

## "Government Economic Reports: Things You've Suspected but Were Afraid to Ask! -- Federal Deficit Reality" - Sep. 7, 2004

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### **Introduction**

*When it comes to government economic data, it is easy to get terribly confused. In recent years, it also has become easy to be more and more suspicious of the numbers themselves.*

*In his guest series, of which this is the second installment, friend and client, Walter J. "John" Williams, helps clear up much of the confusion. I doubt, though, readers will find this will be the case with regard to the suspicion!*

*We posted the first installment in this series, "Employment and Unemployment Reporting," on 8/24. It continues to draw immense interest. I believe readers will find the current offering, "Federal Deficit Reality," even more provocative. Here's a taste of what the article contains:*

*"The U.S. government's fiscal ills have spun wildly out of control and no longer are containable within the existing system. As detailed in this article, the actual annual shortfall in U.S. government operations for fiscal year 2003 (September 30) was \$3.7 trillion. Put in perspective, that means if the U.S. Treasury had seized all wages and salaries in 2003 with a 100% income tax, there still would have been a deficit! The outlook for fiscal 2004 numbers is even worse."*

*Speaking of provocative, John Williams' first installment drew a response from the Bureau of Labor Statistics. This is discussed in the last section of the current material, and it is entitled, "Addendum to Installment One."*

*John has a long, distinguished record of following and critiquing the changes occurring over the years in the government's reporting of the economic numbers that can and do influence our lives in a major way. In addition to today's and the earlier installment, I envision at least two more we will be presenting on the GRA website. One will deal with gross domestic product, the other with the Consumer Price Index. To state that what people observe today in these series seems at times to have become a little "mystifying" is to engage in significant understatement!*

*John has again agreed to field any questions or comments this piece generates. You will find this invitation at the conclusion of the article.*

*The first installment included an introduction section intended to serve that function for the entire series; it was labeled "Series Introduction." It contained a great deal of key definitional material and was highly enlightening in its own right.*

*For convenience and reference purposes, this section is repeated in the current material, found at the conclusion of the installment. If you have not yet had a chance to read the "Series Introduction," you might want to have a look it before reading the current or prior installments.*

*John Williams joins a growing list of guest contributors who have provided some terrific material in the short time the GRA website has been in existence. When you have a moment, go to the website's "Guest Contributions" section on the home page (lower right-hand column) and peruse some of the other work available there. Incidentally, if you did not read the first installment of John's series, you will find it posted in the "Guest Contributions" section. --Doug Gillespie*

*(NOTES: (1) All footnotes are broken out in the "Footnotes to Installment Two" section at the end of the installment. (2) The views expressed in the following material do not necessarily reflect those of Gillespie*

*Research Associates.)*

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**"GOVERNMENT ECONOMIC REPORTS: THING'S YOU'VE SUSPECTED  
BUT WERE AFRAID TO ASK! -- FEDERAL DEFICIT REALITY"  
(Part Two in a Series)**

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**U.S. Treasury Shows Actual 2003 Federal Deficit at \$3.7 Trillion**

**Deficit Moves Beyond Any Possible Tax Remedy**

**Could U.S. Treasuries Face a Rating Downgrade?**

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The U.S. government's fiscal ills have spun wildly out of control and no longer are containable within the existing system. As detailed in this article, the actual annual shortfall in U.S. government operations for fiscal year 2003 (September 30) was \$3.7 trillion. Put in perspective, that means if the U.S. Treasury had seized all wages and salaries in 2003 with a 100% income tax, there still would have been a deficit! The outlook for fiscal 2004 numbers is even worse.

Considering that the popularly reported 2003 budget deficit was \$374 billion, one-tenth the number cited above, this installment on government reporting concentrates on where the incredulous \$3.7 trillion number comes from, how and why the Treasury is reporting it, and why the financial press and federal politicians are ignoring it.

Nonetheless, some implications of the current circumstance are touched upon briefly, here, conditioned by the promise of a full and separate analysis at a future date.

As brief background, the \$3.7 trillion number is from government financial statements prepared using generally accepted accounting principles (GAAP), and a large portion of the expanded deficit is from the annual increase in the net present value of unfunded Social Security and Medicare obligations.

The impossibility of this circumstance working out happily is why lame-duck Federal Reserve Chairman Alan Greenspan suddenly has urged politicians in Washington to come clean on not being able to deliver promised Social Security and Medicare benefits already under obligation. He suggests, correctly, that there is no chance of economic or productivity growth resolving the matter. The funding shortfall projections already encompass optimistic economic assumptions.

