National Economic Trends

September 2004

THE FEDERAL RESERVE BANK of ST. LOUIS

Please go to research.stlouisfed.org/publications/net for important information about your subscription

Public Officials and Job Creation

Public officials often claim credit for creating jobs through the programs and policies they enact. It is not uncommon to hear, for example, a public official pledging to increase the number of jobs in a particular locality or nationally. Public officials can create jobs in two ways: The first is *directly*, by creating government jobs. The second is *indirectly*, by (i) enacting policies that create an economic environment that affects long-run private sector job growth or (ii) using countercyclical fiscal policy to affect short-run private sector job growth.[1] How effective have public officials been at creating jobs?

The accompanying chart shows the natural logarithm of payroll employment (measured by annual nonfarm payroll employment) from 1946 to 2003, along with the shares of total government, federal government, and state and local government employment. It gives no indication that public officials have created jobs directly. After increasing from 1946 to 1975, total government employment as a percent of payroll employment has trended down. Evidence that public officials create government jobs is even weaker if one considers federal employment. Federal employment as a percent of payroll employment has declined nearly monotonically over the 1946 to 2003 period, from 5.6 percent in 1946 to 2.1 percent in 2003.

Have public officials created jobs indirectly? Again, the chart raises questions about claims they might make. First, consider cyclical variation in payroll employment, as measured relative to a the trend line. With payroll employment expressed in natural logarithms, a constant growth rate is represented by a linear trend. The trend line indicates that payroll employment has grown at an average rate of about 2.1 percent during the post-World War II period. The shaded areas represent years when there was an official recession during at least part of the year.

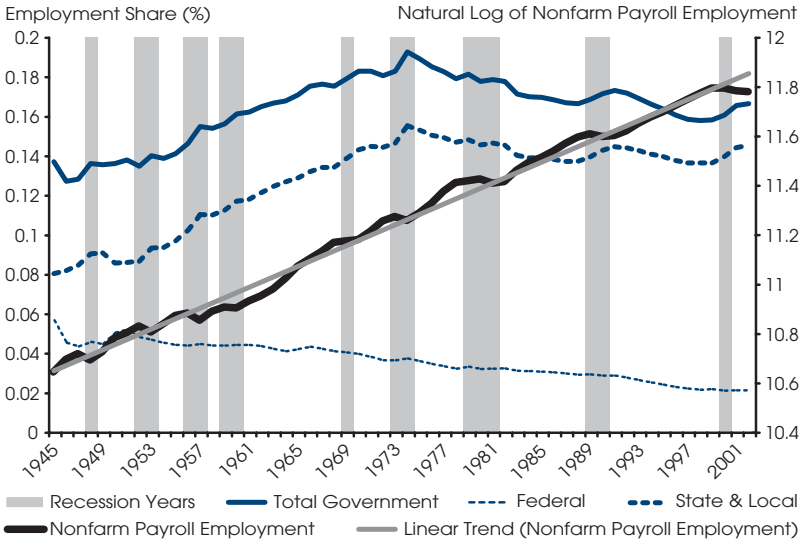
This measure of cyclical variation indicates that the lengths of significant deviations of payroll employment from a 2.1 percent trend line roughly match the lengths of the business cycles, with the exception of the 1960s during the military buildup for the war in Vietnam (armed forces on active duty are excluded from payroll employment). Thus, when it comes to cyclical variation in payroll employment, it seems that the business cycle largely determines the ebb and flow, despite any claims by lawmakers and policymakers that they act to stem the tide.

Second, in terms of long-run jobs growth, have policies enacted by public officials affected the average growth rate of payroll employment? Again, the chart suggests that the answer is no. Importantly, there is no indication of a noteworthy break in payroll employment from the 2.1 percent growth path, which is what one would expect if public officials enacted policies that changed the average rate of job growth. The apparent lack of a break from the trend line is especially interesting given the array of national economic policies—changes in tax law, changes in the minimum wage, workplace safety, etc.—that have been enacted in the past 60 years.

—Thomas A. Garrett and Daniel L. Thornton

[1]Contract workers that are a result of a *new* government program are also considered in (i). Simply substituting contract workers for existing government employees does not change total employment.

Log of Nonfarm Payroll Employment and Share of Total Government, Federal Government, and State and Local Government



Views expressed do not necessarily reflect official positions of the Federal Reserve System.