

BY TIMOTHY TAYLOR

The number of Americans working barely changed during the first three years of George W. Bush's presidency. Civilian employment totaled 138.3 million in February 2004, according to the Current Population Survey, an increase of just 700,000 jobs over the 137.6 million working in February 2001. And with employment stagnant, it was almost inevitable that one of the most persistent fallacies ever to plague economic policy – the “lump of labor” fallacy – would rear its ignorant head.

There's an arcade game called Whack-a-Mole in which a plastic mole pops up and you pound its head with a mallet. The lump-of-labor fallacy is the Whack-a-Mole of arguments about jobs. As often as you slam it, it reappears somewhere else. The first explicit sighting dates back to the late 19th century, but it has since reappeared in a variety of contexts: the fear that automation would reduce the number of jobs in the 1950s, that the addition of women and immigrants to the workforce would put others on the street in the 1980s, that globalization would send jobs to China and India today. And don't forget the recurrence of the true believers' favorite fix: a shorter workweek or an earlier age of retirement.

WHERE THE NAME COMES FROM

The christening of the lump-of-labor fallacy dates to an 1891 article in the *Economic Review*, a journal of the Oxford University branch of the Christian Social Union that ceased publication in 1914. In “Why Working-Men Dislike Piece-Work,” David F. Schloss

defined the fallacy:

... it is held that there is a certain fixed amount of work to be done, and that it is best the interests of the workman that each shall take care not to produce too much work, in order that thus the Lump of Labour may be spread out thin over the whole body of work-people.... The theory of the Lump of Labour will be seen to rest on the utterly untenable assumption that a fixed amount of work exists ... and that, the more work is done by any one workman, the less work remains to be done by all other workmen.

Even though Schloss was contemptuous of the idea, the colorful label stuck. For example, a 1907 article in the (even then) prestigious *Journal of Political Economy* explained why male workers were hostile to the employment of women in the cigar industry in this way: “They had, moreover, the workingman's belief in the old ‘lump of labor’ fallacy ... for every woman who was employed they saw ‘a man without a job.’”

By the early 1930s, the expression had worked its way into textbooks in labor economics. It subsequently showed up in many



editions of Paul Samuelson's classic introduction to economics (first published in 1948), which helped keep the term alive in the second half of the 20th century.

PRODUCTIVITY AS THE DEVIL

As Schloss recognized back in 1891, the lump-of-labor fallacy is also about productivity: if hard work destroys jobs for others, improved technology must, too. Schloss responded with disdain, "No clear thinker believes that, in order to provide labor for the unemployed, it is advisable that we should give up steamploughs for ordinary iron ploughs, these again for wooden ploughs, and, in the ultimate resort, should abandon these instruments and scratch the ground with the fingers."

However, the fear that greater productivity would reduce total employment has had a durable history. One vivid example is the anxious debate over "automation." Throughout the 1950s, key American industries ranging from autos to steel to oil refining to mining invested heavily in capital equipment, and managed to increase output substantially, even as employment in those industries

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remained flat or declined. When the economy slid into recession and unemployment rose from 4.8 percent in February 1960 to 7.1 percent in May 1961, the argument that automation was condemning America to a future of mass unemployment gained traction.

One union leader referred to the 1960-61 recession as the "first automation recession." In a news conference in February 1962, President Kennedy gave the claim credibility with the comment that "the major domestic challenge, really, of the sixties [is] to maintain full employment at a time when automation, of course, is replacing men." An organization

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called the American Foundation on Automation and Unemployment, created jointly by a manufacturer of automation equipment and its union, issued a report stating that automation was “second only to the possibility of the



hydrogen bomb” in its potential for disrupting society. *Reader’s Digest* ran a story “Automation: Friend or Foe,” while *McCall’s* asked its readers, “When Will Your Husband be Obsolete?” (These examples appear in historian Amy Sue Bix’s book, *Inventing Ourselves Out of Jobs? America’s Debate over Technological Employment, 1929-1981*.)

