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THE GREAT AMERICAN JOB CREATION MACHINE
IN COMPARATIVE PERSPECTIVE

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ABSTRACT

Data on 18 rich democracies 1968-87 show that job creation is mainly a product of demographic changes (age structure, net migration rates) and changes in social structure (the rate of family breakup as it relates to poverty and the history of female labor-force participation) -- clues to an increased supply of young and/or cheap labor. Job creation is unrelated to unemployment rates or other measures of economic performance and their causes; it comes at the cost of lower earnings growth and slower long-run productivity gains. If job creation is little affected by demand policies, the appropriate response is less boasting about employment gains and more attention to a strategy to reshape the supply and quality of labor -- e.g., active labor-market and education policies, a family policy, policies to reduce industrial conflict.

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In the ideological confrontation of the late 1970s and 1980s "neoconservatives" and many mainstream economists have asserted that the United States, despite its high rates of unemployment, has performed much better than the measures of unemployment, growth, and inflation suggest because it has created jobs at a faster rate. Their arguments, stated in their most forceful form, boil down to two: (1) the labor-force pressure argument, and (2) the total opportunity argument. Whatever the causes, they assert, countries like the United States that presumably have the fastest growing labor-force participation rates are under greater pressure to create jobs. If, like the United States, they run 5-10 percent unemployment rates since the early 1970s but create jobs fast for

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new entrants (illegal and legal immigrants, women, and a large, maturing baby-boom cohort), they should be rated high or medium on labor-market performance, not low. Regarding total opportunity, even if most of the jobs created in the United States are low-paid service jobs, even if they are created as a product of weaker unions and lower real wages, they are real opportunities for those who take them -- young people, minorities, women, immigrants. They make otherwise unmanageable social problems manageable. It is better to keep teenagers working at McDonald's than pushing dope on the street.

The laissez-faire "job creationists" seldom confront the issues posed by close students of labor markets. The counterargument boils down to a judgment of (1) what kind of comparisons are appropriate, and (2) what kind of a political economy is desirable.

By comparing the job creation record of 18 countries since 1968, I shall elaborate these counter arguments and show why some countries, including the United States, have created more jobs than other countries. In essence, I argue that current discussion of job creation in the United States vs. Europe over-emphasizes demand policies and (presumably European) barriers to labor mobility; more important differences explain national differences in employment gains. If job creation is a product of demand policies and is an end in itself, policy analysts should concentrate their attention on an appropriate mix of fiscal and

monetary policies. If job creation is little affected by economic policy and comes at too high a cost (the cost of earnings deterioration, low investment in training, low-quality products and services, declines in union voice and worker participation, anemic productivity gains, and a concomitant decline in national standards of living), then a very different strategy for reshaping the supply and quality of labor is appropriate -- a range of measures that go under the labels active labor-market policy, education policy, family policy, and labor law reform.

An initial caution about the database and an assumption underlying the argument: In every country where there is an expanding labor supply, it is possible that counter-cyclical demand policies help to turn the supply into jobs. Data on precise policy mixes for 18 rich democracies over time, however, are skimpy. Yet it is very likely that compared to one another their fiscal and monetary policies do not vary nearly as much as their employment growth rates. Thus, similar economic policies cannot explain large differences in job creation. (There is evidence of such similarities among four to 14 of these countries: they typically prop up domestic demand by reduced taxes and/or increased spending and fight inflation by restrictive monetary policies. See Heidenheimer, Hecllo, and Adams, 1990, pp. 135-266.) As I shall show, it is variation in the growth and social composition of the labor supply that accounts for recent national differences in job creation.

COMPARING RAPID JOB CREATORS WITH SLOW JOB CREATORS

Which countries are big job creators and which are not? And when did they create these new jobs? I broke up job creation periods into 1968-74, before the first oil shock; 1975-79 -- the five years after the first shock; 1980-84 (the five years after the second and most severe shock, which covers a deep worldwide recession and recovery) and then 1985-87*. The major findings for 18 rich democracies are these:

1. The best job creators (among the top six for the entire period) are Canada, Australia, the USA, and Norway. (New Zealand makes it to the top six from 1968 to 1979, but not in the 1980s; Finland ranks low in every period but 1980-84 when it led the pack; similarly, Ireland is low except for the post-shock period of 1975-79 when it scored 4th; and Switzerland is low or medium except for the pre-shock period when it ranked 6th; Japan moved from

*The data are year-to-year employment growth rates calculated from OECD Economic Outlook No. 43, June 1988 (Paris: OECD 1988), p. 185. To smooth out short-term fluctuations I averaged the annual rates for job creation and other economic variables; my focus is on long-term economic performance, with periods defined by major external shocks and subsequent years of recovery. In the analysis below I do not average annual rates or percentages for two types of variables -- age structure and divorce rates -- because the rank-order of countries for these measures is quite stable during the five- to seven-year periods at issue. The countries are the universe of rich democracies with a million or more population in 1966, excluding Israel (the poorest of the rich, whose data for several variables are missing).

