Creating Jobs vs. Creating Wealth

By Dwight R. Lee

Question for thought: Should the government build military bases and construct highways to create jobs?

Government policies are commonly evaluated in terms of how many jobs they create. Restricting imports is seen as a way to protect and create domestic jobs. Tax preferences and loopholes are commonly justified as ways of increasing employment in the favored activity. Presidents point with pride to the number of jobs created in the economy during their administrations. Supposedly the more jobs created the more successful the administration. There probably has never been a government spending program whose advocates failed to mention that it creates jobs. Even wars are seen as coming with the silver lining of job creation.

Now there is nothing wrong with job creation. Working in jobs is an important way people create wealth. So the emphasis on job creation is an understandable one. But it is easy for people to forget that creating more wealth is what we really want to accomplish, and jobs are merely a means to that end. When that elementary fact is forgotten, people are easily duped by arguments that elevate creation of jobs to an end in itself. While these arguments may sound plausible, they are used to support policies that destroy wealth rather than create it. I shall consider a few of the depressingly many examples.

Creating Jobs Is Not the Problem

The purpose of all economic activity is to produce as much value as possible with the scarce resources (including human effort) available. But no matter how far we push back the limits of scarcity, those limits are never vanquished. Scarcity will forever prevent us from securing all the things we desire. There will always be jobs to do far more than can ever be done. So creating jobs is not the problem. The problem is creating jobs in which people produce the most value. This is the point of the apocryphal story of an engineer who, while visiting China, came across a large crew of men building a dam with picks and shovels. When the engineer pointed out to the supervisor that the job could be completed in a few days, rather than many months, if the men were given motorized earthmoving equipment, the supervisor said that such equipment would destroy many jobs. "Oh," the engineer responded, "I thought you were interested in building a dam. If it's more jobs you want, why don't you have your men use spoons instead of shovels."

As I tell my students at the University of Georgia, I will employ every person in our college town of Athens if they'll only work for me cheaply enough, say a nickel a month. Lower the wage a bit more and I'll hire everyone in the entire state of Georgia. If I hired workers at those wages, I could make a profit having them build dams with spoons. Of course, the students recognize that my offer is silly since they can make far more working for other employers, which reflects the more important reason my offer is silly concentrating on the number of jobs ignores the value being created, or not created. More value will be produced in the higher-paying jobs my students can get than in the ones I am offering. A big advantage realized from the wages that emerge in open labor markets is that they attract people into not just any employment, but into their highest-valued employment.

Another advantage of market wages is that they force employers to consider the opportunity cost of hiring workers their value in alternative jobs and to remain constantly alert for ways to eliminate jobs by creating the same value with fewer workers. All economic progress results from being able to provide the same, or improved, goods and services with fewer workers, thus eliminating some jobs and freeing up labor to increase production in new, more productive jobs. The failure to understand this source of increasing prosperity explains the widespread sympathy with destructive public policies.

Dynamiting Our Way to More Jobs

In the 1840s a French politician seriously advocated blowing up the tracks at Bordeaux on the railroad from Paris to Spain to create more jobs in Bordeaux. Freight would have to be moved from one train to another and passengers would require hotels, all of which would mean more jobs. (This proposal was discussed and demolished by the nineteenth-century economist and essayist Frederic Bastiat in *Economic Sophisms,* pp. 94-95, available from Foundation for Economic Education.)

This proposal is even more absurd than my offer to hire people for a nickel a month. At least I would employ workers to produce something of value, rather than to partially undo damage that is inflicted needlessly. Unfortunately, absurdity does not prevent economically destructive policies from being proposed and implemented. Using the jobs-creation justification, politicians commonly enact legislation that increases the effort required to produce a given amount of value.

One of the arguments for restricting imports is that it will create (or protect) domestic jobs. True, it will create some domestic jobs, just as destroying a section of a rail line will create domestic jobs. But also like a break in a rail line, import restrictions make it more costly to obtain valuable products. The only reason a country imports products is that it is the cheapest way to acquire them; it takes fewer workers to obtain the imported products through foreign trade than by producing them directly. In this way trade is like a technological advance, freeing up workers and allowing them to increase the production of goods and services available for consumption. Import restrictions create jobs in the same way dynamiting our railroads, bombing our factories, and requiring that workers use shovels instead of modern earth-moving equipment would create jobs.

Always keep in mind that creating jobs is a means to the ultimate end of economic activity, which is creating wealth.

Creating Government Jobs

Because people tend to think of jobs as ends rather than means, they are easily fooled

into supporting government programs on grounds that jobs will be created. We have all heard people argue in favor of military bases, highway construction, and environmental regulations on business on these grounds. To justify spending, government agencies commonly perform benefit/cost studies in which the jobs created are counted as benefits. This is like counting the hours you work to earn enough money to buy a car as one of the car's benefits. The jobs created by a government project represent a cost of the project: the opportunity cost. The workers employed in government activities could be producing value doing something else. The relevant question is not whether a government project creates jobs, but whether the workers in those jobs will create more wealth than they would in other jobs. This is a question advocates of government programs don't want asked. If it were, there would be far fewer low-productivity government jobs and far more high-productivity private-sector jobs.

Concluding question: If we want to achieve a high standard of living, which is more important the creation of jobs or the creation of wealth? What is the difference?

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