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More Jobs Mirage

By Dr. Paul Craig Roberts
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The announcement on March 4 that 192,000 new jobs were created in February was greeted with a sigh of relief. But the number is just more smoke and mirrors, as I will show shortly. First, let's pretend the jobs are real. What areas of the economy produced the jobs?

According to the Bureau of Labor Statistics, 152,000 of the jobs or 79% are in private services, consisting of: 11,700 jobs in wholesale trade, 22,000 in transportation and warehousing, 36,400 in administration and waste services (of which 15,500 are temporary help services), and 36,200 in ambulatory health care services and nursing and residential care facilities. Entertainment, waitresses and bartenders accounted for 20,000. Repair and maintenance, laundry services, and membership associations accounted for 14,000.

As one who has often reported the monthly payroll jobs breakdown, I am struck by the fact that these categories are the ones that have accounted for job growth for year after year. How can this be? How can Americans, who have had no growth in their real incomes and who are foreclosed from their homes and maxed out on credit card debt, car payments, and student loans, spend more every month in bars and restaurants? How can a few service areas of the economy grow when nothing else is?

The answer is that there were not 192,000 new jobs. Statistician John Williams estimates the reported gain was overstated by about 230,000 jobs. In other words, about 38,000 jobs were lost in February.

There are various reasons that job gains are overstated and losses understated. One is the BLS's "birth-death model." This is a way of estimating the net of non-reported new jobs from business start-ups and job losses from business shut-downs. During recessions this model doesn't work, because the model is based on good times when new jobs always exceed lost jobs. On the "death" side, if a company goes out of business because of recession and, therefore, doesn't report its payroll, the BLS assumes the previously reported employees are still in place. On the "birth" side, the BLS adds 30,000 jobs to the monthly numbers as an estimate of new start-ups.

Williams estimates the "death" side is really reducing employment by about 200,000 per month, and the "birth" side is stillborn. Therefore, "the BLS continues regularly to overestimate monthly growth in payroll employment by roughly 230,000 jobs." The benchmark revisions of payroll jobs bear out Williams. The last two benchmark revisions resulted in a reduction of previously reported employment gains of about 2 million jobs.

Another indication is that despite 10 years of population growth, there are 8 to 9 million fewer Americans employed today than a decade ago.

Some “New Economy” we have. If only we could have the old one back.

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About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org