



The Daily Dish

Economists versus Politicians on Jobs

DOUGLAS HOLTZ-EAKIN | MAY 3, 2021

Eakinomics: Economists versus Politicians on Jobs

In his recent [speech](#) to Congress, President Biden asserted: “That’s why I propose the American Jobs Plan, a once-in-a-generation investment in America itself. This is the largest jobs plan since World War II. It creates jobs to upgrade our transportation infrastructure. Jobs modernizing our roads, bridges, highways. Jobs building ports and airports, rail corridors, transit lines. It’s clean water. And today, up to 10 million homes in America and more than 400,000 schools and child care centers have pipes with lead in them, including drinking water, a clear and present danger to our children’s health. The American Jobs Plan creates jobs replacing 100 percent of the nation’s lead pipes and service lines so every American can drink clean water. *In the process it will create thousands and thousands of good-paying jobs.*” (Emphasis added.)

The president is hardly alone in this assertion; politicians regularly tout the jobs that their proposals will create. I think you should have a healthy skepticism about these assertions. Here is why.

The American Jobs Plan is focused on the long-term health of the economy. That means, by definition, it is focused past the recovery from the recession, when the unemployment rate has returned to normal. (This is particularly the case because the \$1.9 trillion American Rescue Plan is specifically tasked with getting everyone back to work.) With the economy at full employment, the only way to get someone to build a port or airport is to lure them away from their existing job. Yes, one job will be “created,” but the existing job will be “destroyed” and the net increase in jobs will be zero.

The trick is that the limit on jobs is not the demand for workers, it is the supply of workers. You can’t create “thousands and thousands of good-paying jobs” if you don’t have thousands and thousands of workers.

You could create jobs if more workers joined the labor force (the labor force participation rate rose) or the unemployment rate could stabilize at a lower level – those would increase the total supply of workers. Proposals that focus on labor force participation have a chance at changing the total jobs in the future – the administration is selling its child-care proposals on the grounds that it will increase female labor force participation, for example.

A better way to think about the policy proposals is not that they will create jobs, but rather that they will change the characteristics of the jobs in the economy. In particular, do the proposals raise the productivity of workers in those jobs, and thus allow real wages to rise? That is the heart of the [analysis](#) that AAF did of the then-candidate Biden's proposals. Sadly, the bottom line was not promising: "But the key is that the BBB plan raises a net \$3.3 trillion in new taxes (over 10 years) and AAF stacked the deck in favor of growth by assuming that it is *all* spent on highly productive infrastructure. Despite this significant increase (ultimately 16 percent) in public capital, the impact after 10 years is to lower gross domestic product (GDP) by 0.2 percent and household spending by 1.2 percent."

Politicians like to promise jobs, jobs, jobs. Be skeptical. Instead, focus on whether policies improve productivity and wages in the economy's jobs.