



JOINT ECONOMIC COMMITTEE

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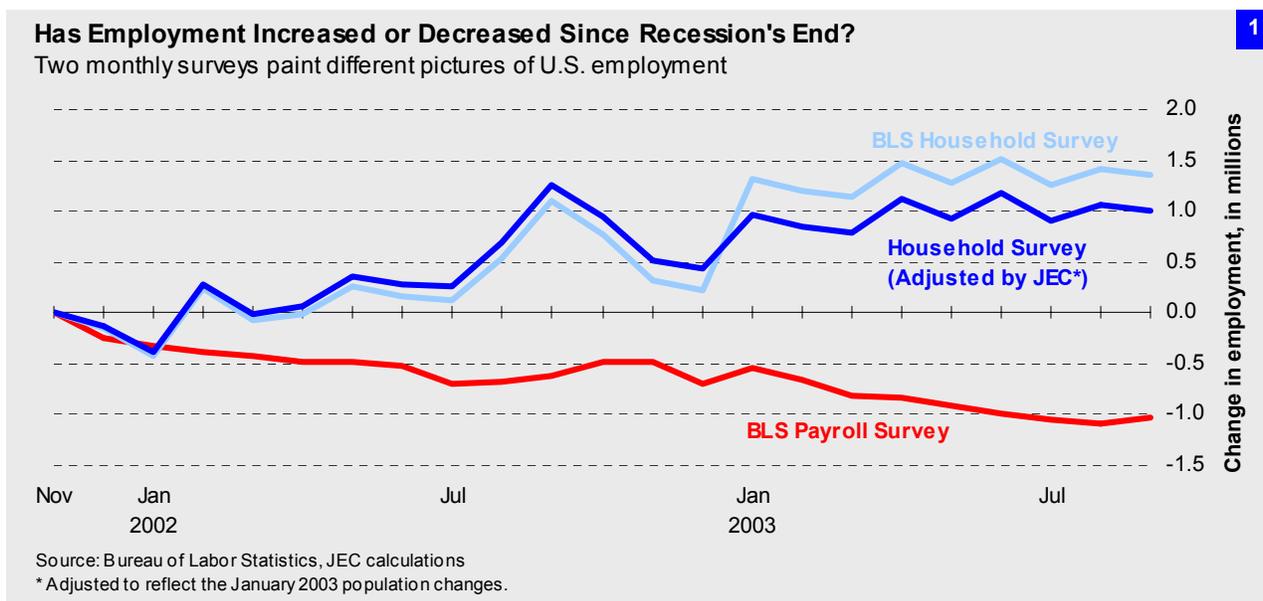
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A TALE OF TWO EMPLOYMENT SURVEYS

The Bureau of Labor Statistics (BLS) uses two distinct surveys to measure the number of jobs in America, a *payroll survey* that measures the number of people employers have on their payrolls and a *household survey* that measures the number of individuals who report being employed. Though analysts focus on the *payroll* estimates, the *household survey* has recently been painting a surprisingly different picture of the U.S. labor market. The often-cited payroll survey indicates that the number of jobs has *declined* by 1.0 million since the end of the recession in November 2001, while the household survey indicates that the number of employed people has *increased* by 1.4 million. Economists cannot yet fully explain this 2.4 million “jobs gap,” but small businesses and, in particular, self-employment appear to be significant factors.

Highlights

- Two surveys from the BLS tell different stories about employment during the recovery – a loss of 1.0 million *payroll survey* jobs since November 2001, and a gain of 1.4 million *household survey* workers. The jobs gap of 2.4 million is unprecedented.
- Some have suggested that a statistical revision to the household data in January 2003 is responsible for most of the reported jobs gap. Calculations by the Joint Economic Committee (JEC) indicate, however, that the revision accounts for relatively little of the gap. Controlling for the revision, the household survey still shows an increase of 1.0 million jobs since the end of the recession, and the jobs gap is still 2.0 million. (Figure 1)
- The household survey indicates that *self-employment* has grown by 482,000 jobs since the recession’s end. These workers are not counted by the payroll survey, so they account for a portion of the jobs gap, but two thirds of the gap remain largely unexplained. (Figure 2)
- The payroll survey is credited as more stable than the household on a month-to-month basis, but is in fact subject to major monthly and annual revisions, such as occurred to 1992 data. An annual benchmark revision of current payroll data will be released on February 6, 2004.