10th in the pre-shock period to 6th and 5th in the two post-shock periods -- reflecting its extraordinary flexibility in meeting external shocks -- and back to 9th in 1985-87.)

2. Of the 18 countries for which we have data 4 stand out as consistently below the median in job creation from 1968 to 1984: France, West Germany, Austria, and the UK. Belgium is similar: it ranks below the median for all periods except 1968-74 when it was at the median. Netherlands is below the median until 1985-87 when it ranks 6th.
3. Except for the one period 1980-84, job creation rates are statistically unrelated to unemployment rates ($r = .16$ for 1965-73; $.27$ for 1974-79; $-.44$ ($p = .05$) for 1980-84 and $-.28$ for 1985-88). See Table 1.

[Table 1, "Correlations of Job Creation by Three Measures...", about here.]

The great job creation machines are often the great unemployment machines. For instance, of the top 4 job creators (the real stars) -- Canada, Australia, United States and Norway -- three rank quite high in average unemployment rates since 1950. Canada had high unemployment rates in all four periods; the USA was high in the pre-shock period and 1975-79, then medium;

Australia fluctuated (low before the shock, high after 1974, medium in 1980-84 and 1985-88). Only Norway consistently kept unemployment low and job creation rates high. Conversely, among the poorest job creators two are consistently above average in unemployment (UK and France) and two are consistently low (Austria and West Germany). The net effect: no consistent relationship between job creation and unemployment.

4. Not only is job creation unconnected to unemployment but it is unrelated to economic performance generally. Take real GDP growth per capita for 18 countries (exclude Israel):

- o In the pre-shock period, the more job creation, the less growth but the relationship is insignificant ($r = -.14$).
- o In 1974-79, the relationship is positive but insignificant ($r = .33$).
- o Only in 1980-84 is job creation significantly and positively related to real growth ($r = .57$); the more job creation the more growth. But in the three years after that the relationship disappears ($r = -.07$ for job creation 1985-87 and growth 1985-88).*

*1979-80 brought multiple shocks -- the biggest hike in oil prices, a world-wide recession, and the Volker interest-rate shock. The best job creators 1980-84 were also the most insulated from both the oil shock and the deterioration of their terms of trade. Both their employment and real growth briefly benefitted.

Further evidence of the ambiguous meaning of job creation is the absence of any relationship to inflation ($r = -.23$ in the pre-shock period; $r = .13$ for 1975-79; $r = .13$ for 1980-84; $r = .13$ for 1985-88).

In fact, if we combine low inflation, high growth, and low unemployment in an index of good economic performance, add the scores, weighing the 3 components equally, we can see that in the entire postwar period from 1950-on, two of the six consistently poor job creators, West Germany and Austria, have been excellent economic performers. Another two, the Netherlands and France, have had sustained periods of good economic performance; Belgium performed well before the first oil shock and was average to above average after. Only the UK had both consistently poor job creation and poor economic performance. Conversely, two of the top four consistent job creators, Canada and Australia, had consistently mediocre to poor economic performance. The statistical picture for 18 countries from 1965 to 1988 is consistent. There are no statistically significant correlations between job creation and the index of economic performance for any period.

Japan -- usually an average job creator -- was an exception: fifth of 18 in job creation 1980-84 but most vulnerable to the oil shock and to sudden shifts in its terms of trade (e.g., 1978-79). (Wilensky, forthcoming.)

If job creation is not generally good for the measures of economic performance everyone agrees on (inflation, unemployment, and growth), if it has a life of its own, how can we explain the big national variations?

The major causes of job creation are beyond the reach of economic policy although they can be affected by family and retirement policy; they are demographic (the age structure of the population and migration rates) and social structural (the rate of family breakup as it relates to poverty and the history of female labor-force participation). First, countries vary in their need for job creation -- or, in another phrasing, the pressure to create jobs.

