

Cato Institute Policy Analysis No. 48: The Myth of Government Job Creation

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Thomas J. DiLorenzo

Thomas J. DiLorenzo is associate professor of economics at George Mason University and an adjunct scholar of the Cato Institute. This paper has been prepared in conjunction with the 1985 high school debate topic of poverty and job creation.

Executive Summary

Although the 1983-84 economic recovery generated more than 6 million new jobs in less than two years, the problem of poverty in America remains serious. Ever since the mid-1960s when President Johnson declared his "war on poverty," the proportion of the population living in poverty, as defined by the government, has crept steadily upward, although the rate of increase has apparently slowed in the past few years.[1]

A perennial and admittedly partial "answer" to the poverty problem offered by the Washington establishment is government jobs programs. Such programs are a principal objective of many proponents of an interventionist industrial policy who fear that an alleged decline in the manufacturing sector of the economy will deprive citizens of many well-paying jobs, leaving only "dead-end" employment opportunities.[2] Expanding the government payroll, so it is said, is a way of avoiding this "problem." Other advocates of government jobs programs claim that they can not only alleviate the problem of poverty, but also provide such additional benefits as improved environmental and energy conservation, the rebuilding of the nation's "infrastructure" (i.e. roads and bridges), a stronger national defense, and so on, if only "targeted" correctly by the federal bureaucracy.[3] And the U.S. House of Representatives, just a few days before adjourning in October 1984, voted to appropriate funds to revitalize one of the first government jobs programs, the depression-era Civilian Conservation Corps.

Throughout 1985 the topic of government jobs programs will be widely and thoroughly discussed in the nation's high schools, as the issue of poverty has been chosen to be the focus of the 1984-85 annual high school debate competition. One of the main resolutions to be debated is "whether the federal government should provide employment for all employable United States citizens living in poverty."

If the students and others involved in the debates take advantage of the exceptional opportunity thereby provided to learn some basic economic principles, they will discover that it is inherently impossible for government to create jobs; only economic growth in the private sector of the economy can create employment opportunities. Government taxing and spending programs only redistribute existing jobs: taxation reduces the economic vitality of the private economy, destroying jobs there, even though jobs may be "created" elsewhere by government spending on jobs programs.

Moreover, the question of whether government should "provide employment for all employable United States citizens living in poverty" revolves around another question, whether it is legitimate for government to benefit one group of citizens at the expense of another. If one believes that government owes its citizens justice and equality of treatment, then it is clear that government has no role in trying to "create jobs" through government jobs programs.

But jobs programs are politically appealing. When people are put to work through such programs the jobs are highly visible: workers know their temporary jobs have been doled out by certain politicians for whom they will therefore be more likely to vote. By contrast, the private sector jobs destroyed through taxation (to finance the jobs programs) are much less visible: the unemployed are not likely to realize that it is the higher level of taxation that has placed them on the unemployment rolls. Thus, referring to government jobs programs as a means of "creating jobs" is misleading at best, and dishonest and deceitful at worst. This is not to minimize the problem of poverty, but to suggest that government jobs programs are not the solution and in fact very often make things even worse.

The present paper will discuss the economic logic of why governments cannot create jobs and will offer evidence to support this analysis. Special attention will be paid to arguments that are likely to be encountered in the high school debates and to appropriate responses.

Can Government Create Jobs ?

Despite the rhetoric of "government job creation," economic logic denies the possibility that jobs can, on net, be created by government. The economist's notion of "opportunity cost" is the key to understanding this phenomenon.

Every action has an opportunity cost, the subjective value of the most highly valued alternative course of action foregone. For example, the opportunity cost of reading this paper is the subjective value one places on whatever alternative activity one might otherwise engage in.

With respect to government jobs programs, what is important is that they are usually financed by taxation or borrowing by the federal government. In either case, resources are withdrawn from alternative, private sector uses. Higher taxes mean consumers have less to spend in the private sector, and reduced consumer demand leads to less production and employment. If the government borrows money to finance a jobs program, alternative uses of credit by private individuals and business firms are precluded. This, too, causes economic stagnation and higher unemployment in the private sector. The "cost" of government jobs programs, regardless of how they are financed, is therefore best viewed as the reduction of private sector production and the employment that production creates. Those who believe that government jobs programs can create jobs fail to realize or acknowledge that they also destroy jobs elsewhere in the economy. Government jobs programs alter the composition of jobs in the economy--more government employment, less private employment--but do not increase the number of jobs. Some may prefer a larger government sector relative to the private sector--and this is what government jobs programs give us--but it is misleading to pursue this objective under the guise of creating jobs.

Jobs programs are politically appealing, despite their inherent inability to create jobs, because the jobs that are fabricated are highly visible: the recipients of such jobs know where they came from and who to thank for them at election time. People employed building bridges or highways know that they are employed because of a particular jobs bill. Consequently, they are more likely to support the politicians responsible for the bill at election time. By contrast, those thrown out of work because private economic activity has been crowded out by taxing or borrowing to finance jobs programs are not aware of precisely why they became unemployed. The costs of jobs programs, in other words, are almost invisible to the average citizen. If one believes that the existence of unemployment is unjust, then the creation of unemployment in the private sector, under the guise of creating government jobs, would seem especially unjust and deceitful.