Even if the Administration and Congress heeded Greenspan's advice, the unfolding fiscal disaster faces one of only two very unpleasant general solutions:

- The first solution is draconian spending cuts, particularly in Social Security and Medicare, even if accompanied by massive tax increases. This appears to be a political impossibility, at present.
- In the absence of political action, the second solution is the U.S. government facing some form of insolvency within the next decade or so. Shy of Uncle Sam defaulting on debt, the most likely outcome is the Fed eventually having to monetize U.S. debt heavily, triggering a hyperinflation. U.S. obligations eventually would be paid off in a significantly debased and devalued dollar.

Implications for the United States' sovereign credit rating is discussed more fully in a later section, but the unfolding fiscal crisis also opens the possibility of a credit downgrade for U.S. Treasury securities. This could happen before either of the two broad solutions discussed above comes into play.

**Accounting Gimmicks Mask Underlying Reality for Decades**

Misleading accounting used by the U.S. government, both in financial and economic reporting, far exceeds the scope of corporate accounting wrongdoing that has received partial credit for recent stock market turbulence. The bad boys of Corporate America, though, still were subject to significant regulatory oversights and the application of GAAP accounting to their books. In contrast, the government's operations and economic reporting have been subject to oversight solely by Congress, America's only "distinctly native criminal class." [1]

Nearly four decades ago, President Lyndon Johnson's political sensitivities led him and the Congress to slough off some of the costs of an escalating Vietnam War through the use of accounting gimmicks. To mask the rapid growth in the federal government's budget deficit, revenues from the surplus being generated by Social Security taxes were added into the general cash fund, without making any accounting allowance for the accompanying and increasing Social Security liabilities. This accounting-gimmicked reporting was dubbed "unified" budget accounting.

The government's accounting then, as it is now, was on a cash basis, reflecting cash revenues versus cash expenditures. There were no accruals made for monies owed by or due to the government at some time in the future.

The bogus accounting understated the actual deficit for decades and even allowed for claims of budget surpluses in the years 1998 to 2001. While there were extensive self-congratulatory comments between the President, Congress and the Fed Chairman, at the time, all involved knew there never were any actual budget surpluses. There hasn't been an actual balanced budget, let alone a surplus, since before Johnson and his cronies cooked the bookkeeping.

The doctored fiscal reporting complemented the short-term political interests of both major political parties. Additionally, the ignorance and/or complicity of Pollyannaish analysts on Wall Street and in the financial media-eager to discourage negative market activity-helped to keep the fiscal crisis from arousing significant concern among a dumbed-down U.S. populace.

### **U.S. Treasury Owns Up to a Financial Nightmare**

In the mid-1970s, the then "Big Ten" accounting firms proposed setting up for the federal government an accrual accounting and reporting system similar to that used in the business community. Purchases of capital equipment, weapons and buildings would be booked as assets and depreciated, taxes receivable and accounts payable would better reflect near term cash needs. Accrued liabilities, such as Social Security payments due in the future, would reflect longer-term cash-flow needs.

As the project progressed, GAAP accounting was applied to the government's operations and prototype annual statements were published beginning in 1974. The appropriate accounting for Social Security liabilities, however, was discarded during the Reagan administration as being politically untenable.

Under the eventual mandate of Congress, the accounting project culminated in the U.S. Treasury publishing its first formal *Financial Report of the United States Government* for fiscal year 2000, consistent with GAAP, except for Social Security and similar accounts such as Medicare, Medicaid and the Railroad Retirement Fund.

To the credit of the Bush administration, later reports, published in April 2003 and April 2004 for fiscal years 2002 and 2003, indicated for the first time since the 1980s what the Social Security and related numbers would look like if they were included in the accounting, just as corporations need to account for pension and retiree health benefit liabilities.

The gimmicked accounting standards, as established during the Johnson era, and as used today for official, unified budget reporting, show a 2003 deficit of \$374.3 billion. Using GAAP reporting (without Social Security reporting), the official GAAP deficit for 2003 expands to \$665.0 billion. Including accounting for Social Security and related areas, the 2003 deficit balloons to \$3,702 billion, or \$3.7 trillion. [2] The accounting reflects no adjustment for the new, more expensive Medicare program.

