in the rate of the real gross domestic product (GDP) growth underway since the middle of 2000 will now probably continue. Unfortunately, this suggests that payroll employment will tend to decline and the unemployment rate will rise in coming months. The terrorist attacks have obviously disrupted the financial markets and overall economy.

In a number of ways, these attacks have created much uncertainty and have also increased security costs. Delays in air and ground transport, higher shipping costs, additional insurance costs, extra costs for security personnel and equipment, fortification of buildings and facilities and other

measures will have an effect of imposing something like a “security tax” on an already vulnerable economy. This burden will undermine the economy in the short run and will also adversely affect productivity growth and the economy’s long-run growth rate.

The exact size of the burden imposed by this security tax is not known, but we do know that it will have a significant effect. In recent days, private sector economists have begun to consider this cost issue and its potential impact on an already weak economy. Our analysis suggests that one logical policy response would be to offset the costs by relieving some of the tax burden on the private sector. Accelerating the tax relief in the pipeline and other measures to minimize the net impact of the “security tax” should be a high priority of policymakers.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 19.]

Senator Reed, do you have an opening statement?

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. I do, Mr. Chairman. First, Mr. Chairman, let me thank you for holding this hearing. I particularly thank Commissioner Abraham for coming before us once again, and I understand, Commissioner, that this may well be your last hearing, as your term expires on the 13th. I would have preferred that the Secretary of Labor reappoint you so that you could continue to provide the valuable advice you have given this Committee and the Congress over several years. You have served the Bureau of Labor Statistics (BLS) well in what can be a thankless job, and I thank you for all your efforts in overseeing the management of some of the country’s most important statistics, and of course, testifying before this Committee over the last five years.

While the numbers before us today give us only a glimpse of the state of our economy since the terrorist attack three and a half weeks ago, they do tell much that we need to know about the underlying economic trends that were at work before the devastating tragedy. The economy was already weak before September 11. Real GDP barely grew during the second quarter and the unemployment rate rose. Your testimony last month before the Committee suggested that labor markets were indeed weakening, especially for the most vulnerable workers.

Since September 11, the temporary disruption of our financial systems and the slump in travel related sectors of the economy have only worsened the situation. The few indicators we have received since the attacks suggest that the employment situation has worsened significantly. Businesses have announced more than 100,000 layoffs, and initial claims for unemployment insurance have risen sharply in the last two weeks in September. The tragedies have redirected our policy focus. Congress has moved swiftly to provide aid to New York and the airline industry.

We must now turn our attention to the larger question of jumpstarting the economy and ensuring that all of our citizens and all Americans participate in a renewed and more robust economy. We have worked

hard over the past decade to strengthen our economy, while at the same time fostering more broadly shared prosperity. Now some of that is at risk. Once again, I want to thank you, Commissioner Abraham, for coming to discuss the latest economic developments, and their impacts on working Americans.

As we move forward in designing an appropriate fiscal stimulus, it is critical for us to have the best possible information concerning both the current state of the overall economy, as well as the status of our most vulnerable citizens. We are pleased to have you testify here today and value your insight. Thank you very much, Mr. Chairman.

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

Representative Saxton. Thank you very much, Senator Reed. Commissioner, the floor is yours.

**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 very much, Mr. Chairman. It is a pleasure to have the opportunity today to comment on the September labor market data that we released this morning. Nonfarm payroll employment fell by nearly 200,000 in September. Heavy job losses continued in manufacturing. Wholesale trade employment fell sharply and there was weakening in most major other industries. The unemployment rate at 4.9 percent was unchanged over the month. The tragic events of September 11 occurred during the reference period for both our establishment and household surveys. In the establishment survey, persons who lost a job because of these events but who had worked at all in the pay period that included the 12th of the month or who had received any paid leave would be included in the September job count. Similarly, in the household survey, anyone who worked for even one hour during the week that began on September 9th or who was temporarily absent from a job that week would be counted as employed.

Thus, it is likely that the events of September 11 had little effect on the September employment and unemployment figures. Job loss related directly or indirectly to the events of September 11 should begin to be reflected in the October data, although the staff of the Bureau are doubtful about being able to isolate those effects as distinct from the effects of other economic developments.

Perhaps the most direct measure will come from our mass layoff statistics program, which identifies layoff events affecting 50 or more workers as measured by filings for unemployment insurance. Following the events of September 11, employers have been able to identify layoffs directly or indirectly attributable to nonnatural disasters using a special

code added for this purpose, which means that we will be able to look at them separately from other mass layoffs.

