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It Isn't Just Lost Jobs—It's the Lost Jobs Machine

By GERALD F. SEIB

Two basic facts will tell you most of what you need to know about the political picture today.

Fact One: The unemployment rate is the most important of all leading political indicators.

Fact Two: If the August unemployment number to be announced Friday tops 9%—which seems highly likely—the jobless rate will have been above that level for 16 straight months. Already, the U.S. is mired in the longest such stretch of 9%-plus joblessness in more than a quarter of a century.

Jerry Seib discusses what has happened to the American job creation machine.

There is little mystery, then, about why Democrats are in trouble. The party in power is inevitably blamed for so much bad news on the one economic subject that most concerns average Americans.

Yet the political debate on this point, which focuses on what can be done to get Americans back to work right now, is missing a deeper and more troubling reality: The American economy hasn't been a very robust jobs-producer for quite a while. That's the broader question that needs to be discussed, even as we work on the immediate problem.

Indeed, it has been perhaps four decades since America's economy has been the kind of roaring jobs machine that average Americans, aspiring politicians and ambitious business leaders all would like to see. Consider a few historical unemployment-rate numbers—one way to gauge the economy's performance on the jobs front.

Between 1966 and 1970, the U.S. experienced a phenomenal stretch of 48 straight months in which the unemployment rate was at or below 4%—that is to say, a stretch of four straight years when the rate was less than half of what it has been for the past year.

In the three decades since 1970, the rate has fallen below 4% for exactly four months, in the final months of 2000.

Instead, the norm has become unemployment rates in the 5%-to-7% range. When the recession of 1981 hit, the unemployment rate stood at 7.2%. It began to rise, and it took three full years before it was brought back down to that level once again—a depressing thought about how stubbornly high the rate may be as a result of the recession the U.S. is now exiting. During that stretch, the rate was at or above 9% for 19 straight months at one point.

The last two years of the 1990s were a period of consistently low unemployment, ranging between 4% and 5%. After that, job growth was only sluggish to moderate for most of this decade, even before the recession hit at the end of 2007.

It would be nice to pull out of the current jobs rut, of course. But it would be nicer still to figure out what combination of public policies and private initiatives would help the national jobs machine rev up to a higher, sustained level.

"It's an economy that hasn't been growing fast enough for a long time," says Douglas Holtz-Eakin, a Republican economist who advised Sen. John McCain's presidential campaign.

The debate over short-term fixes is familiar by now: Is stimulus spending helpful or not? Are tax cuts better than sending aid to the states? Is it better to spend federal dollars to juice the economy or to attack the deficit?

But solutions to long-term job lethargy are equally important.

There are plenty of ideas. Liberal economist Dean Baker, co-director of the Center for Economic and Policy Research, for example, says the key is attacking America's long-term trade imbalance. That requires expanding manufacturing, which, in turn, argues for pushing the value of the dollar down to make American exports cheaper. That isn't politically easy, because driving down the dollar also would drive up the cost of all those imports Americans love. Mr. Baker argues that it's a long-term job creator.

The more conservative Mr. Holtz-Eakin suggests a three-pronged attack. First, he would stop using the tax system to achieve social goals and change it to focus, almost obsessively, on fostering economic growth. Second, he would liberate corporations to devote more capital to jobs by curbing the use of them as "vessels for social benefits" such as health insurance, which would be provided in other ways. And third, he would radically improve the American education system, which is "failing to a remarkable degree in delivering to the labor force people with the skills needed to compete."

Centrist Democrat Robert Shapiro, chairman of the economic advisory firm Sonecon, says the job-creation problem arises because a globalized economy has brought an explosion of competition for American firms, limiting their ability to raise prices precisely when their fixed costs have started soaring in the areas of health, energy and pensions.

"This is a deep structural problem," Mr. Shapiro says. Its solution, he says, lies in public policies to help the private sector address those three big cost drivers.

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