

Jobs cannot be created by fiat: efforts to do so will cause harm in the long run



What's the difference between a developed country and a developing country? Filling station attendants.

Whereas most of the western world allows you to fill your tank, you will still find filling station attendants in some of the largest economies in the [developing world](#), and nearly everywhere on the African continent. The primary defence is jobs; in Brazil, for example, a 2000 federal law banning self-service fuel filling was lauded for [protecting 300,000 jobs](#).

The unwillingness to dispense with filling station attendants is part of a perverse obsession with job creation. You see it all over the world; from labour unions in South Africa appealing to parliament to protect jobs, to Nigerian politicians making vague promises to create jobs.

The truth is, jobs cannot be created by force or fiat, and any effort to do so will cause more harm than good in the long run. Here is what is supposed to happen: a need arises in society that creates demand for a worker, e.g. a push for energy diversification increases demand for solar engineers, and hiring this worker is welfare-improving (justifying the wages paid).

Therefore, jobs are *demand-pull*, i.e. the market dictates which workers are desirable based on what functions need to be performed in the economy. What many African countries have attempted to do is simply assign workers to various parts of the economy, regardless of whether they are required there or whether or not hiring them is the most efficient alternative. For example, a government hiring 1,000 people as street cleaners – technically, 1,000 jobs have been created, but it is unclear whether these are 1,000 jobs that we would want to be created.

Jobs in Africa remain elusive, and governments have been very eager to interfere in the labour market.

In defence of African governments, malfunctioning labour markets force them to intervene. The [exploding population](#) on the continent, mixed with [inadequate infrastructure](#) and poor labour matching systems means that workers may struggle to find the jobs they would be most useful in. Meanwhile, low human capital, due to inadequate skills and training, and high poverty levels can sometimes lead to a “bad equilibrium” where high poverty levels lead to low demand for labour and low employment which worsens poverty levels.

The logic of government intervention is that they can manually assign workers to sectors they would be useful in. In short, they are not *creating* jobs per se, but are performing the market function of assigning workers to needs in society. A scheme to absorb recent Nigerian graduates into the teaching population would seem to fit this story; the country's need for [quality education](#) is nearly matched by the [mediocrity of its teachers](#).

Admirable as this may be, it holds a frightening danger, one powerfully highlighted by Adam Smith in his accusation that the government official *"seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard"*.

More specifically, there is an opportunity cost of every job the government creates by fiat. The worker loses out because she could have been retrained in another profession (one that maximises her potential) and society loses out because the funds dedicated to fiat jobs could be better spent elsewhere – not to mention the fact that we could find a better match for the role.

Nigeria's policy-makers may convince themselves that they have done right by those graduates retrained as teachers, but it is easy to see that in the long-run, most of these graduates would remain square pegs in round holes. Other costs creep up under further inspection. When the government creates jobs by fiat, it mimics the old Soviet Union command economy approach where people were assigned jobs as part of the social contract. As the old [Russian Reversal](#) joke goes, *"In other countries, you find jobs. In Soviet Russia, jobs find you!"*

This is not merely an ideological issue either; we ignore market forces at our peril. It is why the idea of modern Nigeria as a nation of farmers is an absurd concept; not everybody wants to be a farmer and clearly, not everybody should. Moreover, as useful as it may be to be trained as a farmer or teacher, there is a tradeoff between giving people valuable skills and depriving them of real choice of occupation.

Fiat jobs are also more vulnerable in the technology age. The idea that we can create one million jobs of our choice today is farcical when we can't even predict which jobs automation would not make obsolete in the next 25 years. Moreover, there is a blurry line between fiat jobs and social safety nets: if the economy does not really need 1,000 street cleaners, the government is effectively providing handouts and asking recipients to scale [hurdles](#) to collect them. Yet, outright social welfare schemes would be better; they would satiate our desire for equity/fairness while allowing the labour market to work. And we would lose very little (if at all) economy value from fiat jobs.

In reality, it is not always easy to tell which fiat jobs have little or no economic value. Filling station attendants are more obvious, but how about street cleaners or untrained primary school teachers? Furthermore, in countries with low labour costs, it may be optimal to use labour in place of capital e.g. street cleaners may be more cost-effective than imported machinery, given Africa's low wages. But even with these challenges, the market will generally be the best signal of economic value, and when it fails, a government is best suited to addressing the market failure, not replacing the market.

So, what should governments do? The first step is to understand that job creation is not an end in itself, the nature of the job matters too. We still look very far from this, however; Nigeria's landmark Economic Recovery & Growth Plan promises 15 million new jobs between 2017 and 2020 without revealing where or how these jobs will come. Governments ought to focus their energy on the step before jobs – creating an environment that organically generates demand for labour. After all, do you know the most effective source of job creation? Sustainable economic growth.



Notes:

- This blog post was first published on [Stears Business](#) and written to showcase the theme of the [2018 LSE Africa Summit – Africa at Work: Educated. Employed. Empowered](#). It was published also at [Africa@LSE](#).
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