



Ideas Changing the World

Daily Policy Digest

Economic Issues

August 3, 2011

Solving the Jobs Problem

As the American Recovery and Reinvestment Act winds down, the unemployment rate remains over 9 percent and the economy is idling. It is increasingly clear that Keynesian stimulus has failed to get the economy where it needs to be. Now what? The U.S. economy faces problems that are structural and long term, not merely cyclical and short term. This helps explain why Keynesian policies failed to stimulate adequately. More importantly, appreciating the fact that the American economy faces profound structural pressures is the first step on the road to sustained recovery and perhaps the next growth boom, say Arnold Kling, an adjunct scholar at the Cato Institute, and Nick Schulz, a DeWitt Wallace Fellow at the American Enterprise Institute.

Government stimulus can sometimes be effective at returning people to their old jobs, but the market is telling investors and entrepreneurs that those jobs are not needed anymore. The two sectors of the economy that are increasing most as a share of output and employment are education and health care.

- Growing as they are, education and health care will increase in importance this century while other sectors undergo a relative decline.
- These sectors are where demand is rising and where there is potential for jobs to be created.

So what's the problem?

- The problem today is that government policy is impeding innovation and job creation in these sectors.
- Both education and health care are already heavily influenced or controlled by federal and local government.
- That means that the evolution of those sectors is driven by top-down command and control, rather than by bottom-up innovation.

To revitalize these sectors and revive the American job market, we must open up these industries to competition and entrepreneurial reform. This will require tolerating a certain degree of messy experimentation. But entrepreneurial growth in these sectors is what will get the American economy back to work, say Kling and Schulz.

Source: Arnold Kling and Nick Schulz, "Solving the Long-Term Jobs Problem," *The American*, July 27, 2011.

Source:

<http://www.american.com/archive/2011/july/solving-the-long-term-jobs-problem>

For more on Economic Issues:

http://www.ncpa.org/sub/dpd/index.php?Article_Category=17