The September decline in nonfarm payroll employment was the fourth in the past six months, resulting in a net decline of 488,000 jobs since March. Employment in manufacturing eroded further, as another 93,000 jobs were shed in September. Industrial machinery and electrical equipment continued to post the largest losses within manufacturing with, over the month, declines of 20,000 and 18,000, respectively. Together, these two industries account for nearly two-fifths of the 900,000 manufacturing jobs lost so far this year. Over the month, employment also fell substantially in motor vehicles, printing and publishing, fabricated metals and apparel. Other manufacturing industries generally had smaller losses.

Wholesale trade continued to feel the impact of declining manufacturing activity. Employment in the industry fell by 21,000 in September. Its sharpest decline since peaking last November. Retail trade employment was also down over the month, largely due to job losses in eating and drinking places.

Employment growth in services has faltered in recent months with virtually no net job growth since March, while health services continued to add jobs in September. Employment and business services was down again over the month. Amusement and recreation employment also fell significantly in September.

Average weekly hours from our establishment survey showed no obvious effect of the economic disruptions that followed the September 11 attacks. These data are based on hours paid concept, meaning that the workweek estimates include paid leave. In September, average weekly hours were up by a tenth of an hour.

Turning now to measures obtained from our household survey, both the number of unemployed people and the unemployment rate were unchanged over the month following sharp increases in August. The unemployed numbered seven million in September, an increase of nearly a million and a half since late last year. The unemployment rate remained at 4.9 percent, a full percentage point above the 30-year low recorded last September and October. Civilian employment rose by almost 800,000 over the month, mostly offsetting a large decline in August. The employment series from the household survey is very volatile, and it is not uncommon to get large movements from month to month.

Although there is no reason to think that the civilian employment and unemployment counts were substantially affected by the events of September 11, measures of part-time work from the September household survey confirm that many Americans' hours at work were shortened that week. In particular, the number who usually work full-time but reported working part-time during the reference period was significantly higher than normal.

Before concluding, I would like to provide you with a preliminary estimate of the effect on our payroll employment figures of the

benchmark revision scheduled for next June, just explain what that is about.

Once a year the Bureau adjusts the payrolls survey sample-based employment estimates to incorporate the previous year's March universe employment count in a process known as "benchmarking." These universe employment counts are derived principally from state unemployment tax reports that employers are required to file. In the fall of each year, we typically have completed preliminary tabulations of these universe counts for the first quarter of the year, and as soon as we have that information, we routinely share it, in particular, the anticipated size of the benchmark revision for the prior March.

Our preliminary tabulations for the first quarter of 2001 indicate that the estimate of overall payroll employment will require a downward revision of approximately 76,000, which, by historical standards, is a very small revision. What that is saying, in essence, is that at least through March, the payroll survey was doing a good job of what was actually happening to employment in the economy. Historical average for benchmark revisions over the past decade has been plus or minus three-tenths of a percentage point, versus less than one tenth of a percentage point for this year.

In summary, then, with respect to the data for September which is our main focus today, nonfarm payroll employment fell by nearly 200,000 in September, the fourth decline in the past six months. The unemployment rate was unchanged at 4.9 percent.

As always, my colleagues and I would be happy to take questions. Perhaps I might just add that for myself, it is looking, in all likelihood, as though this will be my last opportunity to appear before you as Commissioner of Labor Statistics, and I do want to say how much I have appreciated the opportunity to participate in these hearings and also especially the interest that this Committee has shown in the work of the Bureau of Labor Statistics.

[The prepared statement of Commissioner Abraham appears in the Submissions for the Record on page 21.]

Representative Saxton. Commissioner, thank you, and we also appreciate your attendance here on a regular basis, and I think the information that you have been able to bring to us on a monthly basis has been extremely important to the Congress and to the American people. We thank you very much for your frankness, and sometimes when we ask you questions and it is not your role to answer it, you have been frank and said that, but most of the time we have had a great exchange, and we appreciate the fact that you have been here and played this role for us.

Along the same line, it is extremely important for the Congress of the United States to understand trends in the economy and to take note of what is happening over time. Unlike the events of September 11, which have dominated the news obviously for the last three, almost four weeks, economic events are oftentimes very subtle, and oftentimes out of public view, and one of the things that you have helped us do is to keep the Congress informed on trends that occur in the economy.

And so we thank you for that, and along the same line, let me just point out that as you said, the events of September 11 probably don't have a lot to do with the numbers that we see reflected in the report that you bring us this morning.

Ms. Abraham. Right.

Representative Saxton. But it is part of a continuing trend, and I think it is extremely important for us to make note of that in light of the fact that we are the body that initiates changes that may have some effect on the economy. I note that the Fed again earlier this week reduced interest rates – short-term interest rates by 50 basis points, bringing them to the lowest level since the early 1960s, and there is good reason for that. In fact, I brought some charts this morning to try and demonstrate that trend and to make note of this for Members of the House and the Senate.