Of course, the fears proved groundless. We now look back at the 1960s as a golden age for employment – joblessness averaged less than 3.8 percent from 1966 to 1969.

The U.S. economy is now replaying this debate, as the “jobless” recovery after the 2001 recession has gone hand in hand with rapid gains in labor productivity. Output per hour in the business sector grew a hearty 4.9 per-

cent in 2002 and 4.5 percent in 2003. In the past few years, I have fielded my share of calls from reporters who wanted to confirm their belief that productivity growth was destroying jobs. But this claim is obviously untrue in long run.

For example, despite considerable productivity growth since the early 1960s, the unemployment rate in 2003 (6.0 percent) was actually less than the unemployment rate in 1961 (6.7 percent) after the “automation recession.” Moreover, the claim that productivity has reduced jobs in the near term rests on the lump-of-labor fallacy that the total amount of work is fixed, and that it can be divvied up as desired to reduce the unemployment rate. In fact, if 2002 and 2003 had seen a combination of low productivity growth and low output

growth, there’s no reason to believe that more jobs would have been created.

DÉJÀ VU ALL OVER AGAIN

Much of the concern over slow job growth in the early 2000s is linked to international trade. A poll done in 2002 for the Chicago Council on Foreign Relations found that 85 percent of Americans believed that protecting jobs should be a very important goal of U.S. foreign policy. The point has not been lost on candidate John Kerry, who speaks of “Benedict Arnold” companies and executives who “take the money and the jobs overseas and stick the American people with the bill.”

In the 1990s, the fear that trade was responsible for reducing jobs was colorfully expressed by Ross Perot, who asserted that the North American Free Trade Agreement would make a “giant sucking sound” as jobs headed south. But the U.S. economy subsequently experienced some of its strongest

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job growth and lowest unemployment rates ever. More broadly, imports have risen from 5.2 percent of GDP in 1970 to 13.7 percent in 2003. This vastly greater openness to international trade has not caused a trend toward higher unemployment.

In recent months, the debate over international trade and jobs has morphed to sounds of alarm over “outsourcing” – hiring workers in other countries to perform (mostly) service jobs traditionally done at home. The collapse in the cost of telecommunications and information processing has certainly made it easier to hire cold callers in Taiwan to sell extended warranties on refrigerators, or to employ software programmers in Bangalore to debug new code while their counterparts in Palo Alto are asleep. But estimates of job “loss” from outsourcing typically follow the flawed methodology of counting hiring abroad as a loss of jobs for U.S. workers, with no offsetting effect for foreign companies that hire U.S. service workers. That’s like counting the impact of imports on U.S. jobs, but ignoring that exports affect jobs, too.

The U.S. economy actually runs a large and growing trade surplus in services; service exports exceeded imports by \$59 billion in 2003. The process of outsourcing also makes U.S. firms and workers more productive and competitive in world markets, while the addi-

tional wage-earning power in other countries increases demand for U.S. exports.

Outsourcing may eventually globalize some U.S. service industries, just as trade in goods has already globalized U.S. manufacturing. But these transformations are part of a process of shifting human and physical resources to more productive uses, which makes average incomes higher and has not led to higher unemployment rates over time.



WORKERS WANTED

If workers enter a country and find jobs, the lump of labor fallacy implies that the unemployment rate must rise. A Wall Street Journal/NBC poll in December 1998 found that 72 percent of respondents believed that immigration should be reduced because immigrants take American jobs. But a study

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of immigration by the Department of Labor during the first Bush administration called the belief that immigrants take jobs from American workers “the most persistent fallacy about immigration in popular thought.”

From 1981 to 2000, the U.S. accepted more than 16 million legal immigrants, and many millions more illegal ones. Yet over these same years, total employment in the economy increased from 100 million to 135 million. Immigration has a number of effects that are fair ground for debate, but the argument that every immigrant with a job represents one fewer job for a warm body that was previously on American soil is clearly proven wrong by historical experience.