Did Franklin Roosevelt Create Jobs?

The notion of government jobs programs first became popular in 1933 when President Franklin D. Roosevelt decided to raise taxes and pay the unemployed for their attendance at government-run public works projects. There is a popular misconception that Roosevelt, by doing this, "put people back to work." The evidence, however, indicates that Roosevelt merely substituted government jobs for private sector jobs, as is always necessarily the case with government jobs programs. This made him very popular with the people who were given government jobs, but failed to alter the total level of unemployment during the Great Depression of the 1930s.

At the great expense of further depressing the private economy Roosevelt used the jobs programs as a means of ensuring his reelection. He won millions of votes by employing 4 million workers in the Civil Works Administration

by 1934, although the program was abolished in that year because of the embarrassingly high cost.[4] In 1935, Roosevelt prepared himself for the 1936 election by creating the Works Progress Administration, which employed over 4 million people in 1935. Other programs initiated by Roosevelt were the Public Works Administration established in 1933, the Civilian Works Administration, the Civilian Conservation Corps, and the National Youth Administration.

Without a doubt, these programs were enormously popular among those who received government jobs and helped Roosevelt get reelected three times. But despite billions of dollars spent on programs employing millions of people, the economy remained depressed until the United States entered World War II. There were more people enrolled in federal jobs programs in 1938 than in any other year of the depression, yet the unemployment rate was still 17.2 percent in 1939--higher than it was in 1931, a year before Roosevelt was elected to office and two years after the stock market crash.

Supporters of Roosevelt's jobs programs are fond of citing famous artists, writers, actors, and others who benefited from the programs, and it is undeniable that many talented individuals took advantage of the opportunities afforded by government jobs. But this clouds the issue of whether government can create jobs, for we have no way of knowing how many architects, engineers, authors, playwrights, and so on were frustrated in their attempts to develop their skills due to the economic stagnation of the private sector. Such stagnation was the price paid to prop up the government sector during the depression years.

Modern-Day Job Displacement

Since the early 1960s there have been periodic attempts to reduce unemployment and poverty through government jobs programs. Examples include the Area Redevelopment Act of 1961, the Youth Employment Opportunities Act of 1961, the Manpower Development and Training Act of 1962, the Job Corps, and the Comprehensive Employment and Training Act (CETA).

As with the jobs programs of the 1930s, however, it is widely recognized that these modern programs have not created jobs but have simply enlarged the public sector at the expense of the private sector. In fact, there is evidence that the net effect of many jobs programs has been to reduce the number of jobs in the economy. Dr. Allen H. Gutheim of Wharton Econometric Forecasting Associates had this to say of a 1982 government jobs bill:

The \$5.5 billion House plan would lift employment by 40,000 jobs by the end of 1984, far below the 320,000 the plan's sponsors forecast. And in 1983, the program would actually cost the economy 20,000 jobs as money customers would have spent elsewhere winds up paying for the increased jobs.[6]

In another study of the same bill, Nobel Prize-winning economist Milton Friedman estimated that the proposed program would result in a net loss to the economy of as many as 100,000 jobs.[7] Thus, in the opinion of these (and other) economists, government jobs programs not only displace private sector jobs, but actually destroy jobs, on net. As Friedman stated, jobs programs, "whenever they come into effect, would destroy more jobs than they create." [8]

One reason for this is that public works projects must comply with the federal Davis-Bacon Act, which stipulates that wages paid must be the "prevailing wage" in an area, usually the prevailing union wage.[9] The jobs that are "created" are therefore relatively highly paid, regardless of whether the workers are productive enough to command such wages on the open market.

Workers in jobs programs are often union members who are relatively more skilled and wealthy than many of the workers who are displaced in the private sector. For each worker earning a Davis-Bacon wage of, say, \$12 per hour on a public works project, possibly three unemployed teenagers could have been employed instead. The result in this hypothetical example is a net loss of two jobs. This example also illustrates why jobs programs are so popular among labor unions: they provide taxpayer-subsidized employment for union members--and union dues for union organizations--although they actually destroy jobs in the private sector. The superior political clout of unions, as compared with that of unemployed teenagers, helps explain why such policies persist.