As an aside, if you download [3] a copy of the financial statements, the GAO's auditor's letter as to why they won't certify the statements is an exposé of significant financial mismanagement within the federal government.

Beyond the \$3.7 trillion deficit in 2003, however, the numbers get even worse, because the shadow deficit has been taking its toll ever since the Johnson era. According to the Treasury's 2003 financial statement, the U.S. government has a negative net worth of \$34.8 trillion. That \$34.8 trillion reflects \$36.2 trillion in financial

liabilities offset by \$1.4 trillion in assets, of which only \$0.4 trillion are liquid.

Part of the underlying reality-the actual operating cash shortfall-is reflected in the growth of the federal debt. During fiscal 2003, for example, gross federal debt increased from \$6.2 trillion to \$6.8 trillion, or by \$600 billion, against the unified \$374 billion deficit. As of the end of August 2004, the debt had increased to \$7.3 trillion.

While gross federal debt is at a record, relentlessly pushing against borrowing ceilings, the markets, press and politicians generally ignore that portion of the debt borrowed from Social Security and similar programs. So, the September 30, 2003 debt level commonly is reported as only the \$3.9 trillion owed to the public, instead of the total \$6.8 billion. Again, the more accurate GAAP estimate of total government liabilities is \$36.2 trillion.

## 2004 Results

Results for the official 2004 deficit will be published in the next several months, and the numbers are projected by the Bush administration to be significantly worse than in 2003, \$445 billion versus \$374 billion, with the actual deficit likely to near \$4.3 trillion (my estimate). The 2004 GAAP financial statements on the government will not be published until March/April 2005.

Fiscal Year	"Official" Deficit	GAAP-Based Deficit Without Soc. Sec., Etc.	GAAP-Based Deficit With Soc. Sec., Etc.
2004 est.	\$445 Billion	\$800 Billion	\$4.3 Trillion
2003	\$374 Billion	\$665 Billion	\$3.7 Trillion
2002	\$158 Billion	\$365 Billion	\$1.5 Trillion

The credit markets were rattled slightly by the early official projections of an increasing shortfall in government finances, but only the surface problems have gained any market recognition. The full magnitude of the difficulties ahead is not recognized by the markets, yet.

With 2003 gross domestic product (GDP) (annual average for the government's fiscal year) at \$10.83 trillion, that places the annual budget deficit and total government obligations at respectively 34.2% and 334.3% of GDP, negative extremes never before breached outside the environment of third-world, net-debtor nations.

## Is "AAA" Rating of U.S. Treasury Debt Sustainable?

The major U.S. credit rating agencies, S&P, Moody's and Fitch, issue credit ratings to sovereign states. The United States enjoys the top "AAA" rating, but that could change if the rating agencies apply their sovereign credit rating methodologies to the GAAP U.S. financial statements, instead of the gimmicked accounting accepted for decades.

As an example of part of the ratings approach, Fitch[4] notes in its *Sovereign Ratings Rating Methodology*:

*Sovereign borrowers usually enjoy the very highest credit standing for obligations in their own currency. If they retain the right to print their own money, the question of default is largely an academic one. The risk instead is that a country may service its debt through excessive money creation, effectively eroding the value of its obligations through inflation.*

Such risks will come into play in the future article on possible hyperinflation. The question at hand is the top "AAA" credit rating held by the United States, home base of the U.S. dollar, the world's primary reserve currency.

In determining a sovereign rating, Fitch reviews, among other factors, "the orthodox indicators such as ratios of debt to exports and debt to Gross Domestic Product, providing a measure of the current and prospective ability to service debt."

The United States is the world's largest net-debtor nation, has the world's largest current account trade balance and has the highest level of debt or financial obligations ever seen, irrespective of relative measure, for any major country, by at least an order of magnitude.[5]

As of August 2004, Fitch gave the "AAA" rating to only 15 countries, including the United States. The other 14 are Austria, Canada, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland and the United Kingdom. Of those 14, five ran budget surpluses in 2003, including Canada, Denmark, Finland, Norway and Sweden. The worst deficit as a percent of GDP was for France at 4.1%, followed by Germany at 3.5%. In contrast, the not-generally-recognized GAAP U.S. deficit in 2003 was 34.2%.

Similarly, the highest level of debt to GDP seen among the 14 other "AAA" countries is at 75.6% for Canada, followed by France at 71.1%, Germany at 65.1% and Austria at 64.9%, versus a GAAP ratio of total financial obligations to GDP of 334.3% for the United States. The low ratio among the "AAA" countries is Luxembourg at 4.9%.

