Facts or Fallacies? Part I: BLS Data v. the Zombie Lump-of-Labor Fallacy-Fallacy

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lump of labor fallacy
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Facts or Fallacies? Part I: BLS Data v. the Zombie Lump-of-Labor Fallacy-Fallacy

by **Tom Walker** (Sandwichman at Ecological Headstand)

In the third quarter of 2010 real GDP in the U.S. was 21 percent higher than it had been in the fourth quarter of 1999. Labor force participation grew during the same period by 9 percent, an increase of nearly 14 million people. However, between December 1999 and September 2010, total non-farm employment *fell* by just over 200,000.

Here is what Bill McBride at Calculated Risk ("Older Workers and the Lump of Labor Fallacy") thinks is *supposed* to happen:

> The number of jobs in the economy is not fixed, and people staying in the work force just means the economy will be larger.

True enough, the economy did get larger ñ by 21 percent. But the number of jobs wasn't just "fixed"; it actually fell by a fraction of a percent, even though labor force participation also grew. According to McBride, the result would be a *classic lump of labor fallacy* if it was a fear or assumption that people held about the effects of immigration or seniors staying on the job past retirement age.

> This is a common error people make with immigration - that immigrants displace other workers, when in fact immigration increases the size of the economy. I suspect we will see more and more of this age related "lump of labor" fallacy.

So, you see, people make a *common error* when their ideas about how the economy works agree with the facts. (edited by Rdan) Let's explore this further.

(Rdan here...I want to clear up a point of intent...Bill is not being included in the Mises or AEI camp of philosophy. Krugman and Samuelson talk of the lump of labor fallacy in a similar manner to Calculated Risk. Krugman also chastises the use of)

McBride suspects we will see more of this age-related fallacy. Indeed, we are already seeing more of this kind of fallacy *rhetoric* just in the last few months from the minions of right-wing Thinktankia urging that the Social Security retirement age be raised. (Pay attention, Bruce Webb and Coberly!)

Here's Jason Kuznicki from the Cato Institute ("In which the French are explained, but they remain mistaken") sneering at young people in France who were protesting against raising the retirement age:

> It's our old friend, the lump of labor fallacy: Force the oldsters into retirement, and it's like a jobs program for everyone else. There is only so much labor to go around ó not like jobs are ever created, you know - so we'd better be sure we get our fair share of it. Or so the theory goes. The protest signs, insofar as they communicate anything worth repeating, have often read *Place aux jeunes!* Make room for the young! - or similar.
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> Not that this approach to economics makes any sense, either theoretically or practically. Putting someone out of work faster means he's not producing anymore, which makes the economy worse off on the whole. And 'his' job won't necessarily stick around, because retirement is often the least painful time at which to eliminate a position entirely. Today's workers aren't likely to be trained for the same types of work as their parents and grandparents, and they shouldn't necessarily want to be. The lump of labor fallacy imagines a world frozen in time, not one of dynamism and growth.

Or how about Francois Melese at the Ludwig von Mises Institute ("French Students Should Celebrate Pension Reform") chiding those youngsters, professors, and politicians for not better explaining the facts and fallacies of lump-of-labor life to them:

> At first glance, students' fears also seem warranted. If an older worker is forced to work an extra couple of years, it seems obvious this would delay a young person's entry into the labor force. If we assume there are a fixed number of jobs, the net effect would be to crush employment opportunities for young people. With youth unemployment already absurdly high - over 20 percent - it's no wonder students spilled out onto the streets to protest.
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> However, the fact that students are in the streets demonstrating against this particular pension reform suggests professors and politicians deserve an F ó they have failed to explain what economists call the lump-of-labor fallacy. Jobs are not fixed and do not depend exclusively on the supply of labor.

O.K., now I'm confused. Bill McBride and Jason Kuznicki just told me that more workers means more growth and hence more jobs but now Francois Melese explains that jobs *do not* depend on the supply of labor. Which is it? Maybe Andrew Biggs at the American Enterprise Institute ("The Case for Raising Social Security's Early Retirement Age") can straighten things out:

> Increasing the number of older workers is the first step toward increasing retirement security, but there must also be demand for this large workforce. Some argue that no jobs exist for older workers. But this claim commits what economists call the "lump-of-labor fallacy," which holds that there are a limited number of jobs for which workers must compete. Economists almost universally reject this view, and the fact that employment continues to rise despite immigration and rising worker productivity (which presumably would reduce the need for extra workers) speaks against it.

Phew! Now I think I get it! There must also be *demand* for the larger workforce.

And the *fact* that employment continues to rise in spite of immigration and rising productivity proves that there is not a limited number of jobs...

Oh, wait... That brings me back to the BLS figures I started with. The number of jobs is *not* increasing. In fact it fell by 200,000 jobs over the last eleven years. How can "the fact that employment continues to rise" speak for or against anything when, in fact, employment *doesn't* continue to rise? It's going to take another blog post (or two) to unravel this unholy mess!