A second reason why government jobs programs usually destroy jobs, on net, is that much of the money extracted from taxpayers does not go toward wages of previously unemployed workers, but rather toward financing the

government jobs program bureaucracy. Ivor Peterson, writing in the New York Times, claimed that the 1982 jobs bill appears to have helped government employees and consultants more than the unemployed:

Although the money was intended primarily to help men and women whose jobs had been in declining industries, the early beneficiaries of the fund have been the lawyers, accountants, engineers, and consultants brought in to draw up proposals, plan new projects and conduct public hearings on them.[10]

The federal government's Office of Management and Budget (OMB) has studied the question of how much money earmarked for jobs programs goes toward its primary purpose--wages for the unemployed--and how much is eaten up by the bureaucracy. In evaluating the Local Public Works Program of the 1970s, OMB concluded that "only 12 percent of the jobs generated by the Local Public Works Program--and only 2 percent of the funding-- actually went to persons previously unemployed." [11]

In addition to being administratively costly, many public works projects are capital intensive, requiring large expenditures on such supplies as tools, machinery, bricks and mortar, asphalt, and so on. It is not unusual to find that more money is spent on purchasing supplies from businessmen than on the wages of previously unemployed workers. This is why many businesses are also among the strongest supporters of government jobs programs. Such expenditures may reallocate some jobs to the machinery and brick and mortar industries, but they come at the expense of fewer jobs elsewhere.

Because the expenses of jobs programs are so high with so few positive results, OMB estimated that public works programs are a very high-cost method of "creating" jobs--from \$69,320 to as much as \$198,059 per job annually.[12] Taking nearly \$200,000 out of the economy each year for each person given a government job benefits some people, but it surely hurts many more. Moreover, OMB found that 50 percent to 75 percent of the jobs available in public works projects require skilled (and usually unionized) labor, so that they are not even designed to help the hard-core unemployed or to alleviate the problem of poverty, despite claims to the contrary.

In addition to substituting governmental for private-sector jobs (eliminating many other private-sector jobs in the interim), there is evidence that federal tax revenues given to state and local governments to finance government jobs programs merely replace a large amount of state and local expenditures for public works; thus no jobs would be "created" even if private economic activity were not crowded out. Robert Vaughan, economic adviser to former governor Hugh Carey of New York, explained that federal jobs programs "retard public works spending by state and local governments because they defer their own projects in the hope of getting federal aid." [13] What happens is that city governments sometimes purposely lay off their employees only to rehire them once the federal jobs program money arrives. By doing this the city of East St. Louis once had almost two-thirds of its work force on the CETA payroll; San Diego and Miami had 47 percent of their work forces on the CETA rolls; and nationwide, 16 percent of the average municipality's work force was on the CETA rolls in 1978.[14]

Politics, Jobs, and the Business Cycle

Proponents of government jobs programs sometimes claim that one of the programs' chief benefits is to help many of the hard-core unemployed "make it through" a recession. Even if government jobs are only temporary, it is said, they are still worthwhile because they stimulate employment when such stimulation is most needed.

Unfortunately, political reality dictates precisely the opposite: government jobs programs enacted during recessions inevitably depress the private economy even further during the recession and usually provide temporary government jobs only after the recession has already ended. This occurs because of time lags in the implementation of economic policy.

Incumbent politicians are loath to admit publicly that a recession began "on their watch." Thus, it takes time for the Congress to recognize that there is an economic downturn or that we are entering a recession. Once this "recognition lag" has passed, it usually takes months of political logrolling and arm twisting before any jobs bill can be agreed upon by both houses of Congress and by the president. After this "action lag," there follows an "implementation lag," the period of time required to actually implement the program. As discussed above, such programs typically become mired in a bureaucratic morass for months or years before funds are actually expended.

Jobs programs therefore typically get underway after the recession has already ended--ended in spite of the rise in private-sector unemployment caused by tax increases for funding the supposedly beneficial jobs programs. One study found that the number of government jobs created by the "Accelerated Public Works" program enacted in September 1962 reached its maximum only in June 1964, 37 months after the 1960-61 recession had ended.[15] Another, more recent study found that 90 percent of the spending for local public works projects designed to stimulate the economy after the 1974-75 recession occurred more than two and a half years after the recession had ended.[16] Time lags are an inherent part of democratic government and must be considered when evaluating the efficacy of jobs programs or of any other economic policies said to be "counter-cyclical," that is, intended to reduce the ill effects of a recession.

Are Government Jobs Real Jobs?

There is a vast difference between the type of jobs provided by the private sector and the type provided by government jobs programs. The former are far more beneficial to both worker and society. Public service employment is often characterized, for instance, as "make work," pointing up the fact that people holding down such jobs often spend their time doing things for which there is really no demand or need, but which are simply ways of making them look busy. Consider the following examples, which, though not necessarily representative of government jobs programs, are bound to occur whenever government is in the business of "creating jobs."

In Arizona, CETA paid college students to train for a track meet;[17] in Bath County, Virginia, CETA workers were paid to attend dance classes; in Chicago, one CETA worker reported that she was paid "to play checkers" with other employees; in Montgomery County, Maryland, a suburb of Washington, D.C., and the wealthiest county in the nation, CETA paid nine women \$145 per week to attend ballet school; in Poughkeepsie, New York, CETA workers attached fake doors to old buildings to "beautify" the city. The list is virtually endless. Even when "public service" jobs are less ridiculous and involve such relatively mundane activities as leaf raking or painting government buildings, they actually make worker and society worse off in long run.

