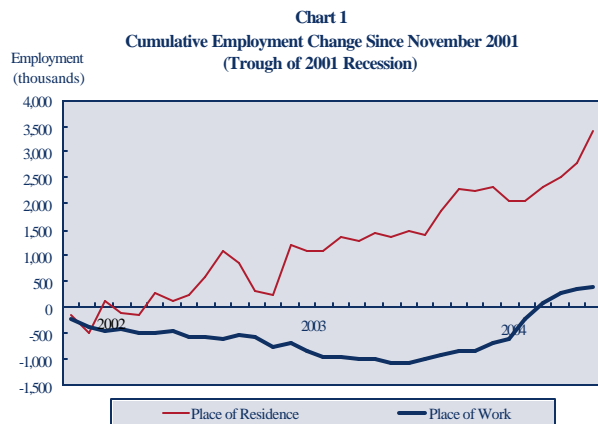


WEST MICHIGAN VIEWPOINT

An Employment Report for All Persuasions

There was enough in the July employment report to make everyone happy, as well as confused. The report provided strong statistical support for those who believe that the national economy is losing steam and that a change is needed in Washington, D.C. In July, employment by place of work grew by a paltry 32,000 jobs, after increasing by only 78,000 jobs in June. But for those on the other side of the political spectrum, the July household survey report provided strong evidence that the current economy is robust and that federal policies are on target. The number of employed individuals shot up by 629,000 in July.

It is very hard to believe that both employment series are correct. Moreover, the month's disparity between the two employment measures is just a continuation of a trend for this expansion. As shown in Chart 1, according to the employers' survey only 401,000 jobs have been created since the trough of the 2001 recession (November), while according to the household survey 3,426,000 more individuals are working today than in November 2001.



There are methodological and conceptual differences between the two surveys. The household survey results are based on a survey of about 60,000 households and counts self-employed individuals, people on unpaid leave, and agricultural workers, none of whom are included in the employers' survey. The employers' report, which is based on a survey of roughly 160,000 employers covering 400,000 establishments, counts only payroll employment. Partly because it is based on a larger sample, most economists follow the employers' survey. According to a recent Bureau of Labor Statistics (BLS) study, the sampling error of the household survey is three times as large as the establishment survey. However, the employers' survey is subject to monthly and annual revisions that can be substantial at times.

Why is the gap between the two series widening during the current expansion? Interestingly, this growing gap between the two measures did not occur in past expansions. In two of the three previous long-term expansions, 1975–1979 and 1991–2001, the two surveys were very close, whereas the employers' survey was more robust than the household survey during the 1983–1990 expansion. Economists disagree on both the reason for the discrepancy in the growth of the two measures, and which survey is “best.” Following is a brief list of factors being thrown about by economists to explain the growing gap.

1. This time around, there are more real and “accidental” entrepreneurs—people who become “consultants” after losing their jobs. Since November 2001, the number of self-employed nonfarm workers rose by 659,000, which accounts for 22 percent of the difference between the two series. During the same period (32 months) in the 1991 expansion, the increase in the number of self-employed nonfarm workers was only 91,000.
2. The employers' survey estimates may be low because turnover rates may have declined during this expansion. During the late 1990s, analysts suggest that workers were jumping from job to job and might have been counted twice in the employers' survey. Today, some analysts claim that the current turnover rate has subsided; hence, the employers' survey results are lower because of less turnover and not because of underlying job growth.
3. The U.S. Census population growth estimates which are used to “blow up” the household survey sample to the nation may be too robust. The survey has not shown any change in the employment to population ratio; employment growth has been determined by the estimated growth in population.

The unobserved “true” number of jobs being created during this expansion lies somewhere between the results of the two surveys. Yet until the two employment measures start to converge, I fear political analysts will continue to pick and choose between the two series based solely on which one best supports their story. Unfortunately, this will create a harmful environment, as the quality of research will be judged not by its methodology, but by its political consequences.