

'Success story' of U.S. jobs creation is a fraud

by Richard Freeman

An incompetent April 1996 U.S. policy document on employment is being used to justify continuation of an economic policy course, which has very dangerous implications for the United States, as well as for the world economy. The 11-page document, entitled "Job Creation and Employment Opportunities: The United States Labor Market, 1993-96," was released on April 23, and was prepared by the Council of Economic Advisers (CEA), under the supervision of its chairman, Joseph Stiglitz, with assistance from the Department of Labor's Office of Economics, headed by Lisa Lynch.

In contrast to the reality of plunging U.S. living standards, a worsening depression of the physical economy, and imminent global financial disintegration, the U.S. "Job Creation" report paints a rosy picture of idyllic economic prosperity. Examining the time frame from January 1993 through March 1996, it reports that during this 39-month span, a record 9.4 million jobs were created, of which 8.5 million were in private industry, with the remainder in government. The report concentrates on the private sector jobs.

Among its conclusions, the report states that of the new U.S. job growth created since 1994, "two-thirds (68%) . . . occurred in industry/occupation groups paying above median wages," and that "over 30% of net job growth occurred in the top 30% of job categories." It also states that "employment in 'hamburger flipping jobs' actually fell."

Quite an achievement—if only it were true! *EIR* has examined the report, including its statistical tables, and has found otherwise. We also exhaustively examined other reports, journals, and data compiled by the Department of Labor's Bureau of Labor Statistics. We found the "Job Creation" report to be a combination of statistical and methodological

incompetence, and, worse—given the extensive data available to the analysts—willful deceit.

In reality, there has been no high-paying job resurgence, but rather, just an extension of low-paying jobs, with few, if any, benefits, overwhelmingly in the service sector and the retail trade. Whereas during the 1960s, a Pittsburgh steelworker earned enough at one job to support his family well, both materially and culturally, today, a worker sometimes holds two jobs, his wife works, and one or two children work part time, all just to earn the wage equivalent of the 1960s steelworker. Often, even then, the family can't survive.

Why, then, has the Stiglitz Report gained such cachet? For one thing, its assertions are consistent with the type of bad advice being given to President Clinton, from his White House campaign guru, Dick Morris, on how to electioneer by using happy-talk about the economy. (Morris' functioning as a torpedo in the Clinton campaign has been documented in *EIR*, July 5, 1996, "The 'Ghost' of Roy Cohn Stalks the Clinton Campaign.")

The Stiglitz Report is also consistent with the U.S. "growth economy" rhetoric of Treasury Secretary Robert Rubin, who likes to cite his 25-year Wall Street experience as enabling him to vouch that U.S. economic "fundamentals" are now in great shape.

Secretary Rubin sang the praises of "U.S. job creation success" in meetings with finance ministers at the Group of Seven summit in Lyons, France, on June 27-29. At this summit, French and British delegations, in particular, ganged up on President Clinton to endorse the Lyons economic communiqué (for excerpts, see *EIR*, July 19, 1996, "Reality Refutes the Lyons Communiqué"), which claimed that the United

States was enjoying prosperity and jobs growth. The communiqué called for giving sweeping power to the International Monetary Fund, World Bank, World Trade Organization, and United Nations Organization, to make the American low-wage, dead-end-job economy, based on post-industrial dogma, into the model for other countries in the world, under the rubric of “globalization.”

In contrast to this, President Clinton has, on occasion in the past, expressed concern for U.S. family security and jobs creation. During 1995 and early 1996, a series of Democratic Party policy initiatives on dealing with the “Quiet Depression” of the U.S. economy came out from Congressional leaders Sen. Tom Daschle (D-S.D.), Rep. Richard Gephardt (D-Mo.), Sens. Jeff Bingaman (D-N.M.) and Edward Kennedy (D-Mass.); and from Lyndon LaRouche’s primary election period series of four half-hour national TV broadcasts on “economic security.” We itemize these initiatives below.

But first, we present the “Job Creation” report’s main conclusions. The report’s and *EIR*’s methods of calculations are presented. Finally, *EIR* shows the “Job Creation” report to be a hoax.