The chart that we have here to your right, Commissioner, shows the economic trends that have occurred since the middle of last year, since the middle of 2000. The second and third quarter last year showed remarkable drop in GDP, and that trend, of course, continues today, and so I think it is important that we make note of this and understand that the events of September 11, while they may be a negative effect on the economy, are not even reflected, we don't believe, in your report today, and that the weakness that we see in the economy is now four quarters in length.

[Chart 1 entitled, "Gross Domestic Product," appears in the Submissions for the Record on page 47.]

There is another chart right behind that that continues to demonstrate this trend in the economy. That is, the loss in manufacturing jobs, which we see beginning also in the third quarter of 2000 and it is a rather dramatic drop in manufacturing employment, which causes concern and continues to demonstrate this weakening trend in the economy since the middle of last year.

[Chart 2 entitled, "All Employees: Manufacturing," appears in the Submissions for the Record on page 48.]

And here we have a third graph, which is the nonfarm payroll job decline, which again began in the middle of 2000 and continued through today.

[Chart 3 entitled, "Employees on Nonfarm Payrolls," appears in the Submissions for the Record on page 49.]

So these are trends that have nothing to do with the events of September the 11 and the weakening of the economy continues, and Commissioner, if you will help me out, didn't – the survey that you are reporting today actually took place during the period of time that the terrorist events took place; is that correct?

Ms. Abraham. The reference period for the household survey was the week beginning September 9th. The reference period for the payroll survey, the employers survey, was the week including the 12th of the month. The actual data collection didn't take place until subsequently, but the reference periods for both surveys included that week.

Representative Saxton. And I think you said in your survey that we will likely see the effect of September 11 events in the October numbers.

Ms. Abraham. That's right. I think that the right way to look at the data that we have reported for September is that they are giving us the last clear signal of the trajectory that the economy was on prior to the events of September 11, at least with respect to the employment and unemployment counts. We do not believe the numbers were substantially affected by those events.

Representative Saxton. So it seems to me our task this morning should be to examine the longer term trend in the economy which began in the third quarter of 2000.

Ms. Abraham. Right. And then subsequent months' data will begin to let you look at what the effects of the attacks might have been. I might mention that in addition to the employment data and the unemployment data, the Bureau of Labor Statistics also produces a series on mass layoffs, and that may be something that you want to look at as well, and if you would like, we can tell you more about that.

Representative Saxton. Commissioner, how many jobs have been lost in the manufacturing sector since the middle of 2000?

Ms. Abraham. About 1.1 million jobs since last July.

Representative Saxton. And can you—

Ms. Abraham. July of 2000.

Representative Saxton. Do you have the data there that would show how many jobs have been lost or gained in the high-tech manufacturing sector?

Ms. Abraham. We do produce the series that you are familiar with on high-tech manufacturing employment. I don't have those figures, but I believe Phil does. Do you want to speak to them, Phil?

Mr. Rones. Over the past year, we have a 1.6 percent decline in the high-tech industries, which translates to 168,000 jobs lost in those industries.

Representative Saxton. Now, is that also part of the job loss that the Commissioner just referred to in the manufacturing sector? Is this a subdivision of the million jobs, or is it in addition?

Mr. Rones. In fact, we have a series that just isolates the high-tech jobs within manufacturing, and there the picture is much worse. The job loss is 317,000 over the same period. So that tells you there were actually gains outside of manufacturing.

Representative Saxton. The period you are referring to is from—

Mr. Rones. It is from the past year. So it is September to September.

Representative Saxton. And what about July to July of—

Ms. Abraham. There is a table right behind. It may be easier if we provide that to you for the record, or if we can get the table and calculate it.

Representative Saxton. But let me just ask the question this way: The slowdown in the high-tech industry began in July of 2000, or June or July of 2000; is that correct?

Ms. Abraham. You certainly saw slowing in economic activity beginning in about that time frame. We would have to look at the series to precisely date it, but that sounds about right.

Representative Saxton. Fine. If you could just give us that information, we would appreciate it.

And can you give us some idea of the employment in electrical equipment, in the electrical equipment industry over the same period? I believe you are saying that you have the numbers from September to September. We are interested in a longer term, if you can provide those numbers, either today or—

Ms. Abraham. Electrical equipment, I have the numbers right here. As I mentioned in my statement, I think, electrical equipment, together with industrial machinery, accounts for a big share of the losses in manufacturing. Electrical equipment since last July is down 188,000, and industrial machinery, which includes computer equipment, is down 174,000.

Representative Saxton. So it is a significant loss. Has there been any sector of the economy where job gains have been shown since last July?

Ms. Abraham. Sure. Health services is the one that jumps to my mind. Despite weakening elsewhere in the economy, health services is still continuing to add jobs. Over the last six months from March to September, health services has been adding jobs at a pace of 26,000 a month, which is actually a faster rate of growth than we had been seeing.