DEMOGRAPHIC FORCES

The Need for and Pressure to Create Jobs

If a country has a large and increasing percentage of persons of retirement age it will not typically evidence a big growth in employment. Sure enough, all four of the consistently "poor" job creators -- France, Austria, West Germany, and the UK, have had large and increasing populations over 65. Conversely, 3 of the 4 top job creators -- Canada, Australia, and the United States -- have had small fractions of aged through the entire period (Norway's 15% aged 65 or more in 1980 puts it above average).

Correlations for population 65+ and job creation for three of the four periods confirm this theme: the more old people the less job creation (for 1968-74, $r = -.63$; for 1975-79, $r = -.38$ ($p .10$); for 1980-84, $r = -.42$; and for 1985-87, $r = -.04$ (n.s.).

The opposite is true for young people as a percentage of the population. If a country has a large fraction of late teenagers and young adults -- a large pool of potential low-wage workers -- it can be expected to score high on job creation. The central tendency of the data is consistent: the percentage of 15-19 year olds 1968-79 and the percentage of 20-24 year-olds for all periods is positively correlated with job creation, especially during the years of stagnating or deteriorating real wages just after the first oil shock.*

Net Migration Rates

Related to these demographic pressures for job creation are patterns of migration. The idea that the United States, because of its large wide-open borders, is uniquely exposed to migrant workers is a mistake. If we calculate average annual net

*However, only three of the eight correlations between age grades and job creation are significant:

<u>Job creation:</u>	<u>15-19 year-olds as of % of popul.</u>	<u>20-24 year-olds as % of popul.</u>
1968-74	.70**	.25
1975-79	.46*	.41*
1980-84	-.05	.27
1985-87	-.21	.23

migration rates (January 1 to December 31 changes in total population minus natural population increase divided by average population for that year), we find that since the early 1960s several European countries plus Australia and Canada have experienced more net migration than has the United States. In fact, most of the guest workers in Europe, despite pressures and bribes to leave, have stayed. During the crises since 1973-74, as Casey and Bruche (1985) show, the size of the foreign workforce in some countries remained steady or actually increased. It took strong coercive measures in Germany and Switzerland to make significant reductions and the potential for further cutbacks may now be exhausted. Once again, we have a structural force for job creation -- a cheap supply of labor.

When we look at our four star job creators we see that three are among the consistently heavy importers of migrant workers -- i.e., they rank high in net migration (in essence immigrants minus emigrants) in all four periods and for all 18 countries for which we have data: Australia ranks first among 18 countries for the entire period 1963-87; Canada moves from fourth in 1963-74 to second in 1975-84 but drops to the median in 1985-87; the United States moves from eighth to sixth to fourth and stays there. Even the exception, Norway, is only a partial exception, it moved from 13th to seventh to sixth and stays there.*

*These average annual net migration rates are not the same as the level of migrant workers in the labor force. But the latter also show that the USA has plenty of company: estimates of migrant

Conversely, there is some tendency for the lean job creators to have low or negative migration rates. Of the 24 entries in a table for 6 worst job creators and 4 periods only six entries show rates of migration above the median. (France ranks sixth for 1963-74, West Germany second for 1963-74 and fourth for 1985-87, and the Netherlands is fourth 1975-79, sixth for 1980-84, and fifth for 1985-87; everything else fits. The UK and Austria rank below the median in all periods; Belgium is at the median in the first two periods, below the median thereafter.)

Correlations for all 18 countries are consistent: job creation is significantly and positively related to average migration rates in all periods ($r=.61$, $.53$, and $.58$; for job creation in 1985-87, the correlation goes up to $.77$). It is not surprising: increase net migration and you will use migrant workers.

Where do the new migrants come from and where do they go? The main sending/receiving combinations involving our rich democracies are two: the first is from Southern Europe (Yugoslavia, Turkey, Greece) and North Africa (Algeria, Tunisia, Morocco) to Western Europe; the second is from Latin America (Mexico, Dominican Republic, Colombia), the Caribbean Basin (Jamaica, Trinidad and

workers as a percentage of the civilian labor force in the year closest to 1973 (Wilensky, forthcoming) suggest that the United States ranked sixth among sixteen rich democracies with about 7 percent, behind Switzerland (29 percent), West Germany (9.4 percent), France (9.0 percent), Austria (7.8 percent) and the United Kingdom (7.3 percent).

