

Lumps of Labor

By Paul Krugman

Economists call it the “lump of labor fallacy.” It’s the idea that there is a fixed amount of work to be done in the world, so any increase in the amount each worker can produce reduces the number of available jobs. (A famous example: those dire warnings in the 1950’s that automation would lead to mass unemployment.) As the derisive name suggests, it’s an idea economists view with contempt, yet the fallacy makes a comeback whenever the economy is sluggish.

Sure enough, the lump-of-labor fallacy has resurfaced in the United States—but with a twist. Traditionally, it is a fallacy of the economically naïve left—for example, four years ago France’s Socialist government tried to create more jobs by reducing the length of the workweek. But in America today you’re more likely to hear lump-of-labor arguments from the right, as an excuse for the Bush administration’s policy failures.

The latest lump-of-labor revival came to my attention when I realized how eagerly certain commentators were picking up on a new study by economists at the Federal Reserve Bank of New York. In it, Erica Groshen and Simon Potter argue that the pattern of laying off workers during recessions and rehiring them during recoveries has changed: since 1990 employers have become much less likely to rehire former workers. It’s an interesting study, and it might—repeat, might—shed some light on why businesses have added so few jobs during our so-called recovery.

But I was puzzled at first by the enthusiasm with which a relatively academic paper was seized upon by usually bullish, supposedly hardheaded business commentators. The puzzle vanished, however, when I read these remarks more carefully: they were mainly trying to make excuses for the administration’s dismal job record. You see, they say, it’s not that an economic policy consisting largely of tax cuts for the rich has failed to deliver. No, it’s a structural problem with the economy, which just happens to have arisen now, and nobody could have done better.

Oh, well. But partisan politics aside, the growing lumpishness of American thinking about jobs is dangerous, in two ways.

First, it encourages fatalism—if politicians and the public believe that new jobs can’t be created, they will stop pressuring our leaders to find more effective policies. And that would be a shame, since the Bush administration has resolutely refused to try the policies most likely to improve the employment picture.

Since 2001, sensible economists have been pleading for federal aid to state and local governments so schoolteachers and police officers needn’t be laid off because of a temporary fall in revenues. They’ve also urged the administration to stop dragging its heels on much-needed homeland security spending, not just because such spending is needed to make the country safer, but also because it would create jobs and put more income into the hands of Americans likely to spend it. (And if you’re worried about spending’s leading to increased deficits, why not cancel some of those long-run tax breaks for upper brackets?) Until we’ve done the obvious things, there’s no reason to despair about job creation.

Second, lump-of-labor thinking—and the policy paralysis it encourages—feeds protectionism. If the public no longer believes that the economy can create new jobs, it will demand that we protect old jobs from new competitors in China and elsewhere. Economists can explain until they are blue in the face why limiting exports from developing countries would be a bad idea—why keeping our markets open to new producers is in America’s interest both economically and diplomatically. But theoretical arguments for free trade will count for little if the real-world experience of jobs lost to Chinese

competition can't be offset by a credible promise that new jobs will be created to replace them.

History seems to be repeating itself: a similar rush to blame foreigners for u.s. problems happened during Bush I's jobless recovery (which looked like a hiring boom compared with recent experience). Remember the president's literally nauseating trip to Japan in the company of auto executives? But if the early 1990's flirtation with protectionism had the feeling of farce, today's employment stagnation—and the protectionist talk now emanating from both parties—has the makings of tragedy. If we don't get some real job creation soon, the politics of jobs may become dangerously self-destructive.