Representative Saxton. They would tend to offset some of the job losses in your statistics from some of the other sectors, is that right?

Ms. Abraham. Right. The fact that there are some sectors where you are seeing growth, you are seeing growth in State and local government still. You are seeing some growth, though at a modest pace, in finance, insurance, and real estate. So to the extent that there are some sectors where you are seeing growth, that implies that the losses in other sectors are more than the net that we are reporting.

Representative Saxton. So the losses in some sectors have been offset in the total number by the growth in the health services sector and—

Ms. Abraham. To a certain extent, though it is very striking when you look at these data for years and years, you could count on the services industry to add jobs month in, month out, 100,000 jobs a month. Over the last six months, in the services industry as a whole, that includes health services and a number of other things, we have added essentially no new net jobs.

Representative Saxton. So I guess the point I am trying to make is that in spite of the fact that there have been some sectors of the economy where there has been job growth, we still continue to see the decline in,

as is demonstrated on the chart with the nonfarm payrolls, the decline continues.

Ms. Abraham. You are seeing declines in manufacturing, declines elsewhere, and even sectors that historically have been reliable, net adders of jobs, have been flat in many cases.

Representative Saxton. Commissioner, thank you very much.

Senator Reed?

Senator Reed. Thank you very much, Mr. Chairman. Commissioner, wage and salaries as measured by the national accounts declined in August for the first time in six years. Do your numbers on aggregate weekly hours and hourly earnings suggested a decline in private nonfarm payrolls in September?

Ms. Abraham. We are still seeing increases in average hourly earnings, and in September, average weekly hours were actually up slightly. If you take those two together and look at average weekly earnings, roughly, the product of the two, average weekly earnings were up slightly on a seasonally adjusted basis in September.

Senator Reed. One of the issues we confront is the need to continue to stimulate consumer demand in the economy, and declining wages is one break on that kind of consumer demand. Do you have any idea going forward, particularly as we think about various policy decisions, about the potential effect of declining wages and household incomes?

Ms. Abraham. The Bureau will be able to provide information going forward on what is happening to earnings, but that is not something that we can project. Others may use our data to try to project that, but that is not something that we can project, and we also are not in the business of trying to analyze the data with reference to what they might imply for consumer spending.

Senator Reed. But the data that you have shows a slight decline in August in wages and salaries and perhaps a slight increase in September.

Ms. Abraham. Average weekly earnings in our data dropped off in August, consistent with the national account numbers, that not being wholly surprising, since they are not exactly independent. They are looking at our information and putting them together. The earnings figures jump back up in September to above the July level.

Senator Reed. And because of the events of September 11, is your presumption that wage and earning numbers would – as reflected in the next report – show a decline?

Ms. Abraham. I don't really have a prediction about what the earnings numbers are likely to show. I think what seems clear, based on published reports of layoffs across a variety of sectors that when we look at the employment data, it is going to be very surprising if we don't see employment declines registering, but beyond that, I am not really in a position to make a prediction.

Senator Reed. During the recessions of the 1990s and the early 1980s, there was a disparate impact on minority employment. As we go into – and those charts the Chairman have provided are pretty stark in

terms of the direction we are heading. Do you also assume that minorities will suffer worse in an economic downturn as they did in the 1980s and 1990s?

Ms. Abraham. If you look at the data on unemployment rates, for example, of blacks, of Hispanics relative to the overall unemployment rate or relative to the unemployment rate for whites, historically, it has long been true that the unemployment rate for blacks, for example, exceeds that for – actually for Hispanics, that both of them exceed the rate for whites. The historical data show a fairly consistent kind of ratios among those rates. So if that historical pattern were to hold, when the overall unemployment rate goes up, the historical pattern would suggest that the absolute magnitude of the increase for blacks and for Hispanics would be exceed that for whites.

We don't know, of course, whether that pattern will hold, but that is what the historical pattern has been.

Senator Reed. Now, in your calculations, you consider, but I don't think include directly, discouraged workers. Could you comment on the situation of both discouraged workers and marginally attached workers, and what impact they would have on your numbers? And also, is either category of worker, discouraged or marginally attached, growing?

Ms. Abraham. Let me start out with answering that question by referring to the range of alternative measures of labor underutilization that we produce. The official unemployment rate counts as unemployed those people who were available for work, and had actively looked for work in the last four weeks. But we also produce more inclusive measures that include additional categories of workers. The most inclusive of those measures includes the marginally attached workers, meaning people who said they would like to work, looked for work sometime in the last year, but just didn't look in the last four weeks. The discouraged workers are a subset of that population. The broadest measure also includes those people who are employed part-time, even though they would have preferred full-time work and said that the reason was that they couldn't find something full time.

