More Jobs Bang Per Buck

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Description of the article:

Tyler Goodspeed and Professor James Medoff, co-authors of this month's Guest Author Series article, discuss their ongoing research into the impact of money spent in the economy on jobs.

The following article is part of our Guest Author Series for the IQSS   site, a monthly feature which allows affiliates to share their work   with the social science community.

As governments across Europe reluctantly embrace fiscal austerity--with the U.S. inevitably, in some form or another, bound to follow suit--the still exceedingly fragile global economy recovery looms large in debates over what to cut, when, and by how much. So long as unemployment rates continue to hover near double digits in both the EU and U.S., can aggregate demand absorb the additional shock of slashed public payrolls?

Our project aims to provide a first-pass appraisal of these questions by focusing on the impact of various categories of spending on jobs. That is, for every dollar spent in the economy, how many jobs are created, and at what wage rate, versus if that dollar had been spent differently?

Every few years, the statistical agencies of most OECD countries release a series of "input-output" tables, which track the various expenditure pathways linking each industry in the economy to spending by the public sector, firms, and households. When we combine these tables with official labor market statistics, it is possible to identify the unique path traced by each pound, dollar, yen, and euro of spending, in terms of jobs impact, based on what that pound, dollar, yen, or euro purchases. For every currency unit spent in an economy, we can thus construct a "good jobs" index which captures both the quantity of jobs created, and the quality of those jobs in terms of average compensation.

Though ours remains a work in progress, the preliminary results are telling. For the countries in our sample, for a given amount of spending, the best jobs generators are private fixed investment and local government spending on education. Considering both the number of jobs created and their average quality, nothing else comes close. In fact, compared to personal consumption, a dollar spent on private fixed investment performs more than 30% better on our "good jobs" index. Not only does it create more jobs, it also creates, on average, significantly higher-paying jobs. The same is true of education spending by local governments, which outperforms personal consumption by nearly 60%.

Other categories of spending fare rather worse. While central government spending generates, on average, very high-paying jobs, it creates many fewer jobs than an equivalent amount spent on personal consumption. Compared to personal consumption, a dollar spent by central governments fares 20% worse when it comes to gross job creation. Disaggregating further, expenditure on defense

appears to perform the worst; while defense spending generates jobs paying, on average, 40% more than those created by personal consumption, it also creates 30% fewer jobs. The central message, then, is that while central government spending is great for those who get central government jobs, it is a terrible engine for job growth more broadly.

While it is too early to infer too much from our findings--a dollar, pound, euro, or yen cut from defense is not *ipso facto* a dollar spent elsewhere to better effect--it is, however, worthwhile to note that when it comes to generating jobs, not all dollars are created equal, meaning the scalpel is apt to be a superior budgetary tool to the axe. Moreover, inasmuch as discriminately targeted public spending cuts can be coordinated with incentives to specific types of private spending, most notably fixed investment, austerity need not viewed as a threat to the health of labor markets.

- [Research in progress](#)

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