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The Natural Survival of Work: Job Creation and Job Destruction in a Growing Economy. By Pierre Cahuc and André Zylberberg.

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The Natural Survival of Work: Job Creation and Job Destruction in a Growing Economy, By Pierre Cahuc and Andre Zylberberg (translated by William McCuaig). Cambridge, MA: MIT Press, 2006.

Cahuc and Zylberberg's most recent book to be translated into English starts with an impressive statistic: every working day, 90,000 jobs are destroyed in the United States. However, 90,000 other jobs are also created and this intense turnover is a primary motor of growth in continuously modernizing, developed economies. Since such massive turnover at the macro level is invariably associated with upheaval in individual lives, policy makers are often driven to "do something about it". This book is a well informed, well reasoned response to such demands.

The book is not without its faults. Its tone sometimes seems overly polemical. The translation is sometimes too literal and does not help a North American audience understand the sense of certain arguments. The level of the arguments may be a little too technical for the pure layman, whereas the technical details that an established researcher might look for are glossed over in the interest of readability (although the extensive footnotes and bibliography definitely help). Some arguments are made as if there was complete unanimity in the literature rather than just a majority opinion. But these problems do not take away (much) from the book's main value added: providing a set of suggestions for managing labor turnover that are based on scientifically valid empirical results from North America and Europe while debunking policies that the authors consider inappropriate and/or potentially harmful.

After a short introduction (which summarizes the rest of the book and also gives you a good introduction to Cahuc and Zylberberg's opinions of the media, politicians and reasoning based on ideology rather than statistical evidence in general) the authors present the principle underlying the rest of the book in chapter 1: job turnover is not only frequent, it is also not inherently evil and it is essential to any growing economy. They describe in intuitive terms how job (and even firm) destruction allows resources to be reallocated from wherever they may be – which is not exclusively in declining sectors – to wherever they may be most needed – which is not exclusively in growing sectors. They explain why such reallocation is good for the economy as a whole, how globalization plays into the picture and how the stock market reacts to massive layoffs, clearing up a few popular misconceptions along the way. They also note that one does not need to be a pure free-market libertarian to appreciate the value of turnover for the economy, and thus the important question (once one has accepted that reallocation is necessary and should not be restrained just for the sake of stopping all job turnover) is what to do about its consequences at the microeconomic level.

Chapter 2 takes aim at the "lump of labor" idea, namely that there is only a fixed amount of work to go around and unemployment comes from there not being enough of it. Using examples from the United States (the Mariel boatlift) and Europe (Algerian returnees to France, refugees from ex-Yugoslavia, legislative shortening of the standard work week in France) Cahuc and Zylberberg show that adding more people to the labor force (through immigration) does not necessarily mean more unemployment, taking people away

(through baby boom retirements) will not necessarily reduce unemployment and shortening the work week is not the effective unemployment-reduction tool one would imagine if the only issue was spreading a given amount of work over more people.

Chapter 3 takes up the labor demand side of the link between wages and employment. Relying on the applied labor economics literature (as they do throughout the book) they point out that minimum wages do not necessarily cause unemployment, and that the government has a margin on which it can affect labor demand, namely through payroll taxes and targeted tax reductions. In chapter 4, they turn to labor supply and directly address the importance of having jobs generate enough after-tax income to get people to accept them. After providing examples of government policies that go precisely in the “wrong” direction (and showing their negative impact on labor supply), they suggest that one of the best ways of “making work pay” is to introduce negative income tax schemes like the EITC in the U.S., the WFTC in the U.K. or the PPE in France.

Chapters 5 and 6 come back to the theme of the social utility of unemployment. Chapter 5 argues that unemployment insurance benefits are the rightful compensation for people engaging in the socially useful process of reallocating themselves, but acknowledges the risk that too-high benefits could actually slow the reallocation process. Cahuc and Zylberberg come down against a UI system characterized only by sticks and no carrots, noting that a mix of assistance and credible sanctions has been shown to be the most effective in cases around the world where it has been evaluated. Chapter 6 points out that although unemployment is necessary (and thus requiring administrative approval for mass layoffs, for example, is bad policy), employers do not take into account the externalities that their employment and layoff decisions might induce. The authors argue in favor of internalizing these externalities through “experience rating” unemployment insurance contributions, whereby firms whose ex-employees draw large amounts in benefits (relative to the size of the firm) pay higher payroll taxes, and claim that any attempt by employment authorities to measure directly the social costs and benefits of each layoff and assess an additional tax based on this social “price” is doomed to failure.

Chapters 7 and 8 then consider two perceived “cures” for unemployment: education (and training) and active labor market policies. Although Cahuc and Zylberberg do not deny the usefulness of education or training in general, they note that providing additional education can be extremely costly. They conclude that the educational assistance programs that really work are those that involve large sums of money narrowly focused on young children from underprivileged backgrounds, in which the interventions reach outside the boundaries of the school and touch on multiple aspects of the child’s environment (family, extracurricular activities). On the other hand, active labor market policy comes out much less favorably in their eyes. Stressing that each new program should incorporate a scientifically valid evaluation of its impact from the start, their overall conclusion is that, insofar as direct aid for employment can be helpful, it should be concentrated on subsidies for jobs that are as close as possible to normal, private sector jobs, while any other sort of intervention tends to weaken the “employability” of the unemployed.

The epilogue of Cahuc and Zylberberg's thought-provoking book sums up their main points in the more polemical style of the introduction. First, turnover is important to the economy and the policy response to such turnover needs to provide the correct incentives for firms and workers to act in a socially optimal way. Second, tax relief can be a useful tool for breaking the direct link between wages and labor cost, but insufficient numbers mean that this tax relief can not be financed exclusively by "the rich"; a large part of society will need to contribute if this policy tool is used for redistribution. Third, not only is the "lump of labor" approach wrong, most of its empirical implications turn out to be the opposite of what actually happens in the real world. And finally, if the government is going to put money into unemployment reducing programs, it needs to be a lot of money, the programs need to be narrowly targeted and cover multiple aspects of the person's environment, and there must be a follow-up and evaluation afterwards.

In the end, Cahuc and Zylberberg themselves provide an appropriate characterization of their work. As they say in the epilogue, "These proposals are not necessarily designed to please, but they cannot be ignored".

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