In terms of the official unemployment rate, over the last year, that has risen from four percent to 4.9 percent. This broader measure started out at a higher level. It was 6.6 percent a year ago. It has risen to 8.3 percent. So it is both higher and has gone up a bit more over that period.

Senator Reed. Also, with respect to part-time workers, in your statement you mentioned that those who usually work full-time but only worked part-time in September was significantly higher than normal. Can you tell us how much higher this number was and what portion of those who were only able to work part-time did so for economic reasons and what portion did so for non-economic reasons, and is this at all a reflection of September 11?

Ms. Abraham. Really, the reason that we were looking at these data was to try to see whether we could identify any impact of the events of September 11 in the data. As we have already discussed, we do not believe that there was an impact on the employment counts as a result of

those events, but to the extent that there were people who were unable to be at work for the full week, there might have been an impact on hours, and we do indeed see that.

Where we have seen an effort is in people who usually work full-time, but worked part-time that week and said it was for some non-economic reason, such as the events of September 11. In an ordinary September, there are about seven million such people. This September there were in excess of 10 million such people. There are three to 3-1/2 million people who said they worked part-time during the week of September 9 and attributed it, by and large, to these events.

Senator Reed. Thank you, Mr. Chairman. Thank you, Commissioner.

Representative Saxton. Thank you, Senator Reed. We will now move over and we will hear from Senator Sessions.

Senator Sessions. Thank you, Mr. Chairman. I remember several years ago when I was first on this Committee, Alan Greenspan was testifying and the economy was roaring along, and he inserted in his remarks, he said, some think we have gone beyond history, but I have been in this business a little too long, and think we still have an economic cycle out there, a business cycle. And these numbers are not good, but our history tells us we go through cycles, and somehow we come out of cycles, so I think we ought to not be too pessimistic, but the numbers do show a consistent downward trend. And I would just – first, Commissioner Abraham, like to thank you for your service. It has been a pleasure for me to work with you and your office, and we thank you for your commitment to integrity and giving us the best numbers that we can get.

Ms. Abraham. Thank you.

Senator Sessions. And getting good numbers and at least knowing how to use them is a real challenge in this town. You would think that everybody could agree on what the circumstances are and what they are likely to be in the future, but it is just not easy to achieve.

Would you – I know you have done that to some degree in your opening statement, but with regard to unemployment, would you tell us the numbers you have and give us cautions about what each reflects and what degree of skepticism we should give to each?

Ms. Abraham. With respect to – with particular reference –

Senator Sessions. Well, like the household survey, it showed an increase in employment, and that is something that we don't want to become too excited about. Tell us about data and any other numbers and where you think we are, as your best judgment.

Ms. Abraham. Maybe the way to answer that question – and I am sure you will come back if I am not telling you what you were asking me – as you know, we have two surveys. We have a survey of employers and a survey of households and we report data from each every month. The survey of employers is, I think, the best thing to look at if you are trying to track what is happening to employment month to month. It is a huge

survey. The survey covers employers who employ 40 million people. So if we are getting in that volume of reports every month, it is going to give you a pretty good sense of what is happening with employment.

The household survey, the source of the unemployment rate, is designed for a different purpose. It is designed to tell you about what is going on with people. It has got a sample of 60,000 households roughly, which is a big survey, and it does a very good job of telling you about the unemployment rate, the share of people who would like to be working who are out of work, of telling you about the employment-to-population ratio, those share kind of numbers. But it is just not a big enough survey to do a good job month to month of telling you about what is happening to the level of employment.

So what you see when you look at those data is numbers that jump around from month to month. So we had a drop in employment as measured by the household survey of a million last month, and then it rebounded by 800,000 this month. I don't think any of us believe that that is really what happened to employment. You have to take those numbers over a longer period of time and try to extract some trends from them.

Senator Sessions. That period, if you add them together and divided by two, you would have somewhat of a decline.

Ms. Abraham. You would have a better number. And, if you took the—

Senator Sessions. 100,000 decline—

Ms. Abraham. You would have a more reliable number. And if you took it over an even longer period of time, you would have a still more reliable number.

Senator Sessions. But we did have last month a rather dramatic employment drop under the household survey.

Ms. Abraham. As measured by the household survey. I guess to me what that is really pointing out is the unsuitability of those household survey data for tracking month-to-month movements in employment levels. For that purpose, I really would look at the employer survey.

Senator Sessions. With regard to the household survey, that is the number that we see most often in the papers, the average American sees, is what the unemployment rate is. That is kind of what everybody agrees to is the rate.

Ms. Abraham. That is right. And I think the unemployment rate is reliably measured from that survey. I am trying to draw a distinction between using the survey to estimate rates and proportions, which it does a real good job of, and using it to estimate levels—

Senator Sessions. Actual.

Ms. Abraham. —of things, which it is just not designed to do.

Senator Sessions. So the household survey unemployment rate at this month is 4.9?

