

As the world churns...

The Natural Survival of Work: Job Creation and Job Destruction in a Growing Economy, Pierre Cahuc and André Zylberberg, translated by William McCuaig, Cambridge, MA, The MIT Press, 2006, 175 pp., \$27.50/cloth

Most *Monthly Labor Review* readers are familiar with job creation and destruction. Two Bureau of Labor Statistics survey programs, Business Employer Dynamics and Job Openings and Labor Turnover, have provided the substance of numerous articles. Despite the insights these surveys offer, some people still do not understand that both hiring and firing affect large numbers of workers during times of growth, as well as in times of decline. This reality and what it entails, assert the authors, is often missed in policy debate. *The Natural Survival of Work*, winner of the 2004 European Economics Book Award, summarizes a wealth of recent economic research that sheds light on many of the issues that influence labor market policy.

The authors' goal in writing this work was "to present the state of our knowledge to the general public, and to derive lessons from it for improving the functioning of the labor market." Chapters are dedicated to job creation and destruction, the management of risks generated by shifts in employment, and training and employment policy.

Using the example of the French textile and pharmaceutical industries between 1990 and 1996, the authors show how job creation and destruction co-exist in various economic circumstances. Air transportation forms another illustration of this point. Simply put, firms that are better equipped to adapt to changing

circumstance will appear while those that cannot adequately respond will disappear.

Recent BLS data show that private sector job gains and losses total about 7 percent each of total employment, with a strong ratio of new hires to separations. This "unceasing recomposition" of labor serves as a catalyst for growth, but Cahuc and Zylberberg admit that "it is still largely unknown," adding, "no doubt this is why the most implausible notions...can thrive."

In clear, easy-to-understand language, the authors analyze the popular reasons attributed to the gap between unemployment in the United States and France. Research indicates these differences are in large measure due to differences in labor market organization. Political discussion, however, revolves around a number of theories that are contradicted by current research. Among these reasons is globalization. The authors move from describing the popular reasoning to explain the Leontief paradox and the balance of jobs methods for assessing globalization effects on employment. Utilizing these methods, a study of France between 1978 and 1997 concludes that globalization "does not systematically cause more job loss than job creation." Cahuc and Zylberberg also examine the idea of stock market driven layoffs.

The authors counter the notion that a fixed number of jobs exist by bringing recent historical examples, such as the repatriation of 400,000 French men and women to France from Algeria (resulting from the Evian accords) in the early 1960s and the Mariel boatlift that resulted in over 200,000 Cubans entering the United States in 1980, with half settling in Miami. Research has found that these events did not have a

large impact on unemployment and wages.

The ability of economies to "rapidly adapt their means of production and their infrastructures" was the key to economic integration of new immigrants. As another example, the writers of this book discuss European immigration resulting from the Bosnia and Kosovo conflicts. Those experiences, as well, serve to contradict the idea of a fixed number of jobs or hours of work. Jobs "can bloom and whither very quickly and in very large numbers."

In a chapter entitled "Wages are not (always) the enemy of employment," the authors analyze the debate between Keynesian theory and European liberalism—do wage gains lead to unemployment or to increased consumption and therefore, more jobs? They write, "A priori they both are (right) because it is always possible to support either view adducing a coherent theoretical model and a few well-chosen historical examples."

Cahuc and Zylberberg explain how minimum wage can be "either helpful or harmful to employment." They liken such a measure to a hill climb on a bicycle followed by a descent. Noting that "the United States and France are, indeed, not on the same side of the hill," the authors compare France to the US. The minimum hourly wage in the United States was worth less in 2004 than in 1960; while in France, that wage has grown more than 200 percent. The authors cite research from Princeton University professors Andrew Card and Alan Krueger indicating that minimum wage increases do not have a negative impact on employment.

"Policies to 'make work pay' are not a miracle cure for all the ills of underemployment," the authors note, "for underemployment is sometimes

the result of an insufficiency of job creation.” Cahuc and Zylberberg draw from Canadian research that involved a controlled experiment to determine if a substantial wage supplement would bring more people back to work. While a supplement did accelerate returns to work, it did not always happen. In fact, it did not even occur with a majority of the study participants.

