

Common Economic Myths

MYTH: According to the Economic Policy Institute (EPI), on average, jobs in growing industries pay \$9,160 less per year than jobs in contracting industries.

http://www.epinet.org/webfeatures/snapshots/archive/2004/0121/snap20040121_wage_diff_table.pdf

THE FACTS: The Economic Policy Institute (EPI) derives its conclusion about wages by using unconventional and potentially misleading definitions. With regard to employment, most independent observers would generally define a “growing” – or expanding – industry as one in which employment is increasing over a period of time. Conversely, a “contracting” industry would be one in which employment is decreasing over a period of time.

However, EPI does not use these conventional definitions. Instead, it defines an expanding industry as one in which employment is increasing as a *share* of total national payroll employment. A “contracting” industry is defined as one in which employment is decreasing as a share of total national payroll employment, regardless of whether or not that industry actually added jobs.

Using EPI’s unconventional methodology, an industry that added jobs over time could very well be defined as a “contracting” industry. For example, during the 1990’s the financial activities industry added 1.089 million payroll jobs. Over that same time period, employment in the financial activities industry as a share of total national payroll employment fell from 6.05 percent in December 1989 to 5.88 percent in December 1999.¹ According to the definitions used by EPI, this industry would be defined as a contracting industry, even though employment in the industry grew.

Government, which added nearly 2.5 million payroll jobs throughout the 1990’s, would also be defined as a contracting industry as its share of total national payroll employment fell from 16.61 percent to 15.74 percent.² Even the industry of trade, transportation, and utilities, which added more than 3.5 million jobs in the 1990’s, would be classified as a contracting industry using this methodology!³ **EPI’s conclusions about the labor market are based on the premise that actual employment growth is irrelevant.**

During a recent hearing of the Senate Banking Committee, Federal Reserve Chairman Alan Greenspan was asked if new jobs were paying far less than old jobs⁴:

“SEN. DOLE: Recently, some have asserted that most of the new jobs being created in the last year are paying an average \$1,500 to \$9,000 less than those jobs lost over the past few years. Obviously, often an unemployed person finds a new job, they may be at a lower salary for a short time. **But does your analysis show that the current jobs being created are basically lower-wage jobs with little or no benefits?**”

CHAIRMAN GREENSPAN: **The answer is no.**”

The debate over the quality of new jobs being created in the economy was also addressed by Chairman Greenspan:

“CHAIRMAN GREENSPAN: We have looked at this question in the broader sense as: Are we essentially downgrading the types of jobs that are being created, say, over the past year? **And the answer is: We find very little evidence of that.**”

¹ Bureau of Labor Statistics (<http://www.bls.gov/webapps/legacy/cesbtab1.htm> - Accessed 7/22/2004)

² Bureau of Labor Statistics (<http://www.bls.gov/webapps/legacy/cesbtab1.htm> - Accessed 7/22/2004)

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⁴ Testimony before the Senate Banking Committee, 7/20/2004

Any disparity between pay in what EPI unconventionally labels expanding and contracting industries tells us nothing about whether new jobs being added to the economy are “good” or “bad” jobs.

FactCheck.org recently released its own analysis of job quality - “Economy Producing Mostly Bad Jobs? Not so fast.” You can find the full report here: <http://www.factcheck.org/article.aspx?docID=208>.

From the report:

“A new set of numbers from the Bureau of Labor Statistics actually shows solid growth in employment in relatively higher-paying occupations including construction workers, health-care professionals, business managers, and teachers, and virtually no growth at all in relatively lower-paying occupations including office clerks and assembly-line workers. It's the most detailed breakdown yet -- looking at 154 different job and industry groupings. These statistics are a FactCheck.org exclusive -- supplied to us by BLS at our request and not previously published.”