Ms. Abraham. Right.

Senator Sessions. And that saw no change from last month?

Ms. Abraham. Right. And—

Senator Sessions. Essentially?

Ms. Abraham. That's right. Up four the month before. It clearly has been trending up.

Senator Sessions. And what about the employer survey? What do you show there? That is less encouraging.

Ms. Abraham. The payroll survey showed a decline in employment this month of 199,000.

Senator Sessions. What percentage of the economy, approximately, does the employer survey cover? What percentage of the employees are covered by the employer survey?

Ms. Abraham. It is designed to represent all nonagricultural wage and salary employment. The total nonagricultural wage and salary employment was just over 130 million; 132,166,000 by our estimates in September. The survey—

Senator Sessions. It includes sole proprietors?

Ms. Abraham. No. It only includes wage and salary employment. It doesn't include the agricultural sector, and it doesn't include people who are self-employed or working in a family business and not getting a paycheck.

Senator Sessions. Does the household survey include—

Ms. Abraham. The household survey includes everybody.

Senator Sessions. And include the—

Ms. Abraham. Self-employed, family businesses.

Senator Sessions. So to that extent it covers a broader sector of the economy.

Ms. Abraham. Yeah, it is broader in its coverage.

Senator Sessions. Thank you.

Representative Saxton. I thank the Senator very much for very thoughtful questions.

Mr. Watt.

Representative Watt. Thank you, Mr. Chairman. Commissioner Abraham, I appreciate you being here. I am sorry I was running a little late and missed your testimony, but I have reviewed it. I want to try to zero in on two things, if I can. My assumption being that in these economic times and times of unemployment, people at the lower end of the income spectrum are going to be hit significantly harder. And number two, that these numbers may have some implications for what kind of stimulus package we put together to try to address the adverse impacts of these economic times.

So I want to ask a couple of questions. I am not trying to draw you into any of the policy considerations, but I am trying to get guidance about what your numbers suggest so that we can better make those policy judgments.

First of all, does the Bureau of Labor Statistics maintain or gather any information about – or have you tracked the whole impact of welfare reform and welfare-to-work movement that was going, or seemed to be going pretty well, as long as we had a very robust economy and expanding employment? The reverse of that is one of the presumptions I would make is that those people who went from welfare to work in a robust employment economy would likely be among the first to go back in the ranks of the unemployed. I am wondering whether you have any information at all about that or whether any other department of the Federal Government maintains such information?

Ms. Abraham. We do not have any recent information on the experience of people who had been collecting welfare. The data that we collect as part of our household survey are limited with respect to their potential for being informative about that.

Representative Watt. And when you say you don't have any recent information, does that imply that you have some that is older or did you used to keep that type of information, or what?

Ms. Abraham. There was a research study that was done some years ago now using data that only went through 1998. One of our research staff members looked at people who reported, in March of the relevant years, that as part of their income, they had received some welfare income, and she then looked at what happened to those people over the subsequent year, whether they ended up moving into employment or something else.

Representative Watt. And was that a research project within your department?

Ms. Abraham. It was a research project carried out by one of our researchers.

Representative Watt. Has anybody else in the Federal Government done any work on this issue?

Ms. Abraham. I am certain that there are people who have. I am not well informed as to the whole range of things that might have been done. Your question, though, I think really was what happened to those people who may have left welfare for employment, what is happening to them now, and unfortunately, the data that we collect as part of our household survey wouldn't let us look at that. We would have no way to identify in our survey sample currently employed people who, at some time in the past, might have collected welfare benefits. You will need to look at a different kind of information to get at that. There is information collected by the Census Bureau as part of their survey of program dynamics that might be analyzed to try to shed light on this, but it would be with a considerable lag.

Representative Watt. Okay. I am just wondering whether somebody in your office may have some unique – or greater ability, I guess than I do, to identify what resources are available, because I think this economic downturn is going to have some substantial implications for what, if anything, we need to do to shore up TANF and the whole

definition of work and how we deal with those people who have gone off welfare and into the workforce and now face – and the policies that we implemented there really kind of cut the period of time that people could be on welfare. I am not sure those – they may have made sense at the time we were doing them, but I am not sure in this economic time that – so if you could identify somebody who could help me try to understand this better, that would – I guess that is where I am headed to.

Ms. Abraham. Let me go back and ask the staff about that. In response to your question at the August hearing, I would have gone back and asked a narrower question, which was have we done anything, and the answer, except for this one study, was no. But let me ask someone to take a look at what information there might be out there more broadly that someone could take a look at.

Representative Watt. I see my time is out, but I want to do one follow-up on that prior question that I asked at a previous hearing – that either I dropped the ball on or somebody dropped the ball on – because I thought we were going to get some information that would help us make more valid judgments about whether in places where a livable wage or increase in the minimum wage had been adopted, there had been any real impact on unemployment as a result of that, because I think that has substantial implications for the stimulus package also, because part of what a number of us believe is important is to put money in at the consumer level, at the lower income level, and let that income trickle up rather than following the reverse policy.