Tobago, Haiti), and the area of greatest out-migration, Asia (Philippines, South Korea, India, China, Taiwan, Hong Kong) to North America (Sassen, 1988, pp. 44-49). What jobs the migrants enter is readily visible in such global cities as New York, Los Angeles, London, and Paris. The most common destination is low wage jobs in restaurants, garment manufacture, electronics, production for specialty shops, building attendance, domestic service (dog walking, cleaning) and the entire informal economy. (Sassen, 1988, p. 169.)

In short, age structure and the pressure of migrant workers -- both clues to the availability of young, cheap labor -- are a first explanation of national variations in job creation. Supply apparently creates its own demand.*

*We do not know how much of migration is deliberate employer recruitment (demand first, supply follows) and how much is self-selection partly based on networks of friends and relatives who recruit their extended families (supply of cheap labor expands, employers create jobs). Also while most migrants to rich countries of Europe and to United States are unskilled cheap labor, Canadian immigrants appear to be a partial exception: in the first decades of the postwar period, because immigration policy favored the skilled and educated, about half intended to enter skilled work, manual or white collar (Parai, 1984, pp. 100-101). In 1981 the portion of male immigrants who had some post-secondary education was about 9 percent higher than that of their Canadian counterparts but immigrants also had an edge in the portion who had "elementary school only" (Beaujot et al., 1988, pp. 32-33). With the immigration reforms of 1967 and especially 1978 -- adding family unification and refugee status as entering criteria -- and a shift from European to Asian and Latin-American immigrants, the extended families entering Canada have been more numerous and perhaps since 1981 less skilled. I shall return to the issue of supply and demand in job creation after reporting findings on family breakup as a possible cause.

A third consistently good predictor is the changing structure of the family. And like age structure and migration rates, it has little to do with economic policy.

WOMEN WORKING AND FAMILY BREAKUP:

MORE STRUCTURAL CAUSES OF JOB CREATION

If a country has a relatively high rate of family breakup (in 1970, 1975, 1980 and 1985 the United States had the highest divorce rate among nineteen rich democracies) and if it lacks a family policy to prevent the feminization of poverty (the United States stands almost alone on this, with women heading broken homes comprising almost half the poor households in the early 1980s), then it will accelerate the rate of female labor-force participation. While much of the increase in working women is a product of changing sex roles, lower fertility, and is uncoerced, some of the increase is forced by family breakup, a major cause of pre-transfer poverty. We cannot sort out the coercive versus voluntary percentage of female labor-force participation quantitatively and cross-nationally, but it obviously applies to the recent record of the United States. Further, much of labor-market performance in the 1980s is a product of earlier performance. Thus the low female labor-force participation rates in the United States of the 1950s and early 1960s were matched by high female participation rates among several smaller European democracies (Sweden, Switzerland, Finland) and Japan. Therefore,

the greater increase in female labor-force participation of the United States of the 1970s and 1980s in part reflects a U.S. catchup with general tendencies toward lower fertility and higher participation. Conversely, if a country starts high in women working, it has a slower rate of increase.

Data on rates of change in female labor-force participation in all 18 countries confirm this picture. In the years before 1980 the correlations between increases in women in the civilian labor-force and job creation rates are strong and positive ($r = .63$ for 1963-74; $r = .71$ for 1975-79). By the early 1980s, as all rich democracies continued to converge in women's participation rates, the relationship between women's work and job creation faded ($r = .02$ for 1980-84 and $-.02$ for 1985-87). Again, the extremes of job creation highlight the pattern: three of our star job creators -- Canada, the USA, and Norway -- ranked high in rates of increase in women at work or seeking work while all four of our worst job creators -- France, West Germany, Austria, the UK -- tend to have small increases or actual decreases in female labor-force participation in all periods.

As rich countries got rich they all experienced declines in fertility rates, rising levels of mass aspirations, increasing fractions of urban women working, a push for gender equality, and as a consequence of all of the above, increased family breakup (see Wilensky, 1968 and 1981a; Davis, 1984; and Inkeles 1980 and

1984). Family breakup rates are converging among rich countries but they still vary substantially.

Job creation is partly the product of these variations in divorce rates, another source of a cheap labor supply. Data on divorce rates for five year intervals from 1970 to 1985 show positive correlations in all periods, three of them significant -- .38, .33, .29 (n.s.) and for 1985-87 job creation rates, .57.*

Although the rate of family breakup varies among these countries their governments' policy response varies even more. A good measure of coercive labor-force participation is the combination of a high divorce rate, little government action to deal with the problems of family breakup and working parents, and a high job-creation rate.