The entry of women into the paid workforce in the U.S. economy can be considered a case of internal immigration. In 1960, 38 percent of adult women were in the labor force. One reason traditionally given for practices and laws that blocked women from employment or promotion was the lump of labor argument that women who worked would be “taking jobs” from men who needed to support families. By 1990, 57 percent of women were in the labor force, which implied that approximately 20 million more women were in the labor force in 1990. But 20 million additional women in the paid workforce didn’t mean 20 million unemployed men. Plainly, the number of jobs in the economy is not fixed – and one of the factors determining the number of jobs is the number seeking work.

SHARING THE BOUNTY

If the quantity of work were fixed, as the lump-of-labor fallacy holds, one way to reduce unemployment would be to limit the hours individuals can work, or to encourage early retirement. But fighting unemployment with these policies have not succeeded.

France passed laws in the last decade requiring a 35-hour workweek. Much of the impetus was that the unemployment rate in France had exceeded 11 percent for most of the 1990s. But international comparisons yield no evidence of a statistical link between lower average hours worked and the unemployment rate. Back in 1998, workers in France already averaged a relatively low 1,600 hours of work a year, compared with roughly 1,850 hours per worker in the United States and Japan – countries with much lower rates of unemployment.

France and other European countries have also encouraged early retirement, partly on the grounds that it “creates jobs” for other workers. (Among the promises of early retirement for some and more jobs for others, the question of who will pay for early retirees to enjoy the living standard they’ve come to expect was rarely discussed.) Today roughly 37 percent of French and Germans 55-64 years of age hold jobs, compared to 58 percent of the same age group in the United States and 52 percent in Britain. Despite the success of France and Germany in encouraging early retirement, they face chronic unemployment far in excess of the rates in America and Britain. Attempts to honor the lump-of-labor fallacy by spreading out a supposedly fixed quantity of work over more workers have thus proven unsuccessful.

REFLECTING ON JOB CREATION

The historical evidence against the lump-of-labor fallacy is as strong as evidence gets in the social sciences. The U.S. economy experienced extraordinary changes in recent decades: higher productivity and innovation, globalization, inflows of women and immigrants into the workforce. Despite all of these changes, the U.S. unemployment rate in 2000 was near its all-time low and

the percentage of the adult population with jobs was at its all-time high. The stagnant job picture in the U.S. economy since 2001 is due to a recession that followed an unsustainable economic boom in the late 1990s – not to the long-discredited theory that the quantity of work is fixed and someone, somewhere, is stealing U.S. jobs.

like 1997-1999, the economy was actually losing 31 million to 33 million jobs per year – but at the same time, adding 34 million to 36 million jobs per year.

In the short run, the key to job growth is to reduce the depth and duration of recessions, which is a task for monetary and fiscal policy. In the long run, the key is for government to

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Before getting too smug, though, it's worth remembering that those who invoke the lump-of-labor fallacy often do touch on some uncomfortable truths about market economies. While productivity growth and international trade don't reduce the overall number of jobs, they do dislocate workers and they do affect incomes – raising wages in some cases and lowering them in others. Even if immigrants don't reduce the total number of jobs for Americans, they do create policy concerns ranging from the budgetary cost of public education and health care to downward pressure on the wages of low-skilled Americans. Even if a shorter workweek doesn't increase employment, it may be a goal worth pursuing in a rich culture that somehow has relatively little time to spare for leisure or child rearing.

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minimize the barriers to matching workers and skills to productive employment. Some would focus on how to design unemployment, disability, welfare, health insurance and tax programs so that they protect those in need while still providing incentives to work. Others would emphasize supporting workers through job search and relocation assistance, along with continuing education and retraining. Still others would study the incentives that businesses have to hire, making sure that firms don't face unnecessarily large regulatory or bureaucratic obstacles to starting or expanding operations, and guarding against rules that may seem to protect workers – like prohibitions against layoffs – but instead make employers reluctant to hire new employees lest they can never let them go.

The appropriate mix of these labor policies is a matter for debate. But the lump-of-labor fallacy has been impeding and confusing the legitimate arguments about jobs for more than a century now, and it's time to give it a rest. **M**