The reason why has to do with the nature of private jobs vis-a-vis public service jobs. In private competitive markets, employer demand for workers is a "derived demand." That is, in response to consumer demand for various products, profit-maximizing producers hire workers who are capable of helping produce the things consumers want. Producers who provide products that consumers do not want (green wigs and lead tennis balls, for instance) and hire workers to produce them will not long survive--at least not without a government subsidy. Thus, in contrast to the public sector, in private competitive markets labor is employed in ways that put resources to their most highly valued uses. If, for example, consumers like Ford automobiles better than Chryslers, the increased demand for Fords will drive up their relative price, signaling to company managers that they can increase their profits by hiring more workers and producing more cars. To hire more workers they must bid workers away from other areas of employment--areas that are, by definition, less valuable. If they were not less valuable, Ford would not be able to bid them away. In short, the types of jobs created in the market are those that produce the things that best satisfy the wishes of consumers, given the preferences of consumers themselves who "vote with their dollars" in the marketplace.

Another important aspect of job creation in the private sector is that when an employer and a prospective employee strike a bargain and enter into an employment contract, the welfare of both parties is enhanced. Employer and employee are each better off, as they see it, or else they would not have made the agreement in the first place. Private employment contracts are mutually beneficial because they are voluntary. And clearly, we do not ordinarily observe people purposely doing things that they believe will make them worse off. Moreover, if at some point either party becomes dissatisfied, it can renegotiate the contract. The worker can quit and search for work elsewhere, and the employer usually has the right to fire employees who breach their contractual obligations.

By contrast, government jobs programs do not involve mutually advantageous exchanges because a "third party" is involved, namely, the taxpayers who must ultimately pay the bill for those programs. The people who accept public service jobs are obviously made better off, at least in the short run, as are the government bureaucrats who administer the programs. But these benefits come at the expense of other people, who pay for the programs either through taxes or through the private sector unemployment created by the governmental taxing or borrowing that finances the programs. Moreover, whenever government allocates resources, as with jobs programs, society as a whole is made worse off to

the extent that resources are put to lower-valued (by consumers) uses. If the things people are paid to do through government jobs programs were more highly valued than the alternatives, the market would supply incentives for private entrepreneurs to provide them.

For instance, if there is an increase in the demand for art and ballet, that increase will be "registered" through the price system by increased prices for those commodities. Consequently, more art and ballet will be provided, and the incomes of artists and ballet dancers will increase as well. But when the government simply deems it "desirable" to subsidize art, ballet, or any particular type of employment, it necessarily reduces overall welfare by subsidizing activities that consumers, through the market, have indicated they don't want, at least at the level the government bureaucracy prefers. Other things that consumers do want are not produced in sufficient quantities because of the transfer of resources from the private to the public sector. In short, whenever employment and production decisions are made by government bureaucrats rather than by private entrepreneurs, the wishes of consumers as registered through the price system are replaced with the whims of the political authorities. And political authorities will always necessarily cater to the preferences of whichever interest groups make the most noise and offer the most campaign support, regardless of the wishes of consumers.

Private sector employment, then, is useful or beneficial because it produces things for which there are legitimate demands. Private sector jobs are "productive" to the extent that they help allocate resources to their most highly valued uses. They are a net benefit to society because they produce more (in dollar terms) than they cost.

Consider the following analogy. In the Soviet Union there is no unemployment, for everyone is given a government job. But the jobs that are created are not necessarily productive: secret police, informers, parking lot attendants, and so on. Now, while the type of jobs available through American jobs programs may differ in detail, they are equally unproductive in a very important sense: they serve only the political authorities and a small handful of "customers."

In the long run, an individual's ability to find productive employment enabling him to avoid poverty depends on his ability to produce a good or service for which there is a legitimate consumer demand. And the market system is the only known mechanism for finding out whether such demand exists. Government jobs programs provide individuals only with false hopes that they are becoming employable, and the important business of seeking out long-term employment is thus delayed. Although the federal government claims that its efforts have been directed at providing public service workers with training and experience that can help them to find long-term, unsubsidized employment, the record indicates that these attempts have been dismal failures.

For instance, overall only 14 percent of the millions of CETA recruits were able to find unsubsidized work in the private sector in the late 1970s, according to the federal government's own General Accounting Office (GAO).[18] This is a remarkably poor placement rate when one considers that 75 percent of the "recruits" were high school or college graduates who would be expected to do much better on their own.[19] In a 1978 study, the GAO reported that many jobs program recruits "received training for which they were neither academically nor physically prepared, received training in low-demand occupations and received jobs which labor market surveys forecasted as surplus or low demand occupations, and received training that did not provide them with skills needed to do the job." [20] In a 1979 study, GAO reported that many CETA trainees "remained in their 'temporary' Public Service Employment jobs for several years, and . . . received no formal training either related or unrelated to their jobs"; [21] and the Commission on Federal Paperwork stated that "the choice of job categories for which training is provided is often haphazard. People are trained for job opportunities that do not exist." [22] What unemployed and unemployable people need is the incentive and ability to become more skilled, but this is precisely what government jobs programs have deprived them of.