What the report alleges

The “Job Creation” report asserts the following half-truths and outright lies:

1. “Since January 1993, employment has grown rapidly—expanding by 8.5 million new [private-sector] jobs” through March 1996.

2. “Two-thirds (68%) of the net growth in full-time employment between February 1994 and February 1996 occurred in industry/occupation groups paying above-median wages.”

3. “Even in the traditionally lower-paying service industry, a majority of net employment growth has been in managerial and professional specialty positions, which typically pay above-median wages. Contrary to conventional wisdom, the new jobs are not disproportionately part-time, low-skill positions.”

4. “Employment in ‘hamburger-flipping jobs’ actually fell between 1994 and 1995.”

5. “The unemployment rate has fallen from over 7% in January 1993 to 5.6% in March 1996.”

The report’s authors employed what they describe as a “sophisticated” method to come up with their conclusions. Perhaps “creative” might be a better word, since *EIR* caught the CEA-BLS authors working into their method some truly “creative” number manipulation. The authors also used numbers which are not made available to the public, relying upon a special BLS computer model.

It should be kept in mind, that the Bureau of Labor Statistics conducts two different monthly surveys, using two different approaches, to compute employment and wages. One is the “Establishment Survey,” while the other is the “Household Survey.” The “Establishment Survey” surveys 400,000

businesses, which fill out monthly forms to report on the level of wages of non-supervisory workers as well as employment of all workers in each industrial sector, by Standard Industrial Classification (SIC) code. The workforce of the surveyed 400,000 businesses comprises 46% of America’s industrial workforce. Thus, it is far more comprehensive and reliable with regard to the industrial workforce, which is what the “Job Creation” report purports to study.

On the other hand, the BLS’s “Household Survey” looks at 50,000 households each month. This is out of 98 million households in America; that is, it surveys just 0.5% of all households. From the survey, the BLS extrapolates the employment level of all workers, the official unemployment rate, and the “median wage” paid by job category. The “Household Survey” categorizes jobs by “type of employment” such as laborer, clerk, and manager.

The “sophisticated” method of the CEA-BLS team, attempted to combine and cross-grid both surveys, while relying primarily on the data provided by the “Household Survey.” Since its data are not published, no one knows exactly what the authors did; however, they only used a sample of one-quarter of all households surveyed by the “Household Survey,” or 12,500 households, to build their extrapolations for the entire population. As a result, in some cases, according to their own reports, the samples the team obtained from some industries were so small, that they had to be discarded.

Reality versus fantasy

By contrast, *EIR* used exclusively the BLS’s “Establishment Survey” of 400,000 businesses. It employed the “average wage” of non-supervisory workers, instead of the “median wage.”

Contrary to the “Job Creation” document’s conclusions, here is the reality:

1. As opposed to 68% of new jobs being created in “above median-wage” positions (which, at other times, the report calls “high-wage jobs”) *EIR* found that only 53% were created in “above average-wage jobs.”

2. The “average wage” for all private employees in America is just \$400.14 per week, or \$20,007 per year. This is barely \$5,000 above the poverty level for a family of four. What does it mean to that say a job’s wage-payment is “above” that level? Nothing. To correct this, *EIR* employed the “average wage level” of a manufacturing job as the standard, but with one adjustment. Because the manufacturing wage, since 1973, has fallen 12% officially—and much more in reality—*EIR* adjusted upward the 1996 average manufacturing wage by 12% to reflect the 1973 standard. In today’s dollars, that is \$577.72 per week, or only \$28,886 per year. *Three-quarters of the 8.355 million new jobs that were created since January 1993, fall below that standard.*

Moreover, were a worker to be a sole wage-earner, earning \$28,886 per year, he would never be able to support a family of four.

3. The report emphasizes that a large percentage of the new service sector jobs created are managerial, professional, or executive level. Between January 1993 and March 1996, some 4.34 million service jobs were created, or half of the entire total new jobs created in the American economy. Contrary to the report's finding, however, *EIR* discovered, using the "Establishment Survey" figures, that 88% of all new service jobs created are classified by the BLS as "non-supervisory," meaning that only 1 in 8 are in a supervisory position.

