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JOBS, JOBS, JOBS: WHERE DO JOBS COME FROM?

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According to the Gallup organization, availability of jobs is America's number one concern. This is certainly understandable. In December 2010, the Bureau of Labor Statistics reported some 14.5 million Americans as unemployed. Of these, 6.4 million had been without work for 27 weeks or more. The Great Recession had ended in June 2009, but with the unemployment rate hanging at 9.4 percent, job prospects were bleak.

Jobs and how to boot up the American job machine were headline themes in President Obama's speeches and in the inaugural addresses of newly elected governors. But while jobs is the theme, the underlying concern is most likely about income. People generally are not looking for work for its own sake. They want income producing jobs that will be sustained by the post-recession economy.

We know that jobs can be created in a number of ways. Governments can take tax money or deficits and expand public-works programs that hire the unemployed. But when they do this, the jobs not born because of higher taxes may be larger in number than the jobs created. New firms can emerge that will add jobs to the economy, and existing firms can expand their workforces. People can also give themselves a job. They can start a small business. In 2008, there were 21.3 million U.S. firms with just one employee, the owner of the business. The employment in the one-person sector was equal to 16 percent of the total employment in the private economy. But if the jobs are to be sustained, the organizations or individuals that form them will have to create value for the citizens or consumers that support them.

Where do jobs come from? Data tell us that smaller business, those with fewer than 500 employees, create more job growth in the economy than larger firms. In fact, firms with fewer than 50 workers typically produce some 36 percent of the new jobs. Managers of smaller firms know their employees really well. Hiring a new worker brings a celebration. Firing a worker when business falls off generates heartache. In an uncertain economy, like today's, cautious employers delay hiring until they are confident that they will be able to support new workers. But even now, a huge number of new jobs are being added to the economy. Unfortunately, a larger number of jobs are being subtracted.

In November 2010, the Bureau of Labor Statistics published a quarterly report on job creation in the U.S. economy. A table in the report contains the story of what I call the American job churn, the massive and dynamic process of openings, closings, hiring, and layoffs that generates over time more, fewer, or the same number of jobs in the economy. A quick sifting of data in the BLS report reveals that in the three months ending March 2010, there were 311,000 jobs lost in the U.S. economy. This came about by 6,421,000 gross job losses and 6,110,000 gross job gains. The losses were generated by closing establishments (1,190,000) and job losses from ongoing establishments (5,231,000). The gains were from opening establishments (1,114,000) and expanding establishments (4,996,000). By comparison, in three months ending March 2005, long before the recession started, there were 7,620,000 job gains and 7,220,000 losses. The recession took the edge off the process, but there still more than six million new jobs added in the quarter. Every job added or lost was the result of a conscious decision of an employer.

What is critical to adding new a worker? When creating a new job, the employer has to be relatively certain that after getting into the swing of the work, the new worker will produce enough additional revenue for the firm to cover his or her salary, fringe benefit costs, and provide a profit for the firm. Other things matter as well. Payroll taxes that cut into profits and reduce take-home pay cause fewer workers to apply for jobs and fewer firms to seek more workers. When worker productivity rises because of higher skills, willingness to work hard, superior tools and capital, and better management, firms will expand payrolls. Regulations that reduce productivity, capital gains taxes that raise the cost of capital, higher interest rates, and government rules requiring licenses for workers reduce the demand for workers. A slowdown in sales and lower prices for goods and services workers produce also reduces the demand for workers.

Where do jobs come from?

- They may be generated when governments decide to fund public-works projects that employ workers, but doing so may destroy more jobs than are added.
- Jobs emerge when governments expand normal services valued by taxpayers.
- Jobs are born every day when private firms add workers to take care of business.
- Jobs are created when individuals decide to employ themselves in one-person firms that they own.

Some jobs are temporary; others may be long lasting. Which jobs are more apt to be sustainable?

- Jobs that emerge spontaneously when healthy firms employ individuals after a meeting of the minds.
- Government jobs that engage workers in producing valuable citizen services.
- Self-employment in one-person firms that contract to provide market-tested products and services.
- Jobs that are located in regions with a growing economy.
- Jobs that are not generated by temporary government programs.

What determines the pace of private-sector job formation?

- The pace of employment increases when local and national economies expand.
- The pace quickens when worker productivity rises due to improved or additional capital, more experience, better management, and higher levels of skill.
- More jobs are formed when taxes that burden workers and firms are reduced.
- Jobs expand when the red tape for starting a business is reduced and license barriers are softened.
- More jobs are generated when the cost of capital falls due to lower interest rates and lower capital gains taxes.
- The pace quickens when economic freedom rises and mobility increases.

What can government do to enhance private-sector employment?

Some of the answers are found in the bullets just displayed. More fundamental actions that can contribute to a healthier employment market include:

- Protection of property rights, reducing fraud, and enforcing contracts.
- Providing adequate supplies of water and sewage treatment to support industry and municipal life.
- Improving traffic control and transportation infrastructure to enhance mobility of people and goods.
- Protecting environmental quality so that locations are attractive to people.
- Maintaining price stability so that inflation does not erode earnings and wealth.
- Reducing uncertainty by avoiding the disturbance of the basic rules of the game that are formed by statutes and regulation that define and protect property rights.