



Jobs and the Economy

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The issue of jobs – or more precisely the lack of jobs – has become one of the most important issues in the upcoming presidential election. So important has this issue become that the President's Council of Economic Advisors took the unprecedented step of projecting that the economy would generate 2.5 million new jobs this year. Even fed chairman Alan Greenspan weighed in on the issue last week with a forecast of substantial job creation, although he wisely did not provide a numerical forecast.

Without very substantial job growth this year, President Bush may have the dubious distinction of being the first president since Herbert Hoover to complete a four-year term in office and have fewer total jobs at the end of his term than at its beginning. The political implications are obvious. Most economists do not believe that the President will avoid this outcome.

It is certainly true that the job market is improving. Since the resumption of job growth last summer, the economy has generated about 50,000 new jobs per month, according to the Bureau of Labor Statistics payroll employment data, which are based on surveys of businesses. And as we have discussed before, there is a lot of evidence indicating that job growth is stronger than the payroll data indicate. It is widely known that the payroll data do not include newly formed firms or the self employed.

Furthermore, new claims for unemployment insurance have fallen to 350,000 per week. The last time claims fell so low was when payrolls were growing at a pace of 200,000 per month. Finally, expectations are high that business will soon start hiring more vigorously.

Profits for all companies have surged at an awesome rate of 20 percent per year in each of the last two years and now account for a record share of national income. Profits are being driven by stronger demand and lower costs per unit.

This should result in accelerated hiring later this year. However, a variety of factors will keep hiring well below historic norms. Weighing down the job market is the growing prevalence of outsourcing and offshoring U.S. jobs. The best estimate is that this trend has cost the U.S. economy 500,000 jobs. This trend will continue until the Chinese and other Southeast Asian nations revalue their currencies. Domestically rising costs of benefits, driven by higher health and pension benefits, are also holding down hiring.

It is more likely that the economy may generate one million new jobs or fewer this year, so the fight over jobs is far from an academic exercise. While much may be made of the infirmities of the payroll data, no less a sage than Alan Greenspan has opined that this is the best measure of the labor force. And it may be that the measurement of employment and its results hold the key to the outcome of the 2004 election.

This is Hank Fishkind for 90.7 FM, WMFE News.