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The Bogus 'Jobs' Problem

by Herbert Stein

"Jobs" is the top catchword of this campaign, outranking even "family." Nobody can brag about the jobs he has created in America (although Bill Clinton does brag about Arkansas) but everybody can brag about the jobs he will create and decry the jobs his opponent's election would cost. Every policy -- environmental policy, trade policy, tax policy and expenditure policy -- is evaluated in terms of the jobs it would create or destroy.

I am amazed at the precision with which the campaigners are able to calculate the numbers of jobs that would be gained or lost by this or that policy. The Republicans say that Gov. Clinton's budget would cost 1.7 million jobs and his training program would cost 300,000 jobs . Apparently econometric techniques have greatly improved since 1988, when Mr. Bush's supporters predicted how many jobs would be created if he were elected. TX

The facts are: a) What does affect jobs the politicians are not talking about; and b) what the politicians are talking about does not affect jobs .

We have no long-term jobs problem in the U.S. This is evidenced by a 55% increase in employment between 1969 and 1989. Between those two years civilian employment rose from 58% of the population over 16 years of age to 63%.

We have a short-term jobs problem . From July 1990 to July 1992 civilian employment rose by only about one percentage point. Civilian employment as a percentage of the over-16 population fell from 62.7% to 61.5%.

The short-term jobs problem is the recession problem . We are in the ninth postwar recession. This one has been moderate in depth although somewhat longer than average in duration. Every postwar president had his recession, except Kennedy and Johnson, and they had their lulls. This suggests that we are not going to avoid recessions by choosing one president or another. Recessions are probably inevitable. But policy can probably influence the frequency, depth and duration of recessions.

Experience of the past two years has made one thing perfectly clear. We have no anti-recession policy in the U.S. Anti-recession policy is the use of monetary and fiscal measures in a way that resists tendencies in the economy to fluctuate.

Many economists would now agree that monetary policy is the senior partner in that team, for various reasons. But we have no monetary policy, unless hoping that Alan Greenspan knows what he is doing is a policy. The complaints about the Federal Reserve from the White House and Congress are just kibitzing; they do not constitute policy. "More!" is not a monetary policy, unless one is prepared to say more of what, how much, and for how long, and in what circumstances one would say "Less!"

But no candidate is talking about any changes in the rules or procedures of monetary policy that would tend to reduce the frequency or severity of recessions, and therefore the incidence of job loss.

There is a similar vacuum about the use of the federal budget to help stabilize the economy. Both parties talk endlessly about the budget. But, with few exceptions, there is no talk about how to adapt the budget to fluctuations in the economy. Everyone talks about the tax and expenditure proposals that he has been making all the time and will continue to make all the time -- in booms as well as recessions. These may or may not be good proposals, but they have nothing to do with avoiding recessions and preserving high employment.

I used to think, perhaps erroneously, that there was a consensus in this country about a stabilizing fiscal policy. This policy entailed having a budget that would be in balance at high employment, accepting the deficits that would automatically occur in recession and taking additional stimulative measures in case of an unusually severe decline. This formulation left some questions unanswered. Maybe it was not a good policy at all. But at least it was an attempt to deal with a real problem : how to manage the budget so that it would not cause, but would resist, economic instability. Nobody is now talking about how to deal with that problem .

What the candidates are talking about are measures to promote "growth," meaning an increase in incomes in the long run, or other long-term benefits, such as a cleaner environment. These programs are not intended to deal with speeding recovery from the recession or moderating future recessions. They are the same programs the same candidates have always favored, in good times and bad. There is no implication that they are to be adapted to the cyclical state of the economy.

Environmental proposals are a good example of the difference between affecting incomes and affecting jobs . Critics of such programs say that by increasing the costs of production they will destroy jobs . Supporters of such programs say that by requiring investment in equipment to clean the environment they will create jobs . Both are wrong.

Imagine a typical enterprise that pays wages of $10 an hour, which rise by 3% a year. Suppose a pollution standard is imposed on this enterprise that requires it to make a one-time investment of $5,000 per worker in cleaning up emissions from its smokestacks. This capital costs, say, 10% a year, or $500 per worker per year or 25 cents per work hour (assuming a 2,000hour year). Then, in the year in which this requirement is imposed the enterprise cannot afford to raise pay by 3%, or 30 cents an hour, but only by five cents an hour. But with this pay adjustment it can continue to employ as many workers as before, and unless new requirements are imposed on it the enterprise can resume the 3% annual wage increase.

On the other hand, requiring enterprises to invest in equipment to purify the atmosphere is not going to add to the sum total of jobs . The capital required to finance that investment will have to be drawn from the pool of national saving and the requirement will crowd out other investment. More people will be employed in producing equipment for controlling pollution, but fewer will be employed in producing capital goods for other purposes.

The environmental requirement calls for investing more capital in cleaning up the atmosphere and less in producing salable goods. Whether this is a good trade-off or not is a matter of taste and quantities, but it is not a matter of jobs . In the very short run there may be some employment effect. But no one can tell in which direction this short-run effect will run. In any case, no one is proposing that environmental requirements be tailored to the cyclical situation.

What has been said here about environmental requirements applies equally to almost all of the economic proposals now in circulation. Mr. Bush has never said, for example, that his apital gains tax should wait until we are in a recession and employment is low or that it should be withdrawn if the economy recovers rapidly and we regain full employment.

The capital gains proposal is a proposal to raise the rate of growth of output per hour of work by increasing the rate of saving or improving its allocation. It is not designed as a job-creating measure, even if the claims for it are valid. It might, if fortuitously adopted at an appropriate stage of the business cycle, have a temporary job-creating effect, although even this is doubtful, since the proposal is usually presented as part of a total budget package, including cuts in expenditures and in the deficit.

The economic ball takes crazy bounces. We should remember that after the Reagan 1981 tax cut, of blessed memory, unemployment rose to almost 12% in 1982 and the rate fell after the numerous Reagan tax increases.

In general, government policy does not create jobs in the long run. Employment rose just as fast -- actually, faster -- in the bad old days of Nixon-Ford-Carter economic policy as in the days of Reagan-Bush, even before the current recession. What makes jobs in the long run is the availability of workers willing to work at a wage justified by their productivity. Government policy may have an effect on the rate of growth of productivity -- an effect that is probably small but not negligible. That is worth talking about, but we should not pretend that we are talking about jobs . We should be talking about recovery policy for the present and anti-recession policy for the future, which we are not.

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