



**KENNESAW STATE  
UNIVERSITY**

COLES COLLEGE OF BUSINESS  
*Bagwell Center for the Study of Markets  
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# Commentary

**Title:**

*"Why Can't Government  
Successfully Create Jobs?"*

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Why do politicians claim that they will create jobs if elected, but have such a bad track record once in office? Why do capitalist oriented economies do so much better at creating jobs than socialist oriented ones? In order to understand this issue we first need to understand what a job is, find out how to create one, and then look into the relative ability of entrepreneurs compared to politicians in creating them.

### **What is a job?**

This seems like a simple question with a simple answer, but in fact is much deeper than you might expect. The problem is that words often have multiple meanings which are stretched beyond recognition by those who want to associate their activities with the positive connotation of some words. If I tell you that I have 250 close “friends” on Facebook, but you tell me that you have 2 close friends in real life, does it prove that I am much better at building social bonds than you? Of course not. “Friends” on Facebook are not friends at all in any real sense, they are at most acquaintances, if that. Even a seemingly simple word like “friend” needs exploration to get to its true meaning.

Most of us would think that if you paid someone to do something you have created a job, end of story. But, if it were that simple then anyone, including politicians with access to a lot of cash, could instantly create jobs just by hiring people and spending money; problem solved. Well, it’s not that easy. Let’s consider a thought experiment so that we can see that hiring people is not the same thing as creating jobs. If I paid an unemployed man \$100 per day to dig holes in my backyard and then to fill them back in again, would I have created a “job”? Well, of course not. Instead I have created an illusory job, just like an illusory Facebook friend. A true job has to accomplish some valuable purpose beyond the payment of a salary; otherwise we are just doing charity by creating make-work, or engaging in performance art.

What if instead I employ the man in raking leaves in my backyard; have I *then* created a job? Raking leaves can certainly be a valuable purpose, but is that purpose greater than the wages I paid to get those leaves raked? If the value to me of a raked yard is only \$60 (after all I could have left it natural or chosen to rake them myself), but I paid \$100 to get them raked, I have partly created a job worth \$60 and partly done charity of \$40. However, my neighbor is desperate to get her gutters cleaned and would gladly pay \$150 for the service. Instead of raking my leaves the unemployed man negotiates a wage of \$120 to clean her gutters. A real job has just been created.

We can now see that a job, properly understood, consists of a person not just getting paid for expending energy doing a task, but in getting paid to create some valuable good or service that is greater in value than the pay they receive. If not, you don’t have a job; you have charity work or make-work, in whole or in part. Not that there is anything wrong with that, just don’t delude yourself into thinking that you (or the government) are creating *real* jobs. Lastly, perhaps most importantly, since real jobs create greater value than they cost, they are self-financing and don’t need to be subsidized from outside in order to exist.

### **Private Employment**

All workers hired by private, for-profit firms (without a government subsidy) are by necessity employed in real jobs. How do we know this? In order to survive, a firm must make a profit. This requires that a firm must sell a good or service for more revenue than it costs to produce. If you are a firm selling a good in a free-market you must be interacting with people who value the good or service that you produce more than the price that you charge, or they won’t buy

your product. Firms hire workers whenever the worker can produce a good for sale at a lower cost than the customer is willing to pay, otherwise the owner of the firm loses money.

Whether the worker is a high school drop-out who flips hamburgers for minimum wage or has a master's degree in engineering and designs nuclear power stations, he or she is doing real work in a real job, just of different value. Capitalist firms are constantly searching for markets where customers value the firm's output at more than cost. Not all firms are successful in this endeavor, and either go bankrupt or find a new market. We are all familiar with the restaurant that just never got its act together, or the inventor who comes up with a product that flops. Firms that were once famous and respected such as Kodak in photography, Smith Corona in typewriters, and Black Berry in phones have run into trouble and had to lay off workers and/or close. Other firms, such as Apple and Google, are expanding and hiring workers.

In every case, from the lowest paid job to the highest, every worker in a capitalist firm is "pulling their own weight." No charity is involved, and the firm is not doing the worker a favor; they have a relationship of mutuality where each is benefiting the other. The firm and its workers need no subsidies since their customers willingly pay to get their output, since customers value that output higher than it costs to produce. Entrepreneurs are constantly creating *real* jobs for workers, not out of charity, but as a byproduct of their search for profit-making opportunities. The search for profit (and avoidance of loss) both creates jobs *and* disciplines firms to make sure that workers are truly productive. This mechanism makes capitalism a real job creating machine.

### **Government Employment**

Famously, during the Great Depression, the U.S. government "employed" hundreds of thousands of young men in the Civilian Conservation Corps (CCC) where they did unskilled manual labor on conservation projects on federal lands and in state and national parks. This program started in 1933 during the height of the depression and ended in 1942 as the U.S. girded for war. Over 9 years, 3 million men participated in the program. One of the most popular of government programs during the depression, it was shut down as civilian work became more plentiful and as the government found a greater need for young men in the military. Did the CCC create "jobs" or was it a government run charity doing make-work (in whole or in part)?