Consider the seven countries with the highest divorce-rate in 1980 (using the only available measure of family breakup for 19 countries) in Table 2.

*Complete cross-national data on divorces per 1000 married couples (the preferred measure) are available only for 1970; I used divorces per 1000 population for 1970 to 1985. However, for 1970 the two measures are correlated .97; for our purposes they are interchangeable. Although some convergence is evident in these data (high divorce-rate countries such as Sweden and Finland declined somewhat in relative scores and ranks while low-divorce rate countries such as France, Belgium and New Zealand increased a little), only two significant shifts occurred: Australia and the Netherlands moved from below average to above average. The correlation between crude rates for 1970 to 1985 range from .89 (1970 x 1985) to .98 (1980 x 1985). That relative stability gives us a bit more confidence in the correlations reported above.

(Table 2, "Job Creation and Family Policy
Among 7 Countries...", here)

Three of these very high divorce-rate countries -- USA, Australia, Canada -- also have very high job creation rates and do very little to cushion the shock for children and working parents. New Zealand, seventh in divorce and medium in job creation, also scores low in family policy. The other three -- Sweden, Denmark, and to a lesser extent the UK -- are below average in job creation but they have a vast array of policies that help working parents to balance the demands of family and work and avoid the neglect of children. The inference is clear: they do not coerce their numerous lone parents into low-wage work quite as much as the top job creators do.

Consistent with these findings are microscopic analyses of job creation in American establishments (Birch 1981, 1983; Tietz 1981; and Birley 1986) and one cross-national study (OECD 1987). There has been a major shift in the postwar period from job creation by large manufacturing firms to job creation by medium- and smaller-sized service firms using low-wage and temporary workers. Between 1954 and 1970 the Fortune 500, America's largest industrial companies, doubled their employment. By the early 1980s, however, they employed 1.2 million fewer American workers than in 1970, although they expanded jobs overseas (Birch, 1983, p. 15). The direct creation of new jobs in the United States is increasingly attributable to small establishments, overwhelmingly in the labor-

intensive service sector, where low-wage women and migrants are prominent.* A similar OECD study of job creation using establishment data for Pennsylvania, Canada, France, Germany, Sweden, and Japan concludes that the small service-providing firms that account for most job growth in these countries -- with Pennsylvania and Canada in the lead -- are concentrated in financial and business services and social and community services that employ increasing numbers of both females and part-time or temporary workers (OECD Employment Outlook, September 1987, Tables 4.7, 4.8, 4.9, 4.11, and 4.12 and Charts 4.3 and 4.4). While jobs in these small firms may reduce labor costs, enhance management flexibility, and increase choice for some workers, they also tend to pay low wages and benefits and increase the risk of job and benefit losses for masses of workers especially in the U.S. (Belous, 1989). Finally, for the countries leading in this type of job creation, the trend may represent decreasing investment in human capital.

*Although this varies over time and place, Birch (1981) found that two-thirds of the net new jobs created by the firms in 1969-76 were created by firms with 20 or fewer employees (8 in 10 in firms with 100 or fewer) (Birch 1981). See similar findings using better data: Birley (1986) on St. Joseph County, Indiana and Tietz (1981) on California. Leonard (1982) points to three limitations of studies that conclude that small firms outside of manufacturing account for so much of employment growth: (1) these firms typically both create and destroy jobs at a much higher rate than do manufacturing firms; (2) weaknesses in the use of Dun and Bradstreet data in the Birch (1981) study cast doubt on his conclusions; (3) a cross-sectional picture of year-by-year net job creation obscures flows across size categories as small workplaces become big and big ones become small (Leonard, p. 152; cf. Birch 1983, pp. 12-15). But all researchers agree that despite the volatility of the service-sector -- wide variation in annual job generation, a high death rate of firms -- it shows most net growth in jobs, most of them in small establishments and firms.

Using appropriate comparisons, I have shown that national differences in demographic and family structures are the main correlates of job creation. The multiple regression analyses in Table 3 confirm these findings. The four major variables -- net migration, percent increase in women's labor-force participation, divorce rates, and age structure -- in various combinations explain 57 to 85 percent of the variance in job creation for 1968-74, 1975-79, and 1985-87 (see Table 3). The exception is the period of worldwide recession in the early 1980s when in the face of such huge external shocks only migration remained as a powerful predictor of job creation.*

[Table 3, "The Best of Regressions
of Job Creation...", about here.]

