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‘Governments Don’t Create Jobs; Only the Private Sector Creates Jobs.’ Really?

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I hear variations of the quote above almost every day, which usually go unchallenged. How can that be since it is so obviously wrong? It reminds me of the old Richard Pryor line: “Who are you going to believe: me or your own lying eyes?

Local governments hire policemen, fire fighters, and school teachers. State governments hire the employees that drive us crazy down at the Division of Motor Vehicles. The Federal government hires employees to work for the Social Security Administration and TSA employees who drive us crazy at the airport, but not as much so lately. All these jobs are created by government, and everybody knows it.

The eminent scholar, Thomas Sowell, appeared on CNBC’s Kudlow Report recently. He also agreed with the title statement, but, as usual, he spoke more clearly than most. He clarified that the title quote referred to net jobs rather than gross jobs. In other words—in my recollection of his words—he was saying that had government workers not been hired by government they would likely have a job in the private sector.

Sowell’s clarification didn’t take much time, even in the context of TV interviews where you must have your say quickly or not at all. Non-economist viewers—i.e. normal people—hearing him could get his point, understand it to be reasonable, and go away without wondering what planet that economist is from.

Many of the more strident proponents of the governments-can’t-create jobs view, however, use it to argue against monetary and fiscal stimulus as unnecessary even during a deep recession since the private sector is likely to absorb the unemployed anyway. The Classical or pre-Keynesian economists generally agreed with that view, and the mechanism they expected to facilitate the employment of the unemployed was declining wages during a recession. At some wage rate, all willing and able workers could be absorbed into private employment. Thus, by definition, those

that remained unemployed must be unemployed voluntary since they have the option of working for less pay.

While it may be possible to deflate our way out of a recession, the painful experience of the Great Depression and the publication in 1936, of Keynes's *General Theory of Employment, Interest, and Money*, shifted the emphasis away from letting nature run its course toward more government responsibility for maintaining full employment. This shift was codified by the Employment Act of 1946 and, later, the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978.

The unequivocal denials that governments can create jobs no doubt stems in part from distaste for "Keynesian" economics, which is associated, rightly or wrongly, with large and activist governments. To me, the "fear of Keynes" is overdone. It makes sense to me to rely on Classical prescriptions most of the time, but to treat Keynes as a guidebook for policy during occasional deep recessions.

My main point, however, has to do with economic rhetoric. Public pronouncements that governments can't create jobs are so obviously incorrect, as usually stated, that they undermine confidence in economics and economists. Economists know the difference between gross and net; so, they should say so out loud. They could all do worse than to use Thomas Sowell as their inspiration in that regard. He's a master.