It's a Tough Job to Create Jobs
But That Doesn't Stop Bush and Kerry From Saying They Can

By Jeffrey Frankel

The White House must have been overjoyed earlier this month to see a good employment report at last: 308,000 jobs created in March. Unfortunately, it would be premature to start handing out cigars. Employment remains below what it was when the recession ended in November 2001, let alone when the slowdown started in March that year. The trend in jobs over the last seven months (up a modest 108,000 per month) remains so weak that it has not kept up with the growth of the labor force, let alone begun making up for the 2.2 million jobs lost during the preceding 2½ years of the Bush administration. All in all, the "jobless recovery" is still pretty jobless.

Even in the unlikely event that the good employment news last month—by far the best of the Bush years—were to be repeated each month between now and November, the fraction of Americans with jobs would remain far below what it was on the day that Bush took office. Bush may be able to claim, truthfully, that the economy is turning the corner; it is, he said last Tuesday, "strong and it is getting stronger." But most likely, the Democrats will still be able to say, truthfully, on Election Day that Bush is the first president since Herbert Hoover to lose jobs during his term.

How much is Bush to blame for this record, and how much blame should go to the villains of this political season—the corporations that outsource jobs to foreign countries? And can Democratic presidential hopeful John F. Kerry, if elected, deliver on his vow to create 10 million new jobs over four years? The answers don't fit into a stump speech.

The monthly labor statistics are net numbers. In reality, much larger numbers of jobs are being lost and created all the time. Federal Reserve Board Governor Ben S. Bernanke points out that the number of jobs lost to outsourcing over the past three years has been well under 200,000 annually—about 1 percent of gross job losses in a typical year. But this observation provides no solace for workers whose jobs have been relocated to Bangalore, and little reassurance to Bush.

Even Republicans are sniping at each other over it. When Council of Economic Advisers Chairman N. Gregory Mankiw said in February that outsourcing "is probably a plus for the economy in the long run," he was chastised by, among others, Speaker of the House Dennis Hastert (R-Ill.), who said, "I understand that Mr. Mankiw is a brilliant economic theorist, but his theory fails a basic test of real economics."

Economic theory says that even when outsourcing eliminates some jobs, in the long run enough new jobs are created to make up for the jobs that are lost. Furthermore, economic theory says that in an era of globalization, technological innovation and education, the real (inflation-adjusted) wages that go with the average job rise over time.

Hastert is wrong to think that this theory necessarily fails in the real world. On the contrary, this is exactly the way things worked between 1993 and 2000. Jobs were destroyed every month, but far more jobs were created (80 percent of the net increase was in the private service-producing sector). Overall employment rose during the Clinton years at an average rate of 236,000 a month, more than twice what we have seen over the last seven months of the Bush administration. Moreover, the jobs created during the 1990s tended to pay rising real wages.

Since 2001, however, the economy has not worked this way. The Bush administration has the job destruction part of the equation down cold, but has come up short on the job creation part. Where are the export jobs? Where are the mushrooming payrolls of telecom, Internet technology or health firms?

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For economists, as well as for Hastert, it is genuinely puzzling that employment has lagged during a period of rapid growth in GDP. Claims that the discrepancy is due to underestimated employment data are almost certainly wrong. The Bush administration attributes the discrepancy to a permanently higher rate of productivity growth, the sort that raises our standard of living from one generation to the next. And it does indeed seem that the pickup in productivity growth that started in the late 1990s, plausibly a result of new technologies and trade, is continuing in the current decade.

The question is whether the accelerated rate of increase in economic output relative to employment that we have experienced over the last three years is sustainable. I would argue that the answer is probably “no.” If we are seeing a permanently higher rate of productivity growth, there would be no need for it to hurt workers. The number of jobs created would exceed the number of jobs lost by enough to restore full employment.

