## Comments on US job growth

Austan Goolsbee

Preceding the panel discussion on job creation sponsored by the Committee for Economic Development (CED), Austan Goolsbee, chairman of the Council of Economic Advisers, assessed the state of employment and economic growth in the United States. The panel met in Washington, DC, on June 10, 2011.

I thought I would just talk about three general points, and why I like the report. Analytically, there are certain parts of it that I have quibbles with, but I think the effort is exactly what we should be doing because my first point is the nature of the recovery. Where we are in crisis/recovery has changed quite a lot.

We go through the first year and a half really. We're in outright reduce mode. The private sector is in free fall. In my view, anyone saying that what we should have done at that time is just get out of the way and let the private sector solve the problems itself I think wasn't really paying attention, because that was not in the cards.

We're losing 750,000 jobs per month. The GDP is shrinking at a 6 percent annual rate. We're in the steepest decline, really, of most of our lifetimes. I'm not going to say anything about anyone's age in this audience but, you know, it's back to the [Great] Depression days—before we saw anything like that.

We have now, over the last 6 to 12 months, shifted out of a rescue mode into something like a transition. We're trying to transition back to a growth mode where private-sector companies start getting some money on their balance sheets. They return to profitability, output growth exceeds productivity, and they actually start hiring.

So in the last 15 months, the private sector added more than two million jobs—more than one million of those jobs in the last 6 months. So we do have a negative jobs report this past month, no question. But it follows three quite excellent jobs reports in the months previous to that.

In terms of economic prospects, I don't think it was a secret to anybody that you have a series of tragic disasters, both natural and man-made in Japan, which have a clear negative impact on the supply chain of manufacturing around the world, not just in the United States. You have the events of the Middle East and the gas price shocks. You've got some of these European financial issues. Those headwinds were weighing us down, slowing the growth at the beginning of the year.

Now I learned for many years in academics that economists have very vehement arguments about predicting the past, and so they stay out of the business of predicting the future. I will simply note that the private-sector forecasters and the [Federal Reserve] are saying they expect that many of those forces were temporary or partial and expect a rebound in the second half of the year and going into 2012.

The labor market remains heavily damaged but is on a trajectory of improvement. My point one is the nature of where we are in the business cycle is shifting. My point two is what the focus of policy should be, and where to expect recovery to come from is also changing.

So the correct policy, when you're in the depth of rescue mode, is all about government-directed stimulus. It's not sustainable. That's not a critique for people who say this was not sustained. It was never meant to be sustained. Government involvement when we're teetering on the edge of the Great Depression is primary and in many cases the only engine of recovery.

But as you shift to better conditions, that's no longer true. It starts to become things that the government can do to facilitate the standing-up of the private sector and the nature of where you would see that growth before people become too directed to if we cannot get back to the housing growth that we had in the 2000s. If we cannot get back to the consumption spending that we had in the 2000s, we cannot recover. That is the underlying premise of a lot of what you hear in the media.

Think for a moment about the 2000s compared to all previous expansions in the United States and compared to international expansions in the 2000s. It looks extremely different because it's heavily weighted to concerns about spending faster than income growth and about residential construction and the housing market.

Neither of which is sustainable, both of which were fueled by a bubble and are not, I would argue, a healthy model of what we want to return to. The healthy model that the president has outlined repeatedly that underlies—when I was on [*The Daily Show with Jon Stewart*] I was talking about "Win the future," and Jon Stewart had said, "Stop saying that."

OK, so now everybody knows [President Obama's] agenda formerly known as the "Win the future" agenda. The basis of that is we need a broad-based growth that is not just concentrated in excessive consumer spending and residential construction. We need export expansion. We need business investment to be a driver. We need research and development and innovation and small business to be the drivers of growth. We want it to be spread across a lot of industries, not just in the few that are the direct spillovers of bubble-fueled recovery.

In looking at the report, what I like a lot about it is that it is engaged in the effort of the private sector thinking about, "Where we do view the opportunities for growth going forward?" Let us not forget that the United States remains the richest country in the world with the most productive workers in the world.

Now my CEA [Council of Economic Advisers] people, being who they are, say, "You gotta stop telling the president that. He needs to stop saying that." And I said, "Why? It's true." They said, "No, it's not true. On a purchasing-power-adjusted basis, the nation of Luxembourg is higher than the United States." OK, so foot the caveat, if you're writing that at home—except for 300,000 in Luxembourg, we remain the most productive in the world.

And, as I say, for all the talk about China, let's not forget we're some 7 to 11 times richer than them. And in the same way that in my household, our three kids' share of our growth in height is 100 percent—but that does not make them taller than us. And we should not forget that as an important component.

