Mitchell's Musings 8/22/11: More on Jobs and the Census

Last week's musing took on the issue of creating jobs through direct government hiring. I noted that we had an inadvertent social science experiment in 2010 when the federal government hired a large number of workers to conduct the constitutionally-mandated Census of Population. There are those critics who think that if the government hires workers directly, the effect on total employment will necessarily be offset by a diminution of jobs elsewhere. But as shown last week, the Census hiring in 2010 did add to employment on net, i.e., public plus private jobs. The added Census jobs were not subtracted from private jobs.

As a result of that musing, it was suggested to me that it would be useful to look also at the conduct of the 2000 Census.[1] The usual story of why public job creation will be offset elsewhere is through some version of "crowding out." Presumably, under that story, the folks hired for public jobs would otherwise have been privately employed. But this misinterpretation of the labor market's operation is a classic case of why there is a difference between macroeconomics and microeconomics. If microeconomics is assumed to be analysis of a labor market that always "clears," i.e., one in which there is some version of full employment, then, indeed, creating jobs in one sector pulls otherwise-employed workers out of some other sector.

So let's tell a simple story. Suppose there are 100 workers available and all of them are employed (100 jobs are filled). Suppose we now create 10 new Census jobs. Despite the Census job creation there will still be only 100 workers available. So the Census will have to bid those workers away from elsewhere in the economy and there will be no net job creation. But if there are only 90 jobs and 100 workers available (so 10 workers are idle), we can raise employment to the full 100 by creating 10 more jobs. There is more to be said about how the real world labor market operates but this little tale is a good starting point.

The year 2000 was one of full employment with the unemployment rate averaging a very low 4.0%. It was the peak of the dot-com/stock market boom. There was little idle labor compared to 2010 when the unemployment rate averaged a very high 9.6%. So we would expect that Census hiring in 2000 would have a lesser effect on net employment (public plus private) than it did in 2010. That is, there would be crowding out in 2000 compared to 2010. Put another way, the year 2000 was similar to my 100-100 example; the year 2010 was similar to my 90-100 example.

Now let's take a look empirically. The chart on the next page compares the course of employment – month by month – in 2000 and 2010 with seasonally-adjusted nonfarm payroll employment. January of each year is set equal to 100. As expected, the impact of Census hiring in 2000 shows up as a minor blip – only a small deviation from trend – when compared with 2010. In the later year, net employment jumps – peaking in May – and then declines as the temporary Census hiring ends and reverses. In 2000, the Census Bureau had to bid away workers from elsewhere. In 2010, it had idle workers available.