In addition, most of the productivity gains would be passed through to workers in the form of higher wages. That is what happened in the late 1990s. It is not happening today, at least not in the United States. Instead, firms are cutting back on costs any way they can—limiting hours worked and wages paid—to boost profits. Labor’s share of national income is now well below normal and corporations’ after-tax profits well above normal. This, as much as unemployment, is part of Bush’s burden.

What does the opposition team offer?

By setting a goal of creating 10 million jobs, Kerry has taken a page from Bill Clinton’s 1992 playbook. He has promised to promote specific sectors such as broadband technology and renewable energy. And he’s pledged, like Clinton, to cut the budget deficit in half during his first term—meaning he won’t do anything while in office.

On fiscal responsibility, it seems that Democratic and Republican presidential candidates have switched places. Some of Kerry’s economic proposals have the word “offshore” in them. Kerry wants to crack down on corporations that incorporate offshore in places like Bermuda as a way to avoid paying U.S. taxes. He also suggests abolishing the provision that allows U.S. corporations to defer for years taxes on the profits they earn overseas. The reforms in themselves might raise the corporate cost of capital, but Kerry would offset them with a cut in the corporate income tax rates and tax credits for hiring new workers in the United States.

Jeffrey Frankel is James W. Harpel Professor of Capital Formation and Growth at Harvard University. He was a member of President Bill Clinton’s Council of Economic Advisers from 1997 to 1999.

The net effect would be to keep more economic activity onshore, achieve some sorely needed improvement in the federal budget balance and begin to reverse the worker-unfriendly trend in the tax code. The proposals are good economics, and they come by their populist ring honestly in that the current system is letting corporations get away with too much. But Kerry cannot claim that these reforms by themselves will be enough to bring back the 2.2 million jobs lost under Bush.

Not that Bush’s tax policies should be blamed for the 2.2 million lost jobs. The recession began two months after he took office, before he had had a chance to do much damage. As convenient as it would be for the Democrats to be able to claim that Bush fiscal policies caused the weak economy of the last three years, good economic logic does not support that contention. If anything, Bush’s tax cuts, leaving aside their Robin-Hood-in-reverse character, might have moderated the economic slowdown. It’s hard to give away a couple of trillion dollars without having some stimulus effect on the economy. But they didn’t help as much as they might have. The ill-conceived composition of the tax cuts almost seemed designed to minimize bang for the buck. For example, the abolition of estate taxes in the year 2010 and the reduction in dividend taxes would produce large tax revenue losses in the decade while having no stimulative effect in the next two years when we needed a boost. The name of the tax cut Bush signed in 2003, the “Jobs and Growth Act,” was a typical Washington exercise in misleading advertising. A fervent belief in low taxes is not enough; one has to know which taxes to cut and when.

Later in the decade is when the federal government is going to need revenues. Even the official White House projections no longer repeat their overly optimistic claims that the deficits will soon go away. Yet the president wants to extend his tax cuts anyway.

And that’s part of the real problem with the Bush tax cuts: their implications for the future, not the past three years. Good economic logic does support a causal link between Bush fiscal policies and the next recession. The budget deficit has eroded national savings, swelled the trade deficit and increased our reliance on foreign borrowing. For the time being, Japan and China are propping up the dollar by purchasing U.S. government debt. When they tire of this, U.S. interest rates will rise, perhaps precipitating a recession.

It is impossible to say when the next recession will come. But when it does, it is likely to be worse than the 2001 recession, if current policies continue. Why? Precisely because we will enter it with an alarmingly high budget deficit and national debt. Thus, we will not have the luxury of being able to cut taxes and increase spending as Bush has done. If anything, we are more likely to be in the midst of raising taxes, as Bush’s father had to do in 1990 to begin working off the debt he inherited from Ronald Reagan. This will exacerbate the downturn, but—like Argentina or Brazil in recent years—we will have no choice. The resulting pain will make the economic travails of the last three years seem mild.

... but Sen. John Kerry’s proposals won’t revive the economy on their own, much less create a promised 10 million jobs.