Ms. Abraham. I have a copy of our letter to you here. I am afraid the answer was that we were not aware of conclusive evidence on this, though we did locate a study that attempted to look at the question.

[The letter from Commissioner Abraham to Representative Watt, accompanied by references on welfare reform, appear in the Submissions for the Record on page 50.]

Representative Saxton. Thank you. The gentleman's time has expired. The gentleman from Texas, Mr. Smith.

Representative Smith. Thank you, Mr. Chairman. I too arrived a little late, and if some of my questions have already been addressed to you, please let me know, Ms. Abraham. Before I get to a couple of questions, let me preface my remarks by saying that I think the – at least in my judgment, the economic times we find ourselves in today are pretty close to being unique. Certainly they are unique in the last 50 years, maybe there was something similar to them in World War II. I don't know. But in any case, the terrorist attacks have put us in a situation that was not foreseen, and as I say, may be unprecedented.

This suggests to me that coming up with solutions to the current economic climate may not be susceptible to the usual analysis, since we don't really have that much of a history or that much of a record in addressing these kinds of situations.

As you know the administration has talked about and is in the process of changing monetary policy. We are in the throes of considering an

economic stimulus package which might amount to as much as \$75 billion. This is somewhat unprecedented, and I think none of us know the exact impact. However, I would like for you, and if we can't make projections, perhaps we can at least, on the basis of the past, to try to make some calculated guesses as to what we might expect to happen in a couple of areas.

I guess my first question is very general, and that is, do you have any sense of how long it will take us to climb out of the economic hole that we find ourselves? I know you mentioned a while ago that you tend to only look at the figures, and you are not necessarily in the job of making projections, but if you look to the past, how long does an economic recovery usually take, given the current circumstances?

Ms. Abraham. That is not a question I can answer.

Representative Smith. Okay.

Ms. Abraham. I could do what someone else could also do, and go back and look at the duration of prior recessions. And as I think someone already observed, no one has officially yet said we are in a recession, but if it turns out that we are, the information on the duration of prior recessions may be relevant. It certainly is true that when the economy has entered recessions, that typically within a matter of some months, things start to turn around, but I have absolutely no basis for—

Representative Smith. Let me go to a more specific one. This goes to high-tech employment, maybe high-tech manufacturing employment. Traditionally it is the high-tech industry that has been an economic generator for our country, and some ways it is the high-tech industry that sort of leads us into the future and provides a cushion for the future as well. Do you have any figures? And, like I say, you may have covered this earlier, what has happened to the high-tech sector in the last few months, and also, do you have any kind of projections as to what the future holds for the high-tech sector?

Ms. Abraham. We do have figures on high-tech employment that I know my colleague, Mr. Ronces, has readily on hand. A question on this had come up earlier, and we do have an answer to your question about what has happened to high-tech manufacturing employment since July of 2000, if we could insert that in the record. But maybe you could speak more generally, Phil.

Mr. Ronces. Well, I would just say, the Chairman had asked about the period from July of last year to the current data, and since last July, in high-tech manufacturing the employment decline has been 136,000, but if you look at manufacturing by itself, it has declined 367,000.

So that says elsewhere in what we call high-tech industries, there had been an increase of 231,000. Now, remember, this is covering a longer period of 14 months as we have reported each month. The situation in the job market has generally deteriorated over that period so that it is likely that most of these gains occurred very early in that 14-month period.

Representative Smith. Okay. Let me try to squeeze in one more question, Mr. Chairman. This is in regard to various actions that

Congress might take to try to alleviate the increasing unemployment rate. Do you have any feeling or any opinion as to, for example, whether an increase in the minimum wage would help or hurt given the economic situation we find ourselves in?

Ms. Abraham. I do not.

Representative Smith. Okay. Why do you not have an opinion on that?

Ms. Abraham. In my capacity as Commissioner of Labor Statistics, I am responsible for producing data that can be broadly viewed by everyone as objective, and in the interest of protecting the reputation of the Bureau of Labor Statistics, or, you know, objectivity—

Representative Smith. So you consider that to be a subjective answer, not an objective answer?

Ms. Abraham. The effect of the minimum wage on employment is not something that we could produce data on. It is something that different analysts applying different methods to data might come to different conclusions about.

Representative Smith. Let me ask you if there is anything on the record or anything from our past experience that were we to increase the minimum wage during times of economic contraction, versus increasing the minimum wage during times of economic expansion, whether you are aware of any adverse impact that it has had on the economy.

Ms. Abraham. I really hate not to be responsive to a very legitimate question that you are raising, but it is not one I can answer.