4. The report's claim is that employment in "hamburger flipping" fell between 1994 and 1995. Technically that is accurate, but it is not true—actually part of a deliberate lie. Isn't it interesting that a study covering 1993 to 1996, should take the shortened interval of 1994-95 as an example? In reality, the category of employment in "eating and drinking" establishments—which is what is referred to as "hamburger flipping"—grew by 597,000 between January 1993 and March 1996, accounting for 7% of all new job growth all by itself.

Employment in "eating and drinking" establishments pays \$141 per week. There are now 6.4 million Americans working in that job category. "Eating and drinking" is part of the larger category of "retail trade." This pays an average of \$225 per week, below the poverty level wage, which is \$11,250 per year. There are now 20.6 million Americans working in the category of "retail trade," which consists of fast food shops, mall outlets, etc., which is 21% of all people employed in private industry in America, in March 1996.

5. In March 1996, goods-production and infrastructure workers accounted for just 26% of the labor force. This point does not even register with the report's authors. Instead, some examples of the types of jobs they extol: computer programmers (grew by 597,000 during this period), motion picture industry workers (grew by 153,000), and securities and commodity brokers (grew by 90,000). Some of these pay high wages, but they are a deduction from the economy, representing parasitism.

6. Unemployment is not 5.6%; *EIR* calculates it at 13.3%.

7. America's physical goods output, represented by its capital goods and consumer goods market baskets, has plunged by more than 40%, on a per-capita and per-household basis, since 1967. This represents a collapse in the standard of living.

Timing of the report

The report was released in the midst of a policy debate, whose intensity had been mounting since the beginning of this year. Behind its statistical façade, it is a fiercely factional document, the kind of thing that Dick Morris, saboteur in the White House executive, could be expected to promote. Consider a brief timeline:

Feb. 8: Sen. Ted Kennedy tells an audience at the Center for National Priority that the United States and the world has entered a "Quiet Depression."

Feb. 27: House Minority Leader Richard Gephardt delivers an address before the Economic Strategy Institute in Washington, in which he takes up the issue of the destruction of the conditions of life for average American working families.

Feb. 28: Senators Daschle and Bingaman issue their "high-wage task force" report, "Scrambling to Pay the Bills: Building Allies for America's Working Families." The 57-page report picks up on some important themes from Lyndon LaRouche's earlier "Program to Save the Nation."

March: The AFL-CIO begins "America Needs a Raise" town hall meetings to address the problem of falling real wages.

March 11: Congressmen Gephardt and David Obey (D-Wis.) release a 58-page report, "Who Is Downsizing the American Dream?" which documents the loss of jobs, because of corporate downsizing, as well as the growing income gap.

March 5: Lyndon LaRouche scores a breakthrough, winning 11% of the vote in a two-way Presidential primary race in Colorado. LaRouche goes on to score a string of double-digit Presidential primary results.

As this ferment about the collapsed state of the economy and the growing financial disintegration intensified, right on cue, on April 23, the "Job Creation" report appeared, and its conclusions soon became the standard cant of administration officials.

International implications

The report's conclusions became the underlying document for the portion of the G-7 Lyons economic communiqué that extolled the fake "job machine of the U.S." The background is this: For the past half-decade, various Baby Boomer economists have tried to sell the model of a high level of service sector, retail trade, etc., jobs creation, which they call the "American labor market mobility model," to the Europeans and Japanese.

The argument has been that Europe and Japan are too tradition-bound, and connected to the old, "second wave" manufacturing economy. America, on the other hand, is willing to let its old manufacturing jobs go, and because of its "mobility," its displaced production workforce can "flow" into services. Traditionally, the Europeans have retorted that the jobs America creates have no benefits, and are too low-wage. Hence the report's need to attempt to fake figures to show that a majority of the new jobs pay "above the median wage."

At the summit, British forces inserted the "Job Creation" report's premises into the economic communiqué. The communiqué's Section 17 states, "We must define ways to reinforce people's employability throughout their working lives by *facilitating the transition from one job to another*"—precisely the job "flow" described above of the "American labor market mobility model."