The Daily Dish

It's About More Than Jobs

DOUGLAS HOLTZ-EAKIN | OCTOBER 12, 2017

Eakinomics: It's About More Than Jobs

Reuters is reporting that "U.S. small-cap firms look to spend tax savings on tech, not jobs." The article notes that "Reuters contacted the 100 largest companies by market value in the benchmark Russell 2000 index of U.S. small and mid-cap stocks as well as another 50 in the Russell 2000 with no analyst coverage. None of the 17 companies that responded to Reuters queries mentioned boosting their headcount." The implied conclusion is that tax reform will "fail" because it will not create jobs.

This is simply wrong. The U.S. economy is very near full employment, at which point everyone who wants to be in the labor force will be, and of those, the only ones who will be unemployed are those transitioning from one job to another. That means that no amount of "stimulus" will raise employment — there just aren't more workers. At present, population growth is roughly 0.7 percent annually. If the labor force participation rate remains unchanged, this translates into the need for 0.7 percent more jobs — about 90,000 jobs a month.

What happens, then, if small-cap firms invest in technology? Their workers will become more productive. This, in turn, means that those firms can produce more with the same workers, and sell it to increase their earnings. Indeed, they could even give those same workers a raise and still not raise their unit labor costs because of the increased productivity. So, instead of tax reform manifesting itself as a larger payroll because of hiring, it manifests itself as a larger payroll because of rising wages.

This is exactly what one should want to have happen because of tax reform. Firms invest and innovate in the United States. They raise the wages of their workers. The United States becomes a more tax-competitive place on the globe and the standard of living rises in a sustained fashion. All of that is true even if tax reform does not change the pace of job creation, and it is a good thing.