In many stories about projects to be funded partially or totally by taxpayer dollars there is almost inevitably a reference to how many jobs will be “created” by the project. It is apparently presumed that the greater the number of jobs the more good the project is doing. From the perspective of the overall society, this is nonsense.

There are two ways in which one can show the dangerous silliness of taking the number of jobs associated with a project as a positive thing. For concreteness, let us assume that the project is called “The Corridor.” First of all, whatever amount is spent on paying those who have jobs related to The Corridor is money that was taken from taxpayers who would have spent that money in other ways and therefore “created” a set of jobs in other businesses. Insofar as it is possible to say that the Corridor project creates jobs, one can say that the taxes used to fund that project destroys jobs.

However, one gets more to the heart of the matter by doing a little cost accounting. Suppose that the typical worker on the Corridor project makes $25 per hour, and that the same worker would have had a job making only $15 per hour if the Corridor project had not existed. That worker gets a net benefit of $10 per hour, assuming the onerousness of the work would be the same in either job. However, to the person who pays that Corridor wage the cost is $25. Therefore, the net cost to “society” is ($25-$10)=$15, which equals the wage the worker would have gotten in the alternative job. Assuming the alternative job paid a value equal to what the worker was worth at the margin in added output produced, the net loss to society of $15 reflects the value of lost output.

It is important to note that there is no real benefit being produced. The net gain of $10 to the worker is just a transfer of money from the taxpayer to the worker, while the other $15 is just the transfer from the taxpayer to offset the real cost to the worker. Jobs are costs, not benefits. One could create any number of jobs by having individuals dig holes and then fill them up again. An economy like that would create sweaty, starving individuals in very little time. The benefits of a project comes from what it produces and these benefits need to be compared to costs, a big part of which are labor costs. If one counts jobs as benefits, a lot of projects with negative net benefits will find apparent justification. Unfortunately, that seems too often the case.

Addendum on “outside money” and local benefits, or how pork looks good in one’s local barrel

Suppose we have the same numbers as above except that the workers are all local and 80% of the money to pay for the project comes from outside. In this case, the local taxpayer pays only $5 out of the $25 wage, while the local worker benefits $$25-$15=$10. In this case, the project can have a net benefit when looked at locally even if it produces nothing of use. However, this is simply a particularly wasteful form of welfare when looked at from the viewpoint of the larger society.