Where most of the other "AAA" countries have significant unfunded social insurance liabilities that are not included in the debt-to-GDP ratios, consistent 2003 numbers are not available. As a rough estimate, the high ratios mentioned for Canada, France, Germany and Austria would increase by two-to-three times, still well shy of the U.S. extreme. The ratings agencies are well aware of these circumstances and have noted the generally deteriorating credit quality of the major Western economies, particularly the United States. S&P seems comforted by expectations that most countries "will step up their efforts to more effectively confront the fiscal ramifications of aging ..."[6]

Of the 15 "AAA" countries, all but Austria, Ireland, the United Kingdom and the United States run current account trade surpluses. As a percent of GDP, the Austrian, Irish and U.K. trade deficits are 0.2%, 2.5% and 2.8%, respectively, versus 4.8% for the United States.

At "AA," two credit notches below the U.S. (two notches taking into account the AA+ between AAA and AA), sits Japan. Japan's deficit and debt levels as percentages of GDP are 8.0% and 157.3%, respectively, worse than the "AAA" rated countries but still much better than the U.S. GAAP ratios. Japan also runs a current account surplus.

In searching World Bank data, I couldn't find any nation with a debt-to-GDP ratio worse than the United States' GAAP obligations ratio of 334%. The closest found is for the West African state of Guinea-Bissau at 224%, but Guinea-Bissau is not rated.

The twist here, of course, is the accounting method used in analysis. Based on the gimmicked, instead of GAAP, fiscal numbers, the U.S. deficit and debt ratios are a little high but relatively benign at 4.8% and 62.8%. Further, much more goes into a sovereign debt rating than the discussed ratios. Still, if any country but the U.S. had GAAP deficit and debt ratios of 34% and 334%, its debt most likely would be given junk-bond status by the rating agencies.

Accordingly, a case can be made that the risks of the United States "servic[ing] debt through excessive money creation" are high enough so as to be inconsistent with a "AAA" rating. Political practicalities, though, likely will forestall any formal downgrade of the U.S. credit rating. Since a downgrade would trigger global financial-market and currency turmoil, action even could be delayed until the last minute.

Nevertheless, Fitch had the United States on a negative rating watch in 1995, and there have been occasional rumblings by S&P and Moody's when Congress has been slow to authorize raising the ceiling on federal borrowing limits. Minimally, a shift to a negative rating outlook by one or more of the major rating agencies is not out of the question.

Irrespective of any credit rating actions, the credit markets usually catch up with underlying reality. That suggests there will develop a long-term higher floor under U.S. interest rates than has been seen previously.

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Comments and questions are invited:  
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## Footnotes to Installment Two

[1]Samuel Clemens.

[2]*Financial Report of the United States Government, 2003*, Financial Management Services, U.S. Treasury,

page 4, "Overall Perspective" table. The \$3.7 deficit is the difference between "Total Assets minus Total Liabilities & Net Responsibilities," otherwise known as "Net Worth," in 2003 versus 2002, deficit net worths respectively of \$34.8 trillion and \$31.1 trillion. The \$3.7 trillion deterioration is the actual shortfall in 2003 government operations.

[3]PDF available at: [www.fms.treas.gov/fr/03frusg/03frusg.pdf](http://www.fms.treas.gov/fr/03frusg/03frusg.pdf)

[4]Fitch Ratings website.

[5]Based on analysis of data available in the Central Intelligence Agency's *The World Fact Book 2004*, the International Monetary Fund's *World Economic Outlook April 2004*, and the OECD and World Bank websites.

[6]"The Western World Past Its Prime—Sovereign Rating Perspectives in the Context of Aging Populations," Standard & Poor's, March 31, 2004, available at S&P website.

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### Series Introduction (Repeated from Installment One)

In 1996 -- the middle of the Clinton economic miracle -- the Kaiser Foundation conducted a survey of the American public that purported to show how out of touch the electorate was with economic reality. Most Americans thought inflation and unemployment were much higher, and economic growth was much weaker, than reported by the government. The *Washington Post* bemoaned the economic ignorance of the public. The same results would be found today.

Neither the Kaiser Foundation nor the *Post* understood that there was and still is good reason for the gap between common perceptions and government reporting: government data are biased in politically correct directions and increasingly have diverged from common experience and reality since the mid-1980s. Inflation and unemployment reports are understated, while employment and other economic data are overstated, deliberately.