Economic Growth and Job Creation

A proper understanding of how jobs and wealth are created in the economy leads one to the conclusion that it is inherently impossible for government to "create" jobs or wealth. Through legislation, government can only redistribute wealth and rearrange the composition of employment. To create jobs the government must necessarily destroy jobs.

Government must finance its activities through taxation, or borrowing, or printing money. If taxation is the financing mechanism, private spending is reduced so that there is eventually less production and employment in the private

sector. Jobs are destroyed. If the federal government borrows by issuing bonds, it uses financial capital that would have gone to other uses in the private sector or to other areas of government, i.e. state and local governments. If government expands the money supply to finance its programs the end result is inflation, which reduces the value of private wealth. This too leads to economic stagnation. Thus, all legislation to "create" jobs is a zero-sum game at best. But the end result of governmental resource allocation is more likely to be a negative-sum game, for millions of dollars and thousands of hours are wasted in attempts to influence government decision makers. Such resource use is wasteful to the extent that those dollars and hours could have been used to produce more wealth (and jobs), rather than being used to influence the redistribution of wealth through the aegis of the state.

For example, when Exxon Corporation or the AFL-CIO employs highly talented people to lobby the Congress for special favors, the "social cost" or "waste" involved is the improved quantity and quality of petroleum products that could have been produced or the improved workmanship foregone. Economist Mancur Olson compares the governmental process to a wrestling match between two wrestlers competing in, and for the contents of, a china shop. They are sure to destroy more than the winner carries out after the match is over.[23]

By contrast, voluntary trade in the private sector is always a positive-sum game. When buyer and seller agree on a sale, both parties are made better off. Unlike government, which has the legal ability to force people to pay for things they may not want, no individual or group has the legal ability to coerce payments in the private market.

Wealth and jobs are created in the private sector only through entrepreneurship. The entrepreneur, if he is to succeed, has to discover profit opportunities; he must find out what consumers want and produce it. If it turns out that consumers like his product better than the alternatives, the entrepreneur thrives and consumers benefit. If the entrepreneur is wrong, he will not survive. Through this process wealth and jobs are created in that the consumer benefits from a new product, the entrepreneur profits from his risk-taking venture, and people are employed who may previously have been unemployed.

Of special importance here are the roles of the tax system and capital markets. The higher the taxes imposed on entrepreneurship, the less profitable risk-taking becomes, and ultimately the less wealth and jobs created. Similarly, the higher the rate of taxation of work effort, the less strong the incentive to work, and ultimately the less production in the economy. This is why tax increases to finance government Jobs programs (or any government programs for that matter) necessarily destroy wealth and jobs. Alternatively, tax reduction will encourage entrepreneurship, wealth creation, and the expansion of employment opportunity.

Capital markets are important because entrepreneurs rely heavily on their ability to borrow money to finance their operations, whether they involve a mortgage for a small grocery store or billions of dollars for the Alaska pipeline. Capital markets serve as a "clearinghouse" where the funds of lenders are accumulated and made available to borrowers. When government borrows, however, it uses funds that would otherwise have been available to private entrepreneurs for increasing production and for employing more people. The beneficiaries of debt-financed government spending are made better off, but at the expense of reduced wealth and job creation in the private sector.

To summarize, the only way for government to encourage the creation of jobs is to lessen its role in the economy by (1) reducing taxes; (2) reducing the regulatory costs imposed on all businesses, and which are especially burdensome to the small businesses that create most of the jobs in this country; (3) reducing government spending; (4) reducing inflation by not printing money to finance government programs; and (5) reducing regulatory restrictions on labor markets, which, like taxes, government borrowing, and inflation, retard economic growth and employment opportunity. In short, although government jobs programs are a response by politicians to public requests to "do something" about unemployment and poverty, the appropriate course of action is to undo something.

The Freedom to Work

There are a number of specific steps the federal government can take to help provide jobs for those living in poverty and for many others as well. Each of these measures involves reducing the degree of government interference in private markets.

The Minimum Wage Law

It is well known that the effect of the minimum wage law is to artificially inflate wages paid to workers with little experience, training, and education so as to price them out of the market.[24] If the minimum wage law dictates an hourly wage of, say, \$4, but the worker is not skilled enough to produce more than \$3-worth of goods an hour, it is not profitable to hire him. Thus, the law hurts precisely the group that it is alleged to help--those people with the least skill, education, experience, and income. That the minimum wage law is not an effective way of dealing with the poverty problem can be understood by asking the question, If a minimum hourly wage of \$3.40 helps those living in poverty, why don't we increase it to, say, \$100 and abolish poverty completely? Clearly, such a scheme would result in massive unemployment and increased poverty.