We have extremely productive industries. We have gotten substantially more competitive relative to other countries in the world over the last two years while going through this wrenching downturn. One critique I guess I would have of the analysis in the McKinsey report, however, is the notion of jobless recovery as applied to now and in some way compared to 2001 in 1991.

It makes the argument that there's been a secular change in business cycles so that it takes longer and longer to recover. For 2001, there's no question that's true. So it's almost two full years from the end of the recession before we generate any jobs in 2001. That is, in my mind, totally different from the business cycle that we've just gone through.

So if you ask, "How long does it take to get back to where you started?" yes, by that measure, it looks like it's a long time. But there's a major difference between "down somewhat" and remaining stagnant and plunging the most you've ever plunged in 75 years and then working your way out of it, adding two million jobs over 15 months. That's not jobless recovery. That's, in my view, an incorrect definition of what jobless recovery is. You have to remember that in 1991 and 2001, those were mild recessions. The 2007 recession, which begins at the end of 2007, is intensively deep. So let us not confuse the rebuilding with what is stagnant.

In the rebuilding, my fourth point, the McKinsey report, I would ask everybody to look at the job council meeting that's coming on Monday. They're thinking about a lot of these similar issues. They have been working with McKinsey on the factual basis, but the effort of the private sector to identify in what parts of the private sector will there be opportunities, and to make sure that we get our workers trained today to be filling the jobs that we are expecting in 1 year, 5 years, and 10 years down the road, is critically important.

The jobs council probably has some slightly different views about areas of expansion. The McKinsey report foresees broad-based growth but is somewhat negative on the prospects for employment growth and manufacturing over the medium term.

I think the administration and the jobs council are a little more positive on the prospects for manufacturing job growth, because I think we anticipate quite a significant expansion of exports. Because of some national and international imbalances that we'll have a tendency to close, I think the prospects for manufacturing growth are fairly decent.

And in this part, you know, we go way down. We've started coming back out of the hole. In this part of our "coming back," we're still at a troubled spot and have a long way to go. But of the 15 percent that's "recovered," let's call it, that looks pretty good. It's been quite broad based. Manufacturing is having the fastest employment growth in almost 15 years.

You've seen the health care sector, leisure, entertainment, and media growing. You've seen services growing. You've seen retail trade growing. It's been far more broad based than anything that we saw in the 2000s. And I think the effort is, we've got to get the growth up. And that growth has got to be powered by the private sector.

So something like investment incentives through the tax code for businesses to build factories in the United States—that was an inconceivable policy that would not have worked. We could conceive of the policy, but it would not have worked at a moment when the private sector was in free fall.

We could have passed an investment subsidy in March of 2009. Who in the private sector would have said, "You know, I think it's a great time to go build a factory and buy a lot of equipment in the United States," when the GDP was shrinking 6.5 percent at an annual rate and people were seriously contemplating whether we're about to go into a depression? Now I feel like we're in a different spot. Unless they listen too much to [CED president Charlie Kolb], and then we're going to get back in the same thing.

So broad-based growth driven by the private sector, analyzed by the private sector, whether from McKinsey, the jobs council or others, let us think about what areas have the opportunity. And the last point I'll say is we have to live within our means as a government and as a private sector.

On the budget, we have known about the long-run fiscal challenge facing the country for 40-plus years, and that problem has not gotten materially worse in the last 2 years. That problem is rooting in the aging of the population, the acceleration of health care costs and, I would argue, some of the tax policy choices made in the 2000s. Those issues are long standing. We should—and must—address them. But let us not forget that that is not the number-one issue facing the country. We must deal with that issue. We must live within our means.

But the number-one issue facing this country is that we grow, that we remain the richest and—second only to 300,000 workers in Luxembourg—most productive workers in the world, going out for 5 years from now and 25 years from now.

That means, as we think about what must be cut, the "what," in many ways, becomes more important than the "how big." It's not an argument like in 2009 of just how big is the stimulus, how big is the contraction. It is, does it really make sense to go cut education and training spending at a moment when we know that, over the next 6 to 18 months, there is every possibility that companies will say, "Look, we want to hire but we need people with the following skill set and we can't find enough people that have that skill set."

We have training programs that can have them ready to fill those jobs as we come out of the downturn. And it's important that we not skimp on the main drivers that have made us the richest country in the world: the skill of our workforce, the investments in innovation and R&D, the kind of public and private investment in infrastructure and capital that have kept us in those situations. So I thank you for your time and I envy you for the panels and research that you're all about to hear. Thank you.