For several years, I conducted surveys among business economists as to how they viewed the quality of government economic data. The following were actual comments:

- The senior economist of a major retail company told me, "Quality varies. The retail sales numbers are terrible, but money supply data are great."
- The senior economist at a major bank offered, "There's a problem with money supply, but I think retail sales are pretty good."

The point is that when an economist knows a sector well, he also recognizes the limitations and distortions of related economic reporting. Gathering and reporting accurate information on a timely (one-month) basis for components of the U.S. economy is nearly impossible. Nonetheless, most career government statisticians in Washington work diligently to provide the best information possible within the limits of the existing reporting system. A number of reporting distortions, however, are not accidental.

What follows is brief background on the reporting system and how the numbers can be viewed. Separate installments will address the specifics of employment, inflation, GDP and budget deficit reporting. Other areas will be addressed upon request.

The first regular reporting of now-popular statistics such as gross national/domestic product (GNP/GDP), unemployment and the consumer price index (CPI) began in the decade following World War II. Modern political manipulation of the government's economic data began as soon as practicable thereafter, with revisions to methodology often incorporating positive reporting biases. As a result, investors and most economists, relying on the government's data, often miss underlying economic reality. Consider:

- During the Kennedy administration, unemployment was redefined with the concept of "discouraged workers" so as to reduce the popularly followed unemployment rate.
- If Lyndon Johnson didn't like the growth that was going to be reported in the GNP, he sent it back to the Commerce Department, and he kept doing so until Commerce got it right. The Johnson administration also was responsible for gimmicking the accounting that hides most of the federal deficit.

- Richard Nixon had a highly publicized war with the Bureau of Labor Statistics on the unemployment data. Nixon wanted to report the unemployment rate as the lower of the seasonally adjusted or unadjusted number, at any given time, but not specify same to the public. While that approach was unconscionable at the time and never used, basically the same methodology was introduced in 2004 as "state-of-the-art" by the current Bush administration.
- The Carter administration was caught deliberately understating inflation.
- Systemic changes were introduced during the Reagan administration to boost reported GNP/GDP growth on a regular basis. The wildest manipulations, however, happened at the time of the 1987 liquidity panic. In addition to intervention in the futures markets by the New York Fed to help prop the stock market after the October 19th crash, direct and heavy manipulation of the trade deficit data, under the direction of the Federal Reserve and U.S. Treasury, was used in conjunction with massive currency intervention to help bottom the dollar and to contain the currency panic at year-end 1987.
- The first Bush Administration began efforts at the systematic reduction of the reported rate of CPI inflation, and worked an outside-the-system GDP manipulation aimed at helping with the failed 1992 reelection bid.
- As former Labor Secretary Bob Reich explained in his memoirs, the Clinton administration had found in its public polling that if the government inflated economic reporting, enough people would believe it to swing a close election. Accordingly, whatever integrity had survived in the economic reporting system disappeared during the Clinton years. Unemployment was redefined to eliminate five million discouraged workers and to lower the unemployment rate; methodologies were changed to reduce poverty reporting, to reduce reported CPI inflation, to inflate reported GDP growth, among others.
- The current Bush administration has expanded upon the Clinton era initiatives, particularly in setting the stage for the adoption of a new and lower-inflation CPI and in further redefining the GDP and the concept of seasonal adjustment.

As a result of the systemic manipulations, if the GDP methodology of 1980 were applied to today's data, the second quarter's annualized inflation-adjusted GDP growth of 3.0% would be roughly three percent lower (effectively netting to zero percent or below). In like manner, current annual CPI inflation is understated by about 2.7% against the pre-Clinton CPI methodology (would be about 5.7%), and the unemployment rate is understated by about seven percent against its original design and what many people would consider to be actual unemployment (would be about 12.5%).

As to the financial results of federal operations, the application of accrual accounting and generally accepted accounting principles to federal operations shows an actual fiscal year 2003 deficit of \$3.7 trillion, as reported by the U.S. Treasury, versus the reported cash-basis \$374 billion.

### **Key Factors to Consider with Any Economic Release**

Hearing or reading an economic statistic in the financial media is of little value, unless the context of the reported number is clear, detailing the type of change, any inflation adjustment, seasonal adjustment and revisions.

**Seasonal Adjustment** -- Widely followed data often are adjusted to remove patterns of distortion that recur regularly, year after year, or that are tied to business or trading days. For example, retail sales are strongest during the holiday season; February 2003 had 28 days, February 2004 had 29 days.