Labor unions are among the strongest advocates of increases in the minimum wage paid to unskilled workers, who are rarely members of unions. They claim compassion and altruism as their motive, but another, more likely motive can be postulated: since unionized labor often competes with relatively less skilled, nonunion labor, increasing the minimum wage is a way of having the legislature price the competition out of the market. Suppose, for example, than an employer can hire a relatively skilled and experienced union member for, say, \$5 per hour or, alternatively, hire two relatively less skilled and experienced nonunion workers for \$3 per hour for the same amount of production. If by law he must pay the unskilled workers a minimum of, say, \$4 per hour, he will have more incentive than before to hire the union member instead of the two nonunion workers.

Occupational Licensing

It is well known that occupational licensing is a means by which incumbent practitioners of many jobs--from taxi driving to hair dressing to fortune telling to the practice of medicine --restrict the employment of "outsiders." Federal abolition of occupational licensing laws would increase job opportunities for those living in poverty. In fact, the Federal Trade Commission has already embarked in this direction by suing the city governments of New Orleans and Minneapolis for licensing laws that restrict entry into the taxicab business.

Proponents of licensing frequently argue that it assures a higher quality product, all in the best interest of the consumer. But in reality licensing does exactly the opposite: by creating monopolies in the provision of particular services, licensing lowers incentives to provide a quality product. It is the pressure of competition, not monopoly licensing, that assures the highest quality and the safest products, for producers who do not provide them will be driven out of business.

In short, the consumer protection rationale for occupational licensing suffers from a lack of truth in advertising. As an example of the harm inflicted on lower-income individuals in general and minorities in particular by occupational licensing, consider taxi licensing in New York City. To become a cabbie in New York requires a license that costs more than \$60,000--a severe restriction on entry into the cab business and an impetus for raising the price of cab services. By contrast, in Washington, D.C., entry into the taxi business is free. As a result, that city has one of the highest ratios of cabs to population of any city, and most cab drivers are from minority groups that are usually the "outsiders" hurt by occupational licensure.

The Davis-Bacon Act

Another step toward increasing employment opportunities for those living in poverty would be the elimination of the federal Davis-Bacon Act. Since 1931 the act has required contractors on federally funded construction projects to pay the "prevailing wage"--usually the union wage--to workers. Davis-Bacon has an effect similar to that of the minimum wage law: it prices relatively unskilled workers out of the market. In fact, there is evidence that the act was originally intended to exclude relatively unskilled and inexperienced black workers from taking first jobs in the construction industry, where they would be competing with more highly skilled union members. In arguing in support of the act in 1931, Representative Algood of Alabama said of a particular construction contractor: "That contractor has cheap colored labor that he transports, and he puts them in cabins and it is labor of that sort that is in competition with white labor throughout the country." [25] The original purpose of the Davis-Bacon Act has been carried out all too well--which is why the law should be repealed immediately.

The Homework Problem

The issue of "homework" clearly illustrates the problem created by government regulation of labor markets. Homework is economically productive work done at home by an increasing number of Americans, including many married and elderly women. Sewing sweaters and selling them to local retailers, or typing or word processing on a contract basis, is typical.

Unfortunately, there are legal restrictions on some of this work, and there is a movement afoot to extend such restrictions to the "high tech" industries in which many individuals have chosen to work at home on computers. Proponents of homework restrictions claim they are worried that women who knit sweaters and sell them to retailers, for instance, will be "exploited" by those retailers, even though the women themselves are strongly opposed to work restrictions and boast of making more than \$10 per hour--hardly an exploitative wage.

There have long existed legal restrictions against homework in the garment industry. The "problem" is that such work would compete with unionized garment manufacturing, which is probably why the International Ladies Garment Workers Union (whose president is a man) has led the lobbying campaign against homework. Such legal restrictions clearly prohibit many women from earning a living and also increase the prices that everyone, including the poor, must pay for clothing. They do benefit unionized labor, however, by isolating it from the competition of women who choose to work at home.

In summary, a major obstacle to job opportunities for those living in poverty is government regulation of labor markets, a few examples of which have been mentioned here. Government regulation has deprived many citizens of employment and has driven many of them onto the welfare rolls. In the long run, the only beneficiaries of this state of affairs seem to be the relatively well paid "protected" workers (usually union members), politicians who pursue political careers as "champions" of the poor, and the bureaucrats who "administer" the poor.

Conclusion

It is impossible for the government to "provide employment for all employable United States citizens living in poverty" through government jobs programs. This year's high school debate resolution that the federal government "should" do this is a red herring: the resolution assumes as true something that is demonstrably false, and focuses the debate on whether or not that objective should be pursued.

Some may wish that government could magically create jobs without destroying others, but this is quite simply impossible: government can only alter the composition of employment through jobs programs, not expand its size and scope, and in the final analysis those programs destroy more jobs than they create. The only means of creating jobs is private sector economic growth. Increased government spending, on jobs programs or any other programs, deters economic growth, for when more of the nation's wealth and resources are allocated by government there is necessarily a smaller share available for allocation by private citizens. The growth of government therefore expands the extent to which wealth is redistributed in society--how the pie is sliced--whereas private sector growth actually creates jobs and wealth and enlarges the size of the pie. This is why, if job creation is the objective, the solution is a reduction in the size and scope of government--not the creation of new jobs programs, which would only hinder economic growth even further.

