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Job Security Never Better, But That's The Bad News

By Donald L. Luskin

When is job security a bad thing? Right now.

Believe it or not, for all the scare-mongering about downsizing, outsourcing and Walmartizing, job security has never been stronger. But all it really indicates is that the U.S. labor market is the least dynamic it's ever been.

To be sure, it's counterintuitive that job security is so strong when 11.3 million Americans are still officially unemployed — 3.7 million more than at the peak of the last business cycle expansion in 2007. But it's true.

Today an employed person faces only a 2% probability of losing his job in a given month, according to data from the Department of Labor. That probability has never been lower.

But job security for the employed doesn't help the unemployed.

Today an unemployed person enjoys only a 26% probability of becoming employed in a given month. That's some improvement over the horrifying 19% probability the jobless faced at the worst of the Great Recession. But it's now more than four years since that recession officially ended.

At this stage in the previous two expansions, an unemployed person had at least a 40% chance of getting work. In earlier expansions it was even better.

The labor market is frozen now, with joblessness just as secure as employment. Yes, today you are less likely to lose your job than at any time since records started being kept in 1948. But if you don't have a job, you're very unlikely to get one.

In one sense it's a vicious circle. When it is so difficult to find a job, no one will risk leaving the job he has. And with no one willing to leave his job, there are fewer openings to accommodate the unemployed.

A healthy labor market is one in which there is a dynamic interplay of employment and unemployment, where human capital rapidly transfers itself to where it is most valuable in a classic process of creative destruction.

But this is a vicious circle we can break any time we wish. All we have to do is reverse the policy errors that exacerbate and prolong it by destroying supply-side incentives — for those who supply their labor, and for those who supply the jobs.

On the labor-supply side, of the 11.3 million unemployed, 1.5 million are receiving special extended unemployment benefits. While surely not princely, these benefits defer from months to years the crunch-time that forces recipients to seek taxable work rather than enjoy tax-free leisure.

The end in January of the two-year "holiday" exempting half the employee share of Social Security taxes was a brutal tax hike on every working American. For the median earner, it's a hit of more than 2% of take-home pay. It's another disincentive for the unemployed to seek taxable work.

At the same time, on the job-supply side, the hike in January in the tax rate on dividends and capital gains undermines the after-tax rewards that compensate capitalists for taking the risks that lead to job creation.

ObamaCare — and its arbitrary on-again off-again implementation — adds both costs and uncertainty to employment, especially for smaller businesses that historically have accounted for a substantial majority of new jobs.

The Dodd-Frank bill, and the new Consumer Financial Protection Bureau it spawned, promise years of uncertainty about how credit intermediation will be regulated, exerting a chilling effect on the capital markets that finance job creation.

Federal Reserve policy is exerting its own chilling effects — notwithstanding Ben Bernanke's repeated claims that the labor market is improving. The Fed's unconventional operations may be supporting risk-taking in securities markets, but they have done little to restore commercial and industrial bank lending that directly finance job creation, especially among small businesses.

Now uncertain and loudly debated prospects for unwinding those operations imply a risky trial-and-error process by an institution known for error even in the best of times.

The most tragic drag on the dynamism of the labor market is energy regulation, which is inhibiting the rapid adoption and proliferation of revolutionary new shale oil and gas extraction technologies.

It's not just a matter of the thousands of semi-skilled jobs that go uncreated in the energy sector itself, while the Obama administration wastes taxpayer money on "clean energy" boondoggles like Solyndra and delays construction of the Keystone pipeline.

Today growth of all kinds — including job creation — is inhibited by oil and gasoline prices, which on average over the last 10 years have been the highest in history, even on an inflation-adjusted basis. Unlocking America's shale wealth could return energy prices to the low growth-conducive levels enjoyed throughout most of the booming 1980s and 1990s.

So let's not take false comfort from the recent headlines, like those about new claims for jobless benefits stabilizing at pre-recession levels. The last thing we should want now is for the labor market to stabilize, with 11.3 million still unemployed, and no indication they will get employed anytime soon.

It's time to stop paying people not to work, taxing them more when they do and creating tax and regulatory barriers to the risk-taking and innovation that make job creation possible.

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