The Problem of Causation

Although I have shown that demographic and social structural changes are strongly related to job creation, I have not shown that demand policies (fiscal and monetary policies that expand the economy) are irrelevant to job creation. Three additional

*For each period, the same set of independent variables were tested for their relative importance in all possible combinations of three. (While it would be desirable to include all six measures of the four independent variables in every equation, the N of 18 imposes the limit of three.) In tables below I report only those regressions that explain substantial portions of the variance. There was no problem of multicollinearity in any of the equations.

findings, however, support my emphasis on the importance and perhaps dominance of an expanding supply of cheap labor in a country's job creation performance and cast doubt on the importance of economic policy: data on real earnings changes, capital investment and other causes of good economic performance that might affect the demand for labor.

By relating my explanation of job creation to data on changes in real earnings, we can test the inference that countries using many migrants and women, especially divorced women, will experience erosion of earnings or, in other words, that there is a tradeoff between job creation and rising standards-of-living. Regression of changes in real earnings on divorce rates, increases in migration, and increases in women working show that statistically speaking these variables are a moderate drag on real earnings increases for 1966-73 (28 percent of the variance); that female labor-force participation and divorce rates are a mild brake in 1980-84 (10% of the variance); but only divorce rates are a strong barrier to earnings growth in 1974-79 (50 percent of the variance). If we use a measure of acceleration of earnings growth over a base period of 1966-73 or 1974-79 (which takes account of a country's "normal" history of wage changes and also controls for built-in wage increases such as COLAs), we find that only divorcees consistently depress real earnings (42 percent of the variance after the first oil shock, 29 percent in 1980-84). See Table 4. Regressions substituting the percentage of teenagers for divorce rates, also show negative but weaker effects. The

strongest predictor in four of the five regressions in Table 4 is divorce rates, although the sign is in the right direction for all five.

[Table 4, "The Best of Regressions
of Real Earnings Growth...", here.]

Second, and more directly, there is a negative correlation between job creation and earnings growth: for the preshock period the correlation is $-.41$ ($p = .05$); for the ratio of 1980-84 to 1975-79 earnings growth (earnings growth acceleration) the correlation is $-.54$ ($p = .05$); the other correlations are negative but not significant. In other words even if a demand-curve shift is adding to employment growth it is being overwhelmed by the shift in the labor-supply curve.*

Third, two major causes of good economic performance since World War II (in an analysis of 19 countries reported in Wilensky, forthcoming) -- capital investment (gross fixed capital investment) and low strike rates (measured by person-days lost per

*Cross-national data on earnings are available only for manufacturing. It is reasonable to assume that countries with low earnings increases in manufacturing would also be low in general earnings growth for the labor force. And, in fact, Davidson and Reich (1988) in a study of inequality in the wage structure of the U.S., which ranks low in manufacturing earnings growth, show that the trend toward inequality since 1970 is accounted for in large measure by the growth in low-wage "secondary" labor markets, especially in retail service (low unionized, weak internal labor markets where employment increased and already low wages decreased). See also Freeman's (1988) comparative study of real wage growth and employment growth; he concludes that "the United States paid for job creation with slow growth in real wages and productivity" (p. 298).

1000 civilian non-agricultural employees) -- are completely unrelated to job creation.

In short, the structural and demographic causes of job creation are also sources of a slowdown in real wages while the major sources of good economic performance are not connected to job creation. Thus, most of the sources of job creation (changes in family structure, age structure, and even immigration) are beyond the reach of economic policy, except those policies that would directly discourage low-wage work -- for instance, a strongly-enforced high minimum wage and a Berlin Wall for every border. These findings raise questions both about what type of political economy is desirable and what public policies might help.

WHAT TYPE OF POLITICAL ECONOMY IS DESIRABLE?