Appropriate policies toward this end include reductions in government spending, for which there are opportunities to save billions of dollars without eliminating any benefits to the truly needy;^[26] across-the-board tax reduction to encourage private entrepreneurship and economic growth; deregulation of product and labor markets to encourage production and employment; privatization of sluggish and inefficient government-run enterprises, from local electric utilities to the U.S. Postal Service monopoly; and putting an end to the economic instability created by the federal government's erratic and inflationary monetary policies. In short, the only way to alleviate the problem and create jobs is a strong dose of economic growth through free enterprise. The argument that government make-work jobs programs and a larger welfare state is the appropriate policy direction is laughable.

Just how important economic growth is to the objective of job creation can be seen by reviewing the recent record of the American economy, which has benefited from a resurgence in economic growth. During 1983 the private sector created more than 4 million new jobs, the largest one-year employment increase in the nation's history.^[27] This

occurred despite the absence of any new government programs to promote leaf raking, road paving, or ballet dancing. The unemployment rate plunged from 10.8 percent in December 1982 to 8.2 percent in December 1983; and by December 1984, it had fallen even further to 7.2 percent, the private sector having created another 2 million new jobs. This is the sharpest decline in unemployment in over 40 years. Even the much-maligned manufacturing sector of the economy added more than 1 million new jobs in 1983 and continued to expand during 1984. In fact, the manufacturing sector expanded even faster than the service sector: employment in the former rose by 6 percent in 1983, as compared with only 2.4 percent in the service sector.[28] How economic growth has helped some of the most economically depressed areas is apparent in the 150,000 new jobs in Michigan during 1983, where unemployment fell from 17.3 percent to 11.9 percent; the 186,000 new jobs in Ohio, dropping unemployment from 14.1 percent to 10.5 percent; and the more than 110,000 new jobs in Pennsylvania.[29]

These statistics are especially impressive when one compares the recent performance of the American economy with that of the economies of Western Europe, where there are a greater number of such socialistic (or "progressive") policies as proportionately larger welfare systems, higher taxes, and more extensive government jobs programs. While 4 million new jobs were created in the private sector of the American economy in 1983 alone, there has been a net reduction in the total number of jobs in England, France, West Germany, and Italy over the past 15 years.[30] The surge in U.S. employment is certainly good news to most Americans for the time being, but it will not last if government continues to take an ever-increasing share of the nation's wealth by constantly expanding government spending.

Finally, there is a moral issue that must be addressed in the debate over government jobs programs. Many people, including myself, consider it unjust and immoral for government to harm one group of citizens only to benefit another, which is precisely what government jobs programs--and almost all government programs--do. By depressing the private sector of the economy, some citizens are thrown out of work so that politicians can win votes and campaign contributions by giving government jobs to others. Those hurt in this way are difficult for the average citizen to identify; they themselves often do not know the real reason why they lost their jobs. On the other hand, the beneficiaries of government jobs programs are clearly defined and highly visible. Because of this, the proponents of government "job creation" are able to deceive the public and convince it to support such programs politically and financially. If the public became aware of the truth, however, support for jobs programs would disappear, as would all the political patronage opportunities that those programs provide.

This is nothing new. In 1848, French economist Frederic Bastiat wrote of the "economic fallacy" of government job creation:

Nothing is more natural than that a nation, after making sure that a great enterprise will profit the community, should have such an enterprise carried out with funds collected from the citizenry. But I lose patience completely, I confess, when I hear alleged in support of such a resolution this economic fallacy: 'Besides, it is a way of creating jobs for the workers.' The state opens a road, builds a palace, repairs a street, digs a canal; with these projects it gives jobs to certain workers. That is what is seen. But it deprives certain other laborers of emment. That is what is not seen . . . it is nothing but a ruinous hoax, an impossibility, a contradiction, which makes a great show of the little work that it has stimulated, which is what is seen, and conceals the much larger amount of work that it has precluded, which is what is not seen.[31]

The political problem in Bastiat's time, as now, was that politicians understood only too well that the way to succeed in politics is to dispense clearly visible benefits to political supporters, make "a great show of the little work that it has stimulated," and disguise and disperse the costs to other citizens. This is true for jobs programs and for all other government programs.

In short, to succeed in politics one must purposely deceive taxpaying citizens, and government jobs programs are a useful vehicle to this end. James R. Schlesinger pinpointed that fact when he said:

The tool of politics . . . is to extract resources from the general taxpayer with minimum offense and to distribute the proceeds among innumerable claimants in such a way as to maximize support at the polls. Politics, so far as mobilizing support is concerned, represents the art of calculated cheating--or more precisely how to cheat without

really being caught.[32]

The moral dilemma posed by government jobs programs will not be resolved until it is widely recognized that it is illegitimate for government to grant special favors to some at great expense to others. Those who defend government jobs programs on moral grounds must be asked the following questions: How is it moral to put one group of citizens out of work, for reasons they do not understand, in favor of another? How is it moral for government to deceive its constituents by telling them that it is "creating" jobs, when it knows in fact that it is not? Isn't the best possible situation one in which more employment opportunities are made available to all citizens at the expense of no one? And isn't the evidence overwhelming that free enterprise and economic growth are the only means of achieving this? These are the relevant questions in any consideration of government jobs programs in this year's debate competition--and at any other time.