Representative Smith. Okay. Thank you, Commissioner.

Thank you, Mr. Chairman.

Representative Saxton. Commissioner, thank you very much, and I would like to thank all the Members for being here today. But in particular, Commissioner, we have truly enjoyed the opportunity to have these sessions with you over the past years, and if this does turn out to be your last hearing, we just want you to know how much that we have benefitted from you being here and being as objective and forthcoming as you have over these years. So thank you.

And I thank all the Members for being here this morning, and we appreciate your participation.

Representative Watt. Mr. Chairman, I just wanted to offer Mr. Smith the information that I am going to get. I have asked for background information on minimum wage and historical information, not subjective information, but historical information, and whatever they give me I will be happy to share with you.

Representative Smith. Thank you, Mr. Watt. I will take you up on that offer.

Representative Saxton. Thank you for being here, and the hearing is adjourned.

[Whereupon, at 10:30 a.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

I would like to welcome Commissioner Abraham before the Committee once again to report on the release of new employment and unemployment data for September.

According to the most recent economic data, the economic slowdown that began in the middle of 2000 continues. There was a prospect of economic improvement in the near future, but that has been overtaken by the horrific events of September 11. The potential rebound predicted by the consensus forecast of Blue Chip economists has been now erased by the economic effects of the terrorist attacks. However, the American people and economy have demonstrated tremendous resilience in the face of the terrorist attacks.

The September employment and unemployment data reflect the weakness in the economy evident before the terrorist attacks. Payroll employment declined by 199,000 in September. Once again, the payroll declines were focused in the manufacturing sector, and only add to the previous severe job losses in manufacturing underway since the middle of 2000, bringing the total to over 1 million jobs. The unemployment rate remained at 4.9 percent. The economic situation obviously is reason for concern.

According to a recent Committee report, it appears likely that the downward drift in the rate of real GDP growth underway since the middle of 2000 will now probably continue. Unfortunately, this suggests that payroll employment will tend to decline and the unemployment rate to rise in coming months.

The terrorist attacks have obviously disrupted the financial markets and overall economy in a number of ways. These attacks have created much uncertainty, and have also increased security costs. Delays in air and ground transport, higher shipping costs, additional insurance costs, extra costs for security personnel and equipment, fortification of buildings and facilities, and other measures will have the effect of imposing something like a "security tax" on an already vulnerable economy. This burden will undermine the economy in the short run, and will also adversely affect both productivity growth and the economy's long-run growth rate.

The exact size of the burden imposed by this security tax is not known, but we do know that it will be significant and pervasive. In recent days private sector economists have begun to consider this cost issue and its potential impact on an already weak economy.

Our analysis suggests that one logical policy response would be to offset these costs by relieving some of the tax burden on the private sector. Accelerating tax relief in the pipeline and other measures to minimize the net impact of the security tax should be a high priority of policymakers.

**PREPARED STATEMENT OF
SENATOR JACK REED, VICE CHAIRMAN**

I would like to thank Commissioner Abraham for coming before us once again, and I understand, Commissioner, that this well may be your last hearing, as your term expires on the 13th. I would have preferred that the Secretary of Labor reappoint you so that you could continue to provide the valuable advice you have given this Committee and the Congress over several years. You have served the Bureau of Labor Statistics well in what can be a thankless job, and I thank you for all your efforts in overseeing the management of some of the country's most important statistics, and of course, testifying before this Committee over the last five years.

While the numbers before us today give us only a glimpse of the state of our economy since the terrorist attack 3-1/2 weeks ago, they do tell much that we need to know about the underlying economic trends that were at work before the devastating tragedy. The economy was already weak before September 11. Real GDP barely grew during the second quarter and the unemployment rate rose. Your testimony last month before the Committee suggested that labor markets were indeed weakening, especially for the most vulnerable workers.

Since September 11, the temporary disruption of our financial systems and the slump in travel related sectors of the economy have only worsened the situation. The few indicators we have received since the attacks suggest that the employment situation has worsened significantly. Businesses have announced more than 100,000 layoffs, and initial claims for unemployment insurance have risen sharply in the last two weeks in September. The tragedies have redirected our policy focus. Congress has moved swiftly to provide aid to New York and the airline industry.

We must now turn our attention to the larger question of jumpstarting the economy and ensuring that all of our citizens and all Americans participate in a renewed and more robust economy. We have worked hard over the past decade to strengthen our economy, while at the same time fostering more broadly shared prosperity. Now some of that is at risk. Once again, I want to thank you, Commissioner Abraham, for coming to discuss the latest economic developments, and their impacts on working Americans.

As we move forward in designing an appropriate fiscal stimulus, it is critical for us to have the best possible information concerning both the current state of the overall economy, as well as the status of our most vulnerable citizens.