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ECONOMIC VIEWPOINT
By Glenn Hubbard

When It Comes To Jobs, Kerry Is Way Off Base

Flexible labor markets are the key to higher income and growth

It is often said that our work defines who we are. It's not surprising, then, that election-year ruminations on the economy are focusing on jobs and incomes. The usually unassailable position that flexible labor markets are essential to long-term growth is being questioned by Senator John Kerry through his opposition to outsourcing and the CEOs who do it. He is also raising serious questions about the notion that long-term growth acts as a rising tide to lift all boats.

Let's start with the obvious: For the U.S., growth is a normal state of affairs. Over the past 25 years, except for short recessions and brief periods immediately thereafter, the American economy has generated sufficient opportunities to offer jobs to both new entrants to the labor force and those who have lost jobs. These fresh opportunities raise total employment and lower the unemployment rate, as has been the case in the U.S. for over a year.

THE FLEXIBILITY IN THE ECONOMY IS NOT THE ENEMY of job creation. Flexibility helps generate more productivity growth -- more output for a given labor input. Since 1979, U.S. labor productivity has increased by an astonishing 67%, while 40 million jobs have been added. These gains in productivity growth and employment do not imply that no jobs are lost. Job losses resulted from global competition, changes in buying patterns by consumers and businesses, and corporate reorganization. But nimble markets for risk capital and new industries created many more jobs than were lost. This dynamism is a hallmark of U.S. economic success.

Indeed, an economy with rigid job protections, limits on competition, and restrictions on risk capital would have lower productivity growth and a diminished ability to generate new jobs. One need only think of the French and German experience over the past decade as a guide to where anti-growth, anti-risk-taking policies can take us.

And what about the rising tide? We hear much about the "middle-class squeeze." While the economy has created more than 1 million jobs so far this year, we're told by Senator Kerry that the positions are low-paying. Recent research by the Economic Policy Institute observes that, while real family incomes have generally increased over time, they were stagnant for 2001 and 2002. That's true, but since then the economy has rebounded. The 4.8% growth in real gross domestic product over the past 12 months is faster than in any such period during the Clinton years. This growth will be felt in rising incomes in the months ahead.

And data on consumption -- a better measure of how well-off people are than is current income -- indicate a continuing increase in families' resources. The federal government's Consumer Expenditure Survey tells us that real consumption of the middle 20% of U.S. households increased by two percentage points over 2001 and 2002, and by 10% since 1984. Where's the squeeze?

It's instructive to compare the state of the job market now with the last time a President ran for reelection. In 1996 approximately 5 million individuals reported that they were working part-time but wanted to work more. This year that number is down to 4.3 million. Over the past four years the growth rate of real average hourly earnings has been 2.9%, vs. -0.5 percent during President Clinton's first term.

Over time, gains in incomes from the factors driving productivity growth and job creation accrue to middle- as well as upper-income households. The same contributing factors of flexible labor and capital markets can explain the upward mobility of many middle-income workers.

Political scare-mongering about the health of U.S. jobs and incomes is misguided. President Bush's proposal for Personal Reemployment Accounts offers individuals likely to be unemployed for an extended period of time a lump-sum payment in an account to be drawn down to defray training or health-insurance costs. The balance could be retained in the account if one finds a new job quickly. In contrast to a costly expansion of unemployment insurance, Personal Reemployment Accounts would enhance labor-market flexibility and support individuals seeking to switch careers in an ever-changing economy.

President Bush and Senator Kerry offer radically different views on a core economic issue. And it's not just the President's job that depends on the choice.

Corrections and Clarifications

``When it comes to jobs, Kerry is way off base'''' (Economic Viewpoint, Oct. 25, 2004) mistakenly stated that ``the 4.8% growth in real gross domestic product over the past 12 months is faster than in any such period during the Clinton years.'' In fact, the GDP growth rate from the second quarter of 1999 to the second quarter of 2000 was 4.85% , compared with a 4.83% GDP growth rate over the last four quarters.

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