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What's Really Happening with Jobs and Outsourcing?

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As someone who works in economic policy, my job is to look at numbers and try to figure out what they mean for the country and for Americans. One of the big challenges is translating a bunch of statistics into information that is useful for people in their everyday lives. Sometimes that involves complex and arcane subjects that, for most people, make their eyes glaze over.

There are a few things, though, that instantly resonate across the country. For many people, the employment number is the most tangible benchmark of the economy. Everyone understands the need for jobs, employment, and a good income, whether it's for us, our kids or neighbors, or a community hard hit by economic change.

Negative news on the jobs situation can prompt visceral reactions. During this recovery, economists, politicians, and of course the media eagerly await monthly jobs announcements, looking for employment to finally take off. This past Friday was no different—and expectations were high. Most forecasts were optimistically looking for February jobs growth of 150,000. Instead, we saw relatively flat growth of 21,000 payroll jobs. This was certainly disappointing. In fact, the anemic growth in payroll jobs is one of the big puzzles of this recovery.

For months now, forecasters have been predicting that robust job growth was right around the corner. These forecasts are based on broad observations of activities across the economy, most of which are

Talking Points

- Not only is the labor market nowhere nearly as bad as we are led to believe, but it is ahead of the game, with nearly 2 million new jobs added to the economy since the end of the recession.
- To stay competitive in the future, we will need to outsource more as our population ages and there are fewer workers to fill jobs. We must be positioning ourselves for the future.
- It is misleading to think that outsourcing is a zero-sum game. Instead, it is a win-win opportunity. Outsourcing and the free trade that makes it possible give us access to more goods and services at lower costs.
- Instead of increasing the minimum wage, extending unemployment, or increasing other regulations to prevent outsourcing, we should focus on policies that create jobs, like lowering the burden of regulation, attacking frivolous lawsuits through tort reform, and implementing pro-growth tax policies.

This paper, in its entirety, can be found at: *www.heritage.org/research/labor/hl827.cfm*

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resoundingly positive, and some key indicators are at 20-year highs.

The Real Strength of the Economy

Please indulge me while I use a few economic statistics to illustrate the strength of the economy:

- GDP, our broadest indicator of the economy, has had strong growth in the past six months—well over the 10-year average;
- The third quarter was the best in 20 years;
- Business investment is booming, bringing encouraging signs for future activity;
- Exports grew at near record levels;
- Productivity growth is high;
- Manufacturing activity continues to be high; and
- The stock market is growing.

Why, then, with all these factors in place, should we be having this kind of news on the jobs front? What is really going on? The media and most people are only talking about the bad news, but the truth is we have two different sources of information about jobs—one, with this bad news, that says we have lost about 700,000 jobs since the end of the recession and another, with good news, which says we have added 1.9 million jobs. How many of you here have ever heard this good news?

Payroll Survey vs. Household Survey

To understand these numbers, we have to look to their source. The Bureau of Labor Statistics collects this information by conducting two surveys: the payroll survey and the household survey.

The payroll survey shows that 700,000 jobs have been lost since the end of the recession. It works by sampling medium and large-size businesses. Probably many of you in this room, or your staffs, submit information for this survey which examines data from a large sample of worksites by having employers report how many people they have on their payroll each month. Seems simple enough. These data have traditionally been thought of as *the* source of information about the number of workers and what kind of work they do.

But this survey does not count everybody who works, like people who are farmers or agricultural workers, self-employed, or work under contract with traditional firms. So, if they don't count everyone, how do we know there are really 700,000 jobs lost?

The household survey is the sole source of information about unemployment measures. However, this survey also measures the number of people working and shows 1.9 million jobs added since the end of the recession. It works by directly contacting households (hence its name) and asking whether members are working or not working. It counts all people who work, regardless of who their employer is, so it picks up the agricultural workers, contractors, and consultants, which the payroll survey does not.

This huge disparity between household and payroll numbers—2.7 million jobs—is confounding economists because it is growing in an unprecedented way. It begs the question: Which survey should we be relying on?

Economists have been stubbornly clinging to the payroll survey for a number of reasons. Let me share two of them with you:

- It has a larger sample size.
- It is measured, theoretically, more objectively through employment records based on actual payrolls.

Sample Size

While a larger sample size sounds intuitively attractive, statistical accuracy and relevance do not require us to measure one-third of all workers to determine an accurate picture, as the payroll survey does. The sample size of the household survey, which polls some 60,000 households, is much larger than most polls used today, such as those used to measure voter opinions and consumer product ratings.

Important decisions are made every day on these perfectly valid statistical samples. The household survey, too, should be treated as valid.

Payroll Records

One of the strengths of the payroll survey is actually one of its key weaknesses. By measuring employees from actual payrolls, this survey makes no determination of whether people have changed jobs or not.

For example, my husband and I both changed jobs last year. Because we had no gaps in employment, we received our last paycheck from our former employers in the same month we got our first paycheck from our new bosses. So last June we counted as four jobs instead of two. Let's think about the labor market before the recession and after to understand the implications this has on measuring jobs.

Remember how the economy was booming in the late 1990s—that exuberance was also played out in the labor market. The stock market was booming, and the technology industry was flourishing, combining to create jobs galore. I'm sure each of you in this room will remember how difficult it was to find and retain not just *good* workers, but *any* workers. People were very confident of their opportunities and long-range prospects, and we saw high turnover as they regularly sought out and obtained better jobs.