While seasonal adjustment is a legitimate tool for enabling month-to-month or quarter-to-quarter comparisons of data that might otherwise be biased by calendar trends, more often than not, the government has problems with its adjustments. Areas that usually do not adjust well: weekly unemployment claims and employment seasonals related to holidays and the school year.

One way to avoid many seasonality questions is to look at growth on a year-over-year basis, July 2004 versus July 2003, for example. Trends in annual growth are largely free of seasonal distortions.

Seasonal factors typically are calculated annually, based on recent years' patterns of activity. The Bureau of Labor Statistics, however, went to revising and recalculating its employment seasonal factors each month, as of January 2004.

**Inflation Adjustment** -- If inflation is up 3.0% for the year, and sales are up 2.0% for the year, then sales fell 1.0% after adjustment for inflation. Deflating dollar numbers is a legitimate approach to viewing data with

the effects of inflation removed.

Terms that mean data have been adjusted for inflation include *real, constant dollars, in 2000 dollars, in chain weighted 2000 dollars*. Beyond no inflation reference, terms that mean data have not been adjusted include *nominal, and current dollars*.

The most popularly followed inflation-adjusted economic statistic is the GDP, which reflects the growth in dollar economic activity minus the growth in inflation. If inflation is understated, which it is, then the resulting real GDP is overstated.

**Type of Growth** -- Is the reported growth *month-to-month, year-to-year or annualized*? Most monthly economic releases are reported showing month-to-month change. Quarterly numbers are shown either with quarter-to-quarter growth (i.e., the Employment Cost Index) or at an annualized rate of change (GDP). (SAAR means seasonally adjusted annualized rate.)

As discussed earlier, more meaningful trends usually are seen in year-to-year change, although such patterns rarely get publicized. Year-to-year change (the way most businesses look at their sales -- How am I doing against last year?) usually eliminates seasonal distortions in unadjusted data or residual seasonal distortions in adjusted data.

**Revisions** -- Most economic series go through regular and often significant revisions, typically for the next several releases and then annually in some form of a *benchmark revision*, as the government gets better or more complete data. A monthly number can appear to be strong or weak due solely to prior period revisions.

Two series that do not get revised on a not seasonally adjusted basis are the CPI and the unemployment rate, unless a mistake is made or the series is redefined. In such instances, often the new series is not comparable to the old series, but the financial media rarely pay any attention to those details.

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## ADDENDUM TO INSTALLMENT ONE

### Bureau of Labor Statistics' Correction to Payroll Survey Description

In response to my comments on the "non-random" and "haphazard" nature of the payroll employment survey in Installment I, the Bureau of Labor Statistics (BLS) advised that my information was outdated, that the payroll survey used scientifically designed probability sampling, which had been phased in over several years and completed as of June 2003.

I was aware of the changes to the system, but did not think they improved the quality of the reported results much. I have just reviewed the BLS's current sampling methodology and have not changed my mind. While I may have used inaccurate terminology in describing the sampling method for the series, my general comments remain, and I still believe the household survey to be the more accurate of the two.

The household survey is proactive in nature and designed and sampled so its results can be determined with measurable statistical confidence.

While the payroll survey sampling approach may be sounder statistically than it was several years ago, it still is responsive, in nature, subject to whatever is reported or not reported by U.S. corporations. While individual companies are selected at random for following, the universe they are selected from still is not random and can vary meaningfully with changing times. An element of haphazardness is inherent in the universe of reporting companies.

During a recession, for example, firms go out of business and stop reporting, but the BLS does not know whether a company is out of business or did not report for some other reason. This supposedly is accounted for by the business birth (creation)/death (going out of business) modeling of companies, which replaces the old bias factor system.

There is no way to model these numbers with any meaningful accuracy, and the monthly swings in the birth/death data now often are greater than the reported monthly changes in total payrolls.

The BLS has a Herculean task in trying to measure monthly payrolls with meaningful results, and it has expended significant effort to improve its system. Nonetheless, it is difficult to see noticeable improvement in monthly reporting quality. Contrary to BLS expectations of improved results, I would be extraordinarily

surprised if revisions to the series don't get larger, as opposed to smaller, as a result of what now is probably over-modeling of the series.

This already is evident in the monthly revisions to some individual industry series that I follow closely. It will be interesting to see how large the next several annual benchmark revisions are for the new system.

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