The answer to this question is crucial. If the government as an institutional arrangement is capable of creating jobs successfully at scale, we might have a legitimate alternative to capitalism in this crucial area of life. This question extends beyond a beloved program from a previous era and informs today's government jobs. Is every park ranger at Amicalola Falls State Park, every golf course worker at George T. Bagby State Park, every sanitation worker in the city of Marietta, Ga, every school teacher in the Atlanta Public Schools system, every bus driver for Cobb County Transit, every police officer, official in the governor's office, or Port of Savannah worker in a real job? Or are they the beneficiary of charity in a make-work job (in whole or in part)? Now broaden the question out from Atlanta and Georgia to the country as a whole, including all 21.7 million civilian city, state, and federal workers.<sup>1</sup> This question is not meant to insult government employees (after all, I myself am a professor at a public, or government owned university), but is instead a serious one about government's ability to provide *real* jobs as opposed to make-work. The question cannot be easily answered in either the affirmative or negative.

### **The Government Cannot Consistently Create *Real* Jobs**

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<sup>1</sup> <https://www.statista.com/statistics/204535/number-of-governmental-employees-in-the-us/>.

The problem with government job creation is that we just don't have the mechanisms in place to measure whether government employees produce more value in goods and services than they are paid. As we saw above, private market entrepreneurs do have such a mechanism: profit and loss. In a handful of governmental activities we potentially have equivalent information. For example, here in Atlanta, GA-400, a very popular highway connecting several northern suburbs with the Buckhead area and downtown had a toll. The toll generated so much revenue that the State of Georgia made a "profit" on it.<sup>2</sup> However, this profit only proves that overall the workers building and operating the road generated more benefit than cost, not that every worker was productive.<sup>3</sup>

Potentially many government services could have user fees that mimic private sector payments. For instance, the Port of Savannah, which is owned by the State of Georgia, could be required to be fully self-sustaining by charging user fees to shippers. If the total cost of operating the port was covered by the payments of the shippers we would know that the port workers overall were in real jobs. If however, many of them were doing make-work, the resulting high costs would cause the port to lose money, triggering either internal reforms to improve efficiency or lay-offs of redundant employees.

The same thing could be accomplished at many government owned facilities such as state owned golf courses, hotels, and airports. User fees and charges could be set by law to cover all costs of operations. If the Lodge at Amicalola State Park makes money, we know that the workers are doing real work and not make-work.<sup>4</sup> The same could be true of the City Club of Marietta, a well-respected publicly owned golf course.<sup>5</sup> There is no reason that airports couldn't do the same.

The problem with this approach, however, is that many government provided services either cannot be parceled out by charging for them, or we choose not to. Some goods are public goods or collective consumption goods.<sup>6</sup> We consume them as a group where a non-paying user cannot be excluded from benefiting. Consider the problem of charging for the use of a lighthouse. Once the light is turned on there is no way to keep non-payers from using the light. There is no practical way to set up a user fee in this instance, unlike in the provision of hotel services where non-payers can be excluded. One lighthouse could be generating a huge benefit compared to cost while another one was not. There is no way for a payment mechanism to distinguish between them in this case, while this mechanism could easily distinguish between one government operated hotel and another. Other examples of public goods would include national defense and flood control.

Other government goods could rely on a user charge mechanism, but we choose not to do so. For instance, are all public school bus drivers employed in a *real* job? We don't currently know the answer since we don't charge parents a fee to transport their children, but we easily could. Some bus routes would prove to be very valuable to the parents who use and pay for them, and other routes would prove to generate more costs than benefits. These unproductive routes would disappear when drivers collect less money than they cost, as parents find a more cost effective option for getting their kids to school. We choose as a society not to charge for this service to ensure that the poor have access to education, but of course this rationale does not explain why we provide free bus service to the majority of students who are not poor.

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<sup>2</sup> <https://www.ajc.com/news/transportation/400-toll-money-cash-cow/MwkFZ9NQwY0TIDBqWaihTJ/>.

<sup>3</sup> *Ibid.*

<sup>4</sup> <https://www.amicalolafallslodge.com/>.

<sup>5</sup> <https://www.cityclubmarietta.com/>.

<sup>6</sup> See Principles of Microeconomics, 9<sup>th</sup> edition, by N. Gregory Mankiw, for a fuller discussion.

Lastly, to avoid pointing fingers at other government workers, do we know if university professors at state universities are “pulling their weight”, or are they in charity infused make-work jobs? Should public universities be expanded, and more professors and other educators hired, or should the university system be scaled back with some professors laid-off to pursue more productive activities? If the university system charged the full cost of what they were doing, we could quickly find out if the system was productive and the professors are in real jobs as opposed to make-work jobs. Since state universities are heavily subsidized, we don’t know if students are getting their money’s worth since they don’t know the true cost.

### **Summary**

Our analysis now permits us to see that while many government workers are in *real* jobs providing goods and services more valuable than it costs to provide them, we also know that many are not. We see that governments who deliver “free” or subsidized goods and services to taxpayers do not have a good mechanism in most cases to distinguish between real jobs and make-work, charity jobs. We also see that Free-Market Capitalism has an excellent mechanism, profit and loss, that forces firms to create real jobs where the workers are producing more value than they cost. Do not fall for the siren song of politicians who promise that they can solve the problem of unemployment by creating jobs. It is far more likely that they will destroy real jobs than create them.