

Why the Job Gap?

It's now beyond dispute – Wisconsin has a job gap. The latest numbers rank Wisconsin at 35th, 36th, and 37th in job creation over the last 3 years. That accords closely with my estimate that we are about 43,000 jobs behind where we should be to have just stayed even with our neighbors.

The \$64,000 question, as UW-SP's Randy Cray so aptly put it, is why has this job gap occurred. In an editorial, the Journal Sentinel opined that our job mix, in paper and in metal manufacturing, is the culprit. But my job gap measure is based on a 2001-8 baseline, that used essentially the same job mix as today's. So the job mix was already accounted for when I estimated that we were 43,000 jobs behind.

Besides, if our types of manufacturing were the problem, that would have shown up as a growing gap in manufacturing employment. Yet over the last 3 years, while our overall job gap grew by 32,000 jobs, the manufacturing job gap shrunk by about 7000 jobs. So the Journal Sentinel's story does not fit the observed facts whatsoever.

Another explanation that gets proposed is that it's the Democrats' fault. Their mass protests and recall petitions, in this story, created business uncertainty, and deterred job creation. But that uncertainty was put to rest in June 2012, when the recall failed. So if that were truly the cause of the job gap, we should see improved job growth after June 2012.

But we don't. In fact, not one of the 12-month year-to-year periods following the recall vote shows a falling job gap, and in only one does it grow by less than 5000 jobs. So if the source of the problem were the recall, why is the job gap still growing more than a year later?

The only explanation that fits the data involves consumer spending. Under Jim Doyle, state workers absorbed pay cuts in the form of temporary furloughs. According to Milton Friedman's permanent income hypothesis, those furloughs would reduce consumer spending only a little. Under Scott Walker, the furloughs were replaced by significant permanent pay cuts, in the form of higher pension and insurance contributions. By the permanent income hypothesis, those cuts would reduce spending nearly dollar for dollar.

In addition, fiscal limits on cities and counties spread those pay cuts to local public employees as well. And at the same time, there were significant permanent decreases in private sector wages, often also in the form of wage and benefit concessions.

So well over 400,000 Wisconsin workers were forced to cut their spending significantly. Some of that reduced spending would have been on goods produced elsewhere – Detroit automobiles, foreign-made electronics, California wine – reducing job growth elsewhere.

But much of that reduced spending would have been on locally produced services – restaurant meals and trips to the Dells and hair salon appointments – reducing job growth here in Wisconsin. And that's where the job gap shows up – in about 30,000 fewer private service-sector jobs than expected, over the last 3 years.

Now maybe that's not the correct answer to Randy Cray's \$64,000 question. Maybe there's an even better answer to why this job gap has occurred. And by better, I mean not an answer that better fits one's political prejudices, but rather one that better fits the quarterly jobs data.

However, absent such a better explanation, the only viable answer thus far is that it was public and private permanent compensation cuts, leading to lower consumer spending, that created the Wisconsin job gap.