Note: this is an updated report based on new data released by the BLS on October 3, 2003.

BLS's surveys tell different stories about employment during the recovery.

The Bureau of Labor Statistics (BLS) has reported two different employment surveys since 1948, each offering a unique perspective. The *payroll survey* of business establishments provides information on employment, hours, and earnings in 400,000 establishments and affords a detailed look at specific industries. An alternative survey of 60,000 households, conducted by the Census Bureau on behalf of the BLS, provides a comprehensive body of information on the employment and unemployment experience of the nation's population, classified by age, sex, race, and a variety of other characteristics. The *household survey* contacts workers directly and serves as the basis for the *unemployment rate*.

The surveys followed similar paths during the eight months of the recession in 2001, as they normally do. But the two measures parted noticeably once the recovery began in 2002 and diverged even further over the last year and a half. As shown in Figure 1, the disparity between the payroll and household estimates, as reported by BLS, has been approximately 2.4 million jobs since November 2001.

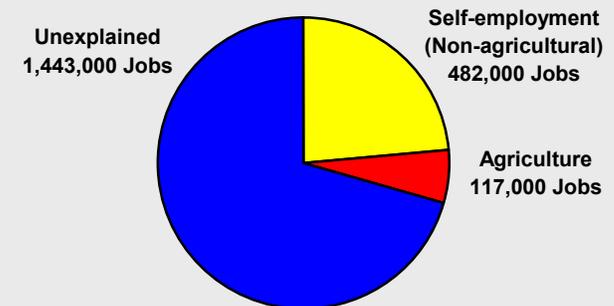
Population adjustments don't explain the jobs gap.

To estimate total employment from the data collected in the household survey, BLS relies on Census estimates of the size of the U.S. population. The employment estimates are therefore sensitive to changes in the estimated population size. For example, in January 2003 an unusually large adjustment to the estimated population added 575,000 jobs to BLS's estimate of total civilian employment.

In its reported data, BLS lumps the entire population adjustment into January 2003, rather than spreading it out over the previous thirty-six months (the period covered by the population adjustment). BLS warns that this policy makes it difficult to compare total household employment figures from before and after January 2003. However, now that the two surveys are painting distinctly different job growth pictures over an extended period, adjusting the household survey can provide important insights. Making this correction, based on JEC calculations, the household series still shows a gain of 1.0 million employed workers since the end of the recession. (Figure 1)

Accounting for the 2 Million Jobs Gap

(Differences between the Household* and Payroll surveys since November 2001)



Source: Bureau of Labor Statistics, JEC calculations
* Adjusted to reflect the January 2003 population changes.

Growth in self-employment explains most of the known difference.

The disparity between the two surveys since the end of the recession in November 2001 remains large at 2.0 million jobs, even after controlling for the population adjustment. Roughly one third of the remaining disparity can be explained by the growth in self-employment of 482,000 workers who are uncounted in the payroll survey. Another 117,000 new jobs are in agriculture. The remaining 1.4 million gap is unexplained.¹

Figuring out the unexplained jobs gap is a puzzle. One leading explanation is that new businesses are undercounted in the payroll survey. The payroll survey focuses on known establishments, so it takes time for new employers to be captured in the data; their employees would therefore be counted in the household survey, but not in the payroll survey. A related possibility is that an increase in contracting relationships – in which a worker works for a firm as an independent contractor rather than as an employee – have affected how workers are captured in the two surveys. Contract workers might consider themselves employed by a firm, rather than as self-employed, even though the firm does not report them as employees. On the other hand, another possibility is that the household survey is

overestimating the growth in jobs because of difficulties in measuring the size of the population. A combination of these and other factors likely explains the jobs gap, but their relative importance is impossible to judge from current data.

Payroll data are revised annually.

An important fact about the payroll survey, which BLS routinely notes in its press releases, is that the data are subject to two monthly revisions of the preliminary numbers, as well as annual “benchmark” revisions when it matches survey data against unemployment insurance records. The benchmark revision can be significant, and because it is only fully reported in the following May’s Employment Situation report (based on data finalized each March), there is a lag of over a year before the data are settled.

