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## Five myths about how to create jobs

**With unemployment hovering just below 10 percent, job creation is now priority number one in Washington. But America's jobs challenge is a marathon, not a sprint.**

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**With the unemployment rate** in the United States lingering just below 10 percent and the midterm elections just nine months away, job creation has become the top priority in Washington. President Obama has called for transferring \$30 billion in repaid bank bailout money to a small-business lending fund, saying, “Jobs will be our number one focus in 2010, and we’re going to start where most new jobs do: with small business.” The fund is among several measures—such as tax incentives, infrastructure projects, and efforts to increase exports—that the White House has proposed to help boost employment. As Americans consider the various approaches, we must have realistic expectations. We need to debunk some myths about what it takes to stimulate job growth.

### **1. Surely there’s a quick fix.**

Oh, were that only the case. The scale of the challenge is enormous. Quick action is important, but remember that the US economy has lost more than 7 million jobs in the past two years. The country would need to create more than 200,000 net new jobs each month for the next seven years to get unemployment back to what was once considered a normal 5 percent. Quick fixes focused on 2010 alone won’t be enough.

Of course, the right mix of government policies can help. But even if Obama’s proposals were enacted right away and they accomplished all that he hopes, they would at best represent a good start. America’s jobs challenge is a multiyear marathon, not a sprint.

### **2. The key to boosting employment quickly is to help small businesses.**

New jobs come from both small and big businesses. From 1987 through 2005, nearly a third of net new jobs were created by businesses that each employed more than 500 workers. By 2005, these big companies accounted for about half of the country’s total employment, although they made up less than 1 percent of all US firms.

But a look at the past two economic booms shows that the pace of job creation depends on more than the size of the businesses. During the economic expansion of the 1990s, large US multinational corporations—which employ an average of about 1,000 workers each in the United States—created jobs more rapidly than other companies. This was because they dominated computer and electronics manufacturing, the sector that drove much of that boom. During the more recent expansion of 2002–07, most of the net new jobs came from local service sectors, such as health care, construction, and real estate—which comprise both large and small businesses.

### **3. High-tech jobs will solve the problem.**

There is a lot of talk these days about green businesses, biotechnology, and other emerging industries that will create the jobs of the future. While they are obviously part of the solution, these industries are too small to create the millions of jobs that are needed right away. The semiconductor and biotech industries, for instance, each employ less than one-half of 1 percent of US workers; clean-technology workers, such as those who design and make wind turbines and solar panels, account for 0.6 percent of the workforce.

## Related thinking

“The power of productivity”

We'll be able to generate significant numbers of new jobs only by spurring broad-based job growth across the economy, particularly in big sectors such as retail, wholesale, business services, and health care. High-tech innovations will help employment grow over the long term, as new technology spreads throughout the economy and transforms other, larger sectors. For example, while the semiconductor industry alone doesn't account for much US employment, the computer revolution has fueled the growth of other industries such as retail and finance; similarly, the clean-technology business by itself doesn't employ many people, but its developments could transform a big sector such as energy, creating new business models and new jobs.

### **4. Higher productivity (when an economy produces more goods and services per worker) kills jobs.**

Not so. While productivity growth means that individual companies may need fewer employees in the short term, it spurs long-term gains in the economy as a whole. Since the industrial revolution, increasing worker productivity has brought rising incomes, higher profits, and lower prices. These forces stimulate demand for consumer goods and services and for new plants and equipment—fostering, in turn, industry expansion and job creation.

Take cell phones. Even 15 years ago, they were big, unwieldy, expensive, and worked only in limited coverage areas. But as new technologies enabled workers to produce phones and provide service more cheaply, the industry took off. Cell phones are now ubiquitous, and this has created jobs not just among phone makers but also among retailers, service providers, and a new industry of developing and selling applications for smart phones.

### **5. Increasing exports will revive manufacturing employment.**

Maybe for some companies in some industries, but not for the economy overall. While it's painful to accept, reducing unemployment is not mainly about regaining the jobs that have been lost. Sure, rising exports will cause some factories to scale up again, and many laid-off workers will be called back. But most new job growth will come from other sectors.

History shows that recessions—particularly those that follow a financial crisis—accelerate the growth or decline already underway in industries. In this recession, for example, the auto, financial-services, and residential-real-estate industries have contracted significantly and won't regain their peak employment anytime soon.

An increase in exports may stem—but will not reverse—the multidecade decline in manufacturing employment. In today's developed economies, net growth in new jobs doesn't come from manufacturing; it comes from service industries. Fortunately, boosting exports creates jobs in supporting service industries, such as design, trucking, shipping, and logistics. ○