Looking for a job “ensures the reallocation of the labor force toward the most efficient jobs, and thus constitutes an essential source of growth.” In practice, however, unemployment insurance and employment services have varying degrees of effectiveness. In 2005, the average duration of unemployment in the United States was 18 weeks, while in France, it was 15 months. In trying to get behind what works well and what does not, the authors describe the history of French trade unions, which were created to facilitate job placement and information sharing. They conclude that a credible system of checking job-search activity is imperative. Citing examples from Switzerland and the Netherlands, the authors assert that public employment services, though, must go beyond simply checking to provide real assistance to jobseekers.

In France, mass layoffs are subject to strict controls and the judicial review of an industrial tribunal. This approach, say the authors, is inequitable and inefficient. Here, too, the authors contrast France to the United States. Instead of diminishing job destruction and reducing risk to wage earners, the American approach to employment protections is to focus on the preservation of basic rights. More rigorous employment protection does not lead to reduced rates of unemployment. “Employment protection a la francaise modifies the hiring and firing policies of firms without significantly influencing the number of

jobs they need.” Senior workers are protected, while firms may be driven to use more short-term contracts.

The development of new, transferable skills is often promoted as the best insurance against lengthy unemployment. The authors stress, though, that education is not a miracle cure. Audit results must be used to eliminate inefficient programs, and training dollars must be channeled to where they will make the biggest difference. Cahuc and Zylberberg explain externalities and the difficulties in evaluating training programs. Modern research methodology takes into account the selectivity bias that would result from studying only program beneficiaries. One such European study, assessing the career trajectories of people who did not receive training, found that least skilled individuals receive least advantage from training programs.

Over 30 years ago, France implemented a compulsory program requiring employers to make training outlays. In 2004, firms with more than 10 employees were required to spend 1.6 percent of their total wage bill on either internal training or to training organizations. A study from the French National Institute for Statistics and Economic Studies revealed that wage gains resulting from training ultimately came from their personal characteristics—the workers gaining the most from training were the most productive.

As an example of a successful education program, the authors cite the Michigan Perry preschool program. The purpose of the program is to develop the intellectual capacity and socialization of young, disadvantaged children. Characterized by the participation of parents and a high budget, this program did make a significant difference to social integration and wage gains later in life. Despite cautioning that “the school system

cannot be expected to make up for all the deficiencies of society or to guarantee the future of every child,” the authors conclude that the most socially and economically efficient training investment is on young, underprivileged children.

The Nature of Work provides an excellent and informative presentation of comparative international economics, specifically with regard to labor. Cahuc and Zylberberg describe a wide spectrum of employment policies, explaining competing viewpoints as well as current research findings, in a straightforward and fair way. However, while proclaiming the virtues of “creative destruction,” the movement of jobs and the economic utility of unemployment, the authors might be guilty of understating the social costs of mass layoffs.

They lament that “most of the news about jobs concerns mass layoffs, although these involve fewer than 10 percent of persons leaving their jobs in all OECD [Organisation for Economic Co-operation and Development] countries.” This focus on a “marginal component of the labor market,” assert the authors, might misdirect policymakers towards making inefficient and unjust changes. Following this reasoning, I think a similar claim can be made about injuries and illnesses—fatalities comprise less than 1 percent of occupational injuries, but they attract a disproportionate amount of our attention. Nevertheless, we focus on them because of their severity and cost to society.

Similarly, attention is drawn to mass layoffs. Such events are not life threatening, but they do change lives. Recent research by BLS economists finds that laid off workers have a higher rate of unemployment than workers who voluntarily leave jobs and new entrants to the job market. The duration of unemployment also

tends to be longer. Furthermore, the percentage of extended mass layoff actions with expected recall in 2006 was 57 percent, the lowest percentage in the United States since 2002. BLS data also indicate that a substantial number of displaced workers who eventually get reemployed earned less at their new jobs. These findings

point to a qualitative difference between laid off workers and other labor market participants, and this has policy implications.

To ignore today's economic reality, assert the authors, is to embrace intellectual blindness. Modern economic research, as the authors skillfully summarize, can equip policy-

makers with the tools they need to "advance resolutely into the world of evaluation and assessment."

—Bruce Bergman
New York Regional Office
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The July Current Labor Statistics data

For readers who track the Bureau's data through the Current Labor Statistics tables, please note that the July tables are presented in their entirety online at www.bls.gov/opub/mlr/2007/07/cls0707.pdf. This July/August issue presents the data that normally appear in the August issue.