There is consensus about the desirability of real growth, low inflation, and low unemployment. There is little consensus about the meaning of growth of labor-force participation or jobs added. The issue is not whether job creation is better than no job creation; it is what kinds of jobs we create with what long-run effect on living standards. If employment is expanded by the rapid creation of low-paid service jobs, an increasing number of them part-time or temporary jobs taken by people looking for full-time work; a steady drop in real wages; and increases in the rate of family breakup (forcing single parents to work with grossly

inadequate childcare arrangements), while productivity increases fade and international competitiveness and trade balances deteriorate, we can ask, "Is this progress?" The better strategy -- one clearly followed by such job creation laggards as Germany and Austria -- is to upgrade the labor force and improve the technical and social organization of work and thereby increase productivity and product quality and facilitate a move upscale in exports, rather than aping the labor-intensive newly industrializing countries (NICs) such as Korea and Hong Kong (even as the NICs themselves move upscale in both wages and products). Further, if real-wage decreases are to be achieved by sustaining high unemployment rates and/or by union busting (United States under Reagan, United Kingdom under Thatcher), we incur all the costs of mass insecurity, industrial conflict, ungovernability, and unproductive welfare spending evident in my analysis of economic performance and party decline (Wilensky 1981b; 1983; 1985; and forthcoming). If to this perverse combination we add a high level of family breakup and the feminization of poverty, should we label the brew "a superior record of job creation?"

Finally, no one has either firmly established or disconfirmed a long-term American trend toward low-wage jobs in or out of the service sector. The opposing views are familiar: there is an underlying structural trend toward low-wage jobs rooted either in deindustrialization as Bluestone and Harrison claim (1986, pp. 5-7) or in the growth of low-paid unstable non-union jobs in several industry sectors (not mainly manufacturing) as my data suggest; or

the deterioration of earnings is not structural but cyclical, as an early study by Wachter (1970) suggests. If there is a secular trend, fiscal and monetary policies will not stop it; what is required are structural changes that might be accomplished by radical reforms in education, training, and industrial-relations systems; increased investment in the physical infrastructure; the adoption of industrial policies, family policies, and the like (Wilensky and Turner 1987). If, in contrast, we adopt the view that all signs of this earnings deterioration in the United States since 1973 are not a trend, but a cyclical pattern reflecting the sharp increase in the percentage of low-wage workers in the recession years of 1975, 1981-82, and 1990-91, then fiscal and monetary measures are decisive. While economic policy does not have much to do with job creation rates it can shape the depth and duration of recessions (Bean, Layard and Nickell 1986).

Similarly, while an active labor-market policy might not greatly affect the rate of job creation, in combination with education and family policies it can affect the unemployment rate and, equally important, the long-run productivity of the labor force (Wilensky 1985) and hence result in a rise in real earnings. Whether the recent deterioration in earnings reflects a secular trend or cyclical fluctuations, there is a large role for government, although the appropriate policy mix depends on which analysis is most persuasive.

Americans, Canadians, and Australians who congratulate themselves on their superior records of job creation might pause and ask

themselves "How have such poor job creators as Germany, Austria, and Sweden done so well with a smaller supply of young, cheap labor and a much larger burden of retirees?" Could it be that fewer hours of work by better-educated and trained labor managed by more efficient firms with longer time perspectives and more active governments with similar time perspectives gives them a competitive edge?

Table 1. CORRELATIONS OF JOB CREATION BY THREE MEASURES OF ECONOMIC PERFORMANCE AND THE ECONOMIC PERFORMANCE INDEX^a

	Unemployment	Real GDP Growth Per Capita	Inflation	Economic Performance Index
1965-73	.16	-.14	-.23	-.06
1974-79	.27	.33	.13	-.06
1980-84	-.44*	.57**	.13	.39
1985-88	-.28	-.07	.13	-.08

^aThis index weighs the three measures about equally. Average annual real growth of GDP per capita, average annual change in the GDP implicit price deflator, and unemployment rates (standardized by OECD for 13 countries but not for 5) are each given a score of 0 (low), 1 (medium), and 2 (high) based on averages for each of four periods. Natural break points are used to insure meaningful differences between the categories. Sources and measures described in Wilensky (forthcoming) and Wilensky and Turner (1987), Appendix B. Significance levels are **p<.01; *p<.05; •p<.10.

Table 2. JOB CREATION AND FAMILY POLICY AMONG THE SEVEN COUNTRIES WITH THE HIGHEST DIVORCE RATES (AMONG 19 RICH DEMOCRACIES)*

Rank of divorce rate 1980 among high-div. rate countries from high to low (19 countries)	Score on index of expansive & innovative family policy from 11 (most) to 1 (least)	Job creation rank 1980-84 18 countries
1. USA	3 Low	3 High
2. UK	5 Med.	17 Low
3. Australia	1 Low	3 High
4. Denmark	8 High	11 Med.-Low
5. Canada	2 Low	4 High
6. Sweden	11 High	10 Med.
7. New Zealand	2 Low	8 Med.