FOOTNOTES

[1] Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984). Murray reports that before the "war on poverty" was announced and the "Great Society" welfare programs greatly expanded, there was a steady decline throughout the post-World War II era in the proportion of Americans living in poverty. The precise point at which progress against poverty stopped, according to Murray, was when President Lyndon Johnson declared war on it.

[2] See Robert Kuttner, "The Declining Middle," *Atlantic Monthly*, July 1983, p. 60; and Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic Books, 1982). The American Catholic bishops, in their widely publicized "Pastoral Letter on Economics" issued in November 1984, also plead for more government jobs programs. For evidence that the American manufacturing sector is not declining but changing and growing, see Thomas J. DiLorenzo, "The Myth of America's Declining Manufacturing Sector," *Heritage Foundation Backgrounder* no. 321, Washington, January 13, 1984. Further evidence of this is that during the 1983-84 period more than 1 million new jobs were created in the manufacturing sector, which now employs more people than ever before.

[3] See Richard Edwards, "The Problems of Poverty and Unemployment," *Forensic Quarterly* (Spring 1984):1-71.

[4] James Bovard, "Busy Doing Nothing: The Story of Government Job Creation," *Policy Review* (Spring 1983):87-102.

[5] *Ibid.*

[6] As cited in "Putting America Back to Work," *Christian Science Monitor*, December 10, 1982, p. 6.

[7] Milton Friedman, "Can Government Make Jobs?" *Newsweek*, December 13, 1982, p. 122.

[8] *Ibid.*

[9] For a discussion of this and other labor market regulation see James T. Bennett, Dan C. Heldman, and Manuel H. Johnson,

Deregulating Labor Relations (Dallas: Fisher Institute, 1981).

[10] Ivor Peterson, "Emergency Law Has Made a Few Jobs," *New York Times*, July 5, 1983, p. A-13.

[11] As cited in Friedman.

[12] As cited in Bruce Bartlett, "Public Works Programs Don't Create Jobs," *Wall Street Journal*, November 30, 1982, p. 32.

[13] "Broad Recovery Called Essential to Job Creation," *New York Times*, November 28, 1982.

[14] Bovard, p. 95.

[15] Robert J. Gordon, *Macroeconomics* (Boston: Little, Brown & Co., 1982), p. 350.

[16] *Ibid.*

[17] The following examples are from Bovard.

[18] General Accounting Office, *Labor Should Make Sure CETA Programs Have Effective Employability Development Systems* (Washington: General Accounting Office, 1980), p. 11.

[19] *Ibid.*

[20] *Idem*, *Job Training Programs Need More Effective Management* (Washington: General Accounting Office, 1978), p. 41.

[21] *Idem*, *Moving Participants from Public Service Programs Into Unsubsidized Jobs Needs More Attention* (Washington: General Accounting Office, 1979), p. ii.

[22] Commission on Federal Paperwork, *Employment and Training Programs*, p. 26. Cited in Bovard, p. 97.

[23] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982). Olson believes that this process, which economists call "rent seeking," is a major source of economic stagnation worldwide. For a detailed discussion of rent seeking see James M. Buchanan, Robert D. Tollison, and Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (College Station, Tex.: Texas A&M Press, 1980).

[24] See Walter Williams, *The State Against Blacks* (New York: Free Press, 1982); Simon Rottenberg, ed., *The Economics of Legal Minimum Wages* (Washington: American Enterprise Institute, 1981); and Simon Rottenberg, "Government by Commission: Preaching in the Garb of Analysis," *Policy Review* (Winter 1983):127-42.

[25] *Congressional Record*, House, 1931, p. 6513.

[26] For examples see Randall Fitzgerald and Gerald Lipson, *Porkbarrel: The Unexpurgated Grace Commission Story of Congressional Profligacy* (Washington: Cato Institute, 1984); J. Peter Grace, *War on Waste: President's Private Sector Survey on Cost Control* (New York: Macmillan, 1984); Donald Lambro, *Fat City: How Washington Wastes Your Taxes* (South Bend, Ind.: Regnery/ Gateway, Inc., 1980); and *idem*, *Washington: City of Scandals* (Boston: Little, Brown & Co., 1984).

[27] Grover Norquist, "Four Million New Jobs," *Policy Review* (Spring 1984):27.

[28] *Ibid.*, p. 28.

[29] *Ibid.*

[30] International Monetary Fund, *World Economic Outlook* (Washington: International Monetary Fund, various years).

[31] Frederic Bastiat, *Selected Essays on Political Economy*, ed. George B. de Huszar (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1964), p. 16.

[32] James R. Schlesinger, "Systems Analysis and the Political Process," *Journal of Law and Economics* 11 (October 1968):285.

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