Contrast that to today's environment: The last two and a half years have brought recession and the burst of the tech bubble, the horrendous events of 9/11, two wars in the Middle East and continued threats of terrorism, uncertainty from states' reeling from huge budget shortfalls *and* corporate malfeasance scandals. Just as people changed their preferences for entertainment after 9/11 by staying home with their families, renting movies and playing games, job turnover is down because people feel more cautious, preferring stability to change. Indeed, there are data that support these observations.

So what does all this mean? This marked slowdown in turnover from the booming '90s gives us the illusion of some 1 million payroll jobs lost, falsely leading us to conclude that employment is much worse than it really is. By comparison, the household survey is not constrained by such weaknesses. To be fair, the household survey has some limitations, such as month-to-month volatility, but it meets the mark for measuring jobs in today's economy.

Changing Workforce

The other significant weakness of the payroll survey is the jobs it does not measure. Every one of us here today knows that our economy is changing. More and more, it is being driven by small business and entrepreneurial activity. The nature of employment is changing dramatically as well, spawned by a huge shift toward self-employment, contracting, and consulting.

Contracting is an interesting phenomenon in employment. As firms responded to the recession by restructuring, they frequently replaced employees with contract workers—often the same people doing the same job, just not on the official payroll. Or these highly trained workers took other work, again not as employees but as consultants.

For example, my brother was laid off two years ago from Reuters. He now "works" for Disney as a consultant with better wages and better terms. He gets a check from Disney; it's just not a paycheck. The significance of this is that this phenomenon is increasing dramatically, and these *fully employed* people are not being counted in the payroll survey.

All this is leading many economists to conclude that the household survey has some significant superior aspects over the payroll survey for counting the number of jobs in the economy. The good news is that not only is the labor market nowhere nearly as bad as we are lead to believe, but it is ahead of the game, with nearly 2 million new jobs added to the economy since the end of the recession.

You've heard that this is a jobless recovery. It's not; it's a *payroll* jobless recovery. Even the most persnickety economists begrudgingly admit that perhaps the truth is somewhere between the negative payroll and the positive household numbers. The next time you hear jobs numbers, you should question their source and meaning.

We know we're not in a recession, but it doesn't really feel like a recovery. That's because the economy is restructuring, and that's hitting manufacturing. This transitioning economy is extremely painful for those who are in impacted occupations. Many of those jobs will never return, and the prospects facing those who must make difficult decisions over their future are both daunting and gut-wrenching.

However, this is not the first time we have had a restructuring in our economy. In the 1940s, nearly 20 percent of the working population were farmers. That's one out of every five people. Now that number is one in 20, yet the country did not fall into ruin.

Today's restructuring toward a service-based economy from manufacturing is bringing distress to some, but it brings far greater benefits for most of us in the same way we benefited from moving to an agriculturally based economy to a manufacturing one. Any opportunity loss is threatening, and the move toward outsourcing is exacerbating an emotional situation.

Maintaining Perspective

We must keep outsourcing in perspective. This is something that has been going on for decades. What's new is the recent trend toward outsourcing technology-based service jobs.

Ironically, outsourcing these previously sacrosanct jobs has only been made possible through technology—the same technologies that have grown our economy and made so much of today's modern life possible. We don't know for sure precisely how large a phenomenon this is, except to say it is a relatively small share of all jobs. In order to stay competitive in the future, we will need to outsource more as our population ages and there are fewer workers to fill jobs. We must be positioning ourselves for the future.

It is misleading to think that outsourcing is a zero-sum game. Instead, it is a win-win opportunity. Outsourcing and the free trade that makes it possible give us access to more goods and services at lower costs.

All Americans benefit from free trade: It raises the standard of living for everyone and brings huge benefits to low-income people and seniors living on fixed incomes. I have been able to buy a wide choice of inexpensive shoes and clothes for my three kids as they have grown up. My parents never had access to such a wide assortment of low-cost, high-quality goods when they were raising my brother and me.

Looking at Insourcing. Nor can we talk about outsourcing in a vacuum. To even the equation, we must also look at insourcing. Consider the BMW plant in South Carolina, the Honda plant in Ohio, or the Mitsubishi plant here in Illinois. We would never consider kicking these facilities out of the country and losing the jobs that go with them.

The same goes for the 150,000 jobs estimated to be insourced after NAFTA from Mexico to the U.S., where we have the higher skills and more advanced technology they deem necessary. This is just a small part of the larger story where, by some counts, there are 6.4 million insourced jobs brought to the U.S. by companies based outside this country.

This global synergy improves freedom and opportunity across the world, including America, by helping to eradicate poverty in the poorest countries. We should be rewarding countries that open their societies by moving toward democracy, just as India has done by moving away from socialism.

As you think about outsourcing, imagine you are a leader in a small community. Would you want your town to grow all its own food, weave its own cloth and sew its own clothes, make its own furniture, forge the steel it needs for making its own cars and appliances, make the computer chips needed for everything, and so forth? It's virtually impossible for one community to produce all the raw materials, goods, and services we require in our lives.

This is as true now as it was when our country was founded, which is why trade barriers between states are unconstitutional. Just as that's true, we can't isolate this country from the rest of the world.

Conclusion

What, then, are the policy prescriptions we should consider? The fear driving this emotional reaction to outsourcing and the current false perception of job loss is leading some politicians to call for policy "solutions" to prevent further harm. However, many of their proposals are forms of trade isolationism that simply will not work.

Instead of increasing the minimum wage, extending unemployment, or increasing other regulations to prevent outsourcing, we should focus on policies that create jobs like lowering the burden of regulation, attacking frivolous lawsuits through tort reform, and implementing pro-growth tax policies. These are the types of policies that will help us to see the payroll job gains everyone has been waiting for catch up with the rest of the economy.

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