*The family-policy score is based on a 5-point scale (0-4) for each of three policy clusters in place in 1976-82: the existence and length of maternity and parental leave, paid and unpaid; the availability and accessibility of public daycare programs and government effort to expand daycare; the flexibility of retirement systems (number of options, with emphasis on partial pensions designed for flexible work/retirement choices). The three dimensions correlate strongly with one another (and with child allowances/GNP). Source: Wilensky (1990, pp. 1-3). Further details on concepts and codes for the family policy score are in Wilensky (forthcoming), ch. 7.

TABLE 3. THE BEST OF REGRESSIONS OF JOB CREATION ON NET MIGRATION RATES, RATES OF CHANGE IN WOMEN'S LABOR-FORCE PARTICIPATION, DIVORCE RATES, AND AGE STRUCTURE, FOR FOUR PERIODS SINCE 1968, 18 RICH DEMOCRACIES.

<u>JOB CREATION 1968-74</u>			
Dependent Variable	Independent Variable	Equation 1 beta	Equation 2 beta
Job creation 1968-74 (avg. annual increase in employment)	Net migration (avg. ann. net mig. rates 1963-74)	.42**	.32*
	Female labor-force partic. (avg. % annual change 1963-74)	.33**	.49**
	65 years old or more as % of total population 1970		-.58**
	15-19 year olds as % of total population (averages) 1970	.59**	
**p ≤ .01 *p ≤ .05 •p ≤ .10	Adj. R ² (N) (Netherlands missing)	.85 (17)	.84 (17)

JOB CREATION 1975-79

Dependent Variable	Independent Variable	Equation 1 beta	Equation 2 beta
Job Creation 1975-79	Net Migration 1975-79	.32 ^o	.38*
	Female Labor-Force Change 1975-79	.60**	.59**
	% of population 20-24 1977	.27 ^o	
	% of population 15-19 1977		.33*
Adj. R ² (N)		.64 (17) Ireland missing	.74 (16) Ireland and Netherlands missing

JOB CREATION 1980-84

Dependent Variable	Independent Variable	beta
Job Creation 1980-84	Net Migration 1980-84	.53*
	Female Labor-Force Change 1980-84	-.14
	% of population 65 and over 1980	-.31
Adj. R ² (N)		.32 (18)

JOB CREATION 1985-87

Dependent Variable	Independent Variable	beta
Job Creation 1985-87	Net Migration 1985-87	.65**
	Female Labor-Force Change 1985-87	.03
	Divorce rate 1985	.27
Adj. R ² (N)		.57 (17) France missing

TABLE 4. THE BEST OF REGRESSIONS OF REAL EARNINGS GROWTH ON NET MIGRATION RATES, RATES OF CHANGE IN WOMEN'S LABOR-FORCE PARTICIPATION, AND DIVORCE RATES FOR THREE PERIODS SINCE 1966

Real earnings change as dependent variable ^a			
Independent Variable	1966-73 <u>B</u>	1974-79 <u>B</u>	1980-84 <u>B</u>
Net migration -- avg. ann. net migration rate			
1963-74	-.26		
1975-79		.30	
1980-84			.23
Female labor-force partic. -- avg. % annual change			
1963-74	-.27		
1975-79		.29	
1980-84			-.47 [•]
Divorce rate 1970	-.33		
Divorce rate 1975		-.75**	
Divorce rate 1980			-.25
Adj. R ² (N)	.28 (17)	.50 (17)	.10 (18)

Acceleration of real earnings as dependent variable ^a			
Independent Variable	1974-79/1966-73 <u>B</u>	1980-84/1974-79 <u>B</u>	
Net migration -- avg. ann. net migration rate			
1975-79	.37		
1980-84		.14	
Female labor-force partic. -- avg. % of annual change			
1975-79	.16		
1980-84		-.14	
Divorce rate 1975	-.72**		
Divorce rate 1980		-.67*	
Adj. R ² (N)	.42 (17)	.29 (18)	

^aSource for real earnings: OECD Historical Statistics, various years. Because of missing data on earnings, 1985-1987 was dropped from this analysis. Acceleration of real earnings is calculated as a ratio of the average annual change in real earnings during one period to the average for the previous period.

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