One telling example comes from 1992, when payroll survey figures were cited widely in the months preceding the election. News media noted that the recovery from the 1991 recession lacked job creation, because that’s what the raw payroll data indicated. This gave rise to the notion of a “jobless recovery.” Yet the payroll survey data for 1992 were revised frequently by hundreds of thousands of jobs each month, and the twelve months prior to the ’92 election now reflect a gain of 770,000 jobs.²

It turns out that small businesses were not well understood by the survey methodology in place at the time. Estimates of new business births are confirmed (or corrected) during the March benchmark revisions, and more startups were blossoming with the emergent expansion of 1992 than anyone realized. BLS has since revised its methodology for estimating new businesses, but the potential still exists for missing sharp changes during turning points in the business cycle. Importantly, the benchmark will be released early next year on February 6, 2004, though a preliminary assessment by BLS suggests the benchmark is more likely to widen the gap than bridge it.

Does the divergence in data imply inaccuracy or a different kind of economy?

Measuring the economy is difficult in any circumstance, but nowhere is it more difficult or more important than when assessing the labor market as the nation recovers from a recession. This is especially true when the economy is undergoing structural changes, which may be happening now.

Both the payroll and the household surveys have their share of advantages and disadvantages for measuring the number of jobs. As BLS often notes, the payroll survey provides a more comprehensive estimate of the number of people on the payrolls of established organizations. However, only the household survey can tell us about the self-employed and people engaged in agriculture. At this time, the remaining disparity between the two surveys cannot be explained. It may be due to inaccuracies in the surveys, a changing economy, or both; only time will tell. For these reasons, focusing only on the payroll survey is misleading. Analysts should consider both the household and payroll surveys in trying to understand the employment situation.

¹ Some multiple jobholders are double counted in the payroll survey, and other types of workers, such as paid private household workers and unpaid family workers, are captured in the household survey. But those data cannot be compared since they are not seasonally adjusted, and estimates suggest they have little effect or even make the gap larger. An additional factor, also impossible to measure, is the importance of military reservists. When reservists are called up, they leave company payrolls, thus lowering payroll employment (unless they are replaced with a new worker); they also leave the civilian labor force, the focus of the household survey.

² The original release of this report stated the payroll survey data for 1992 was revised upwards by 1.5 million jobs in 1993. It is more correct to recognize that each month was revised individually. Payroll data were overestimating employment in the early months of the '91-92 recovery by 700-860,000 jobs, but underestimating in the last five months of 1992 by 235,000-522,000. Corrections were made during annual benchmark revisions in 1992, 1993, and 1994.

Committee Publications

JEC reports issued in the past month:

- “A Tale of Two Employment Surveys,” October 14, 2003. Update of previous report that explains how two employment surveys from the same monthly report paint a surprisingly different picture – one survey shows job losses, while the other shows job gains.
- “A Portrait of the Personal Income Tax Burden in 2001,” October 14, 2003. Explains how federal tax revenues are dependent on a small group of high income earners and other issues about new tax distribution data from the IRS.
- “The Tax Reform Act of 1986: A Primer,” September 17, 2003. Outlines the major changes of the Tax Reform Act of 1986, as well as the current state of the tax code, in order to promote a better understanding of that often-cited tax reform.
- “Constant Change: A History of Federal Taxes,” September 12, 2003. Highlights major trends in the U.S. tax system since the beginning of the income tax to show how we arrived at the current system (first in a series of reports on tax simplification and reform).

Other JEC reports include:

- “Recent Economic Developments: The Economy Builds Momentum”
- “Understanding Today’s Deficits”
- “Prescription Drugs Are Only One Reason Why Medicare Needs Reform”
- “New Possibilities for Financing Roads”

Recent JEC hearings and events include:

- “Reshaping the Future of America’s Health,” October 1, 2003.
- “The Employment Situation,” September 9, 2003.
- “Technology, Innovation, and the Costs of Health Care,” July 9, 2003.
- “Transforming Iraq’s Economy,” June 11, 2003.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.