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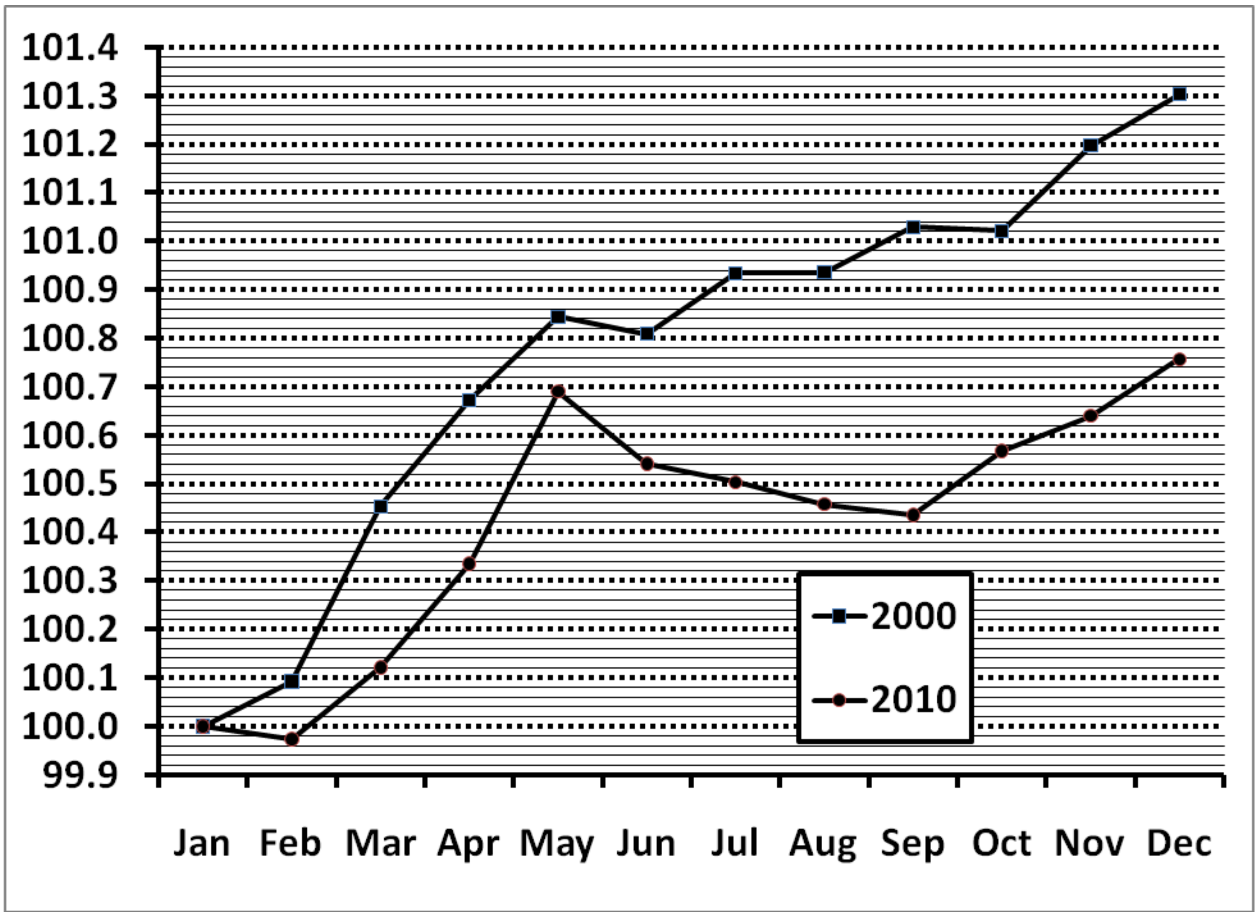
[1] In the spirit of giving credit where credit is due, my son Joshua W. Mitchell was the source of this suggestion.

In both years, of course, there had to be some crowding out and some net job creation. There is always a mix of the two effects in reality but the mix changes with the state of the labor market. The (very) tight labor market of 2000 – and rapid underlying job growth in that year - meant that much of the effect of Census hiring was crowded out. And the (very) loose labor market of 2010 – with its slow underlying job growth - featured little crowding out and mainly job creation.

I suspect that few readers of this blog will be surprised at the contrast – shown on the chart below - between the two Census years. But it is worth documenting the contrasting effect, given the current opposition to any efforts at job creation. As noted last week, the next Census won't be around to provide work until 2020. But right now in 2011, there are signs of a stalled or at least very sluggish economic recovery.



The essence of macroeconomics is that sluggish economic performance reinforces itself. Employers won't hire when demand is weak. The resulting unemployment from the lack of hiring produces weak consumer demand. In the face of weak demand, there is little incentive to invest in new productive capacity. While macro-economies do have aspects of resilience, there is always the danger of low-level traps.

Nowadays, when you hear talk by employers of a "new normal," what they are telling you by that phrase is that they believe we are in a low-level trap and they are making their hiring plans accordingly. The same "new normal" belief characterizes those making investment decisions and consumers making purchasing decisions. All three sets of actors – employers, investors, consumers – are making perfectly rational micro decisions as they observe the behavior of the other actors. But the rational micro actions collectively add up to a suboptimal macro level of activity.

Years ago in a lecture at one of UCLA's quarterly economic forecast conferences, macroeconomist Axel Leijonhufvud gave a talk in which he pointed to the analogy of a ship in rough waters. Most ships are built to withstand the impact of a mild-to-moderate wave. A ship may rock back and forth for a time after the shock of being hit by a mild-to-moderate wave. But it ultimately returns to center thanks to its built-in stabilizers. A really big wave, however, can capsize the ship and it cannot right itself. Outside intervention is then needed to right the ship.

The obvious conclusion is that some direct action on job creation is now needed to get us out of the "new normal" low-level trap. Direct action doesn't necessarily mean a public jobs program, i.e., hiring by the government. But it does at least mean government purchasing goods and services – and encouraging the purchases of goods and services in the private sector - to make up for the missing demand that the economy cannot generate on its own.