"You Can't Mandate Good Jobs"

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Many in the media have noted the continuingly strong U.S. labor market and have marveled at how it continues to hum along. Despite concerns in some sectors of the economy, employment grew faster than expected in June. Total employment is at an all time high of slightly over 146 million and the unemployment rate remains very low at 4.5%. While life is not perfect here, the performance of the U.S. labor market is quite remarkable compared to most other high-income countries. For example, for the first quarter of 2007, the unemployment rate in Germany was 9.0%, 9.0% in France, 6.3% in Italy, 5.5% in England, and 7.3% for all European Union countries combined. Though the unemployment rates of some other European countries were not as high as these, the U.S. is consistently the lowest or among the lowest of all countries worldwide. And this is done while maintaining one of the highest standards of living (and perhaps the highest) in the world.

How does the U.S. labor market do this? Consider how the U.S. fares on the degree of employment protection mandated by law. This entails the extent of procedural requirements, requirements of advance notice, and requirements of severance pay in the event of a layoff or termination. According to a Department of Labor ranking of OECD countries in this regard, the U.S. ranks nearly dead last. How about on public expenditures on labor market programs such as public employment services, public training programs, business start-up incentives, and unemployment insurance? Again, the U.S. is essentially dead last. (See http://www.dol.gov/asp/media/reports/chartbook/index.htm.) Minimum wage, as a percent of the typical worker's earnings, is lower in the U.S. than in most of Europe. Unions, which require firms to pay higher wages to their employees, are also much less important in the United States. Thus, despite a dearth of legal "protections" regarding employment security and high wages, the U.S. has more of both. It's clear that good jobs and favorable labor market conditions experienced in the U.S. – steady employment prospects with good wages – aren't created by mandate.

Good jobs emerge by firms producing goods and services that people want and producing them in an efficient way. Of course, figuring out what people want and how to produce it are not easy tasks. Firms continuously experiment with the introduction of new goods and with production methods. The successful ones pay off and thrive and the failures die off. This generates a lot of job creation and destruction. In fact, each quarter the U.S. economy historically destroys about 7.5% of its jobs but creates about 8.2% new ones. This seemingly messy process pays off in many ways. It gets products made that people want. As a result, people are willing to pay for them and this willingness to pay makes its way into workers' paychecks. Good jobs will be available as long as firms seek to produce goods that consumers want and workers can add productively to this

goal. Note that this process does not guarantee employment with a particular firm over a specified time span but provides assurance that good jobs will be available.

Free and competitive markets are a key in this process. They provide incentive for firms to pursue the goal of producing goods and services that people value and to workers to be productive in achieving this goal. Thus, the system of market competition generates the prosperity and the well-paying jobs with steady employment prospects. Policy makers often get the get the causation precisely backwards – they seem to think that mandated high pay and employment creates prosperity. This error in trying to mandate good jobs actually ends up destroying them. Surely, those favored few with the high wages, secure employment, and great benefits that mandates bring are better off but it comes at the expense of an economy that creates good jobs. Artificially high wages makes it more costly to operate firms and serve consumers. High payroll taxes to fund government operated employment services do likewise. Restrictions on worker layoffs and terminations make it more difficult for firms to adapt and evolve in the quest for finding products that consumers value. The whole value- and job-creating scenario described above unravels.

Similar comments apply to government programs that try to target industries where employment growth is alleged to be most desirable or where it "ought" to be. Trying to replicate the activities of thousands of firms and entrepreneurs in determining where value lies is not something that governments do well. There is a lot of evidence to support this claim, starting with the former Soviet Union. Governments simply don't have enough information or the right incentives to find the myriad of goods and services that people enjoy. An equally important point is that government targeting of industries essentially having the government choose the goods that we make and consume. This is contrary to allowing individual consumer and firm choices in deciding what to buy and sell, something of great value in free societies like our own. Relying on the market has the twin benefits of allowing individual freedom of choice and of being effective in generating prosperity.

A case can be made for a government safety net to assist laid-off workers in times of hardship between jobs and perhaps aid them in finding a new job. Beyond that, the appropriate government activity in the labor market is to support the conditions that enable free and competitive markets to thrive. That's the real road to good jobs.

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