Insight

Jobs Machine NOT Broken

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Some may believe the economy is defeated and will continue to decline, but fears that the economy is broken are unfounded. The U.S. economy is bowed but unbroken. The data presented reflect three features:

(1) The recession distorts the picture. Computing a 10-year growth in 2005 or 2006 for private jobs yields rates in the 13 to 15 percent range – down from historical pace but not a crisis;

(2) Historical job growth reflects population growth *and* the widespread entry of women into work. In June, the ratio of employment to population was 58.5 compared to 56 in 1950. Even in a terrible recession more of the U.S. population is at work than in the past. To accomplish this in the past 50 years we needed to create a lot more jobs – population growth plus the rise in labor force participation. Both factors are slowing, and so is the pace of job growth, but it is not a crisis;

(3) The era of big government is over and the government employment numbers reflect this fact. Outsourcing and otherwise delivering government services through private production reduces government jobs, but it is not a crisis.

Having said that, the U.S. economy *is* growing too slowly. As the work of Reinhart and Rogoff has shown, this is typical of the aftermath of financial crises. Households and governments need to rebuild their balance sheets. Businesses are the only sector with strong balance sheets and positioned to drive growth. The Administration's Keynesian policies misdiagnose the problem and focus on cash flows – not wealth – and mistakenly focus on households and governments at the expense of a pro-growth, supportive business environment.