

ECONOMICS, LABOR & BUSINESS*Who Creates
New Jobs?*

"Tracking Job Growth in Private Industry" by Richard Greene, in *Monthly Labor Review* (Sept. 1982), Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Record unemployment has made creating new private sector jobs a top priority of Washington policy-makers. According to Greene, a U.S. State Department economist, focusing on the role of Big Business would be ill-advised. Recent studies show that small firms create the overwhelming majority of new jobs.

In a landmark 1979 study of 5.6 million businesses between 1969 and 1976, Massachusetts Institute of Technology economist David Birch found that two-thirds of all net new jobs were created by firms with fewer than 20 employees; 80 percent were generated by businesses less than four years old. Indeed, other research shows a net gain during the last decade of three million new jobs by small businesses, while the top 1,000 U.S. firms posted virtually no net increase in employment.

Birch also found that about 50 percent of all jobs were lost every year through bankruptcy, contraction, and other factors. "Boom towns" such as Houston both lose old jobs and generate new ones at a faster pace. Plant relocations, while much publicized, account for only about .1 percent of all job losses and gains.

The birth of new firms accounted for slightly more new jobs than did expansion by existing companies. In 1976, subsidiaries and branch offices opened by larger parent corporations accounted for 70 percent of the new jobs created by such births, but independent firms with no branches created the majority of new jobs resulting from expansion.

Until recently, Greene says, questions about the data Birch used cast doubt on his conclusions. But 1981 studies by Michael B. Teitz of the University of California, and by Catherine Armington and Marjorie Odle of the Brookings Institution confirm much of Birch's work: The process of job creation is turbulent, dominated by smaller firms.

Such a diffuse market, involving thousands of local enterprises, is hard for Washington policy-makers to influence. But at least they know that the corporate behemoths, despite their financial prominence, play a relatively small role in the nation's employment growth.

*The Glitter
of Gold*

"The Gold Standard: Historical Facts and Future Prospects" by Richard N. Cooper, in *Brookings Papers on Economic Activity* (1-1982), Brookings Publications Sales Office, 1775 Massachusetts Ave. N.W., Washington, D.C. 20036.

Advocates of a gold standard for the U.S. dollar tout it as the only way to end inflation and ensure stable long-term economic growth. But according to Cooper, a Harvard economist, history shows that the gold standard has never produced such happy results.

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The gold standard has not been a major U.S. campaign issue since Republican William McKinley defeated Democrat William Jennings Bryan in the 1896 presidential election.



Gold served as the international money standard only from the 1870s to 1914; the United States maintained de facto gold backing for the dollar from 1879 to 1933. It did record one success, says Cooper: International exchange rates remained stable among those nations on the standard. But its domestic successes were few.

In theory, a gold standard keeps prices from rising and encourages economic growth by guaranteeing that a dollar will always be worth the same amount of gold. Indeed, the wholesale price index in the United States rose by an average of only .1 percent annually between 1879 and 1913. But the average conceals wide swings, says Cooper. During that 34-year period, wholesale prices fluctuated more sharply than they did between 1949 and 1979, and growth in U.S. per capita gross national product fell short of the 2.1 percent achieved between 1950 and 1980. Real short-term interest rates varied widely also, from 11.5 percent in the early 1890s to -2.3 percent at the end of the decade.

In part, such fluctuations were the result of changes in gold output, which spurred changes in the money supply. In 1895, the gold stock held by the world's monetary authorities was twice what it had been in 1859, but by 1914, only 19 years later, it had doubled again.

Some economists estimate that a 2.5 to three percent annual growth in the gold stock is required for stability: More yields inflation; less leads to deflation. During the 1970s, Cooper notes, world gold production dropped; "monetary" gold stocks fell by four percent.

Restoring the gold standard now would also require fixing an arbitrary price for gold. At today's official price of \$42.22 per ounce, Washington's gold holdings amount to only \$11.1 billion, not nearly enough to back the U.S. currency in circulation. A price high enough to back all outstanding dollars would also be far above today's market prices for

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gold. Private gold-owners would sell their holdings, forcing the Federal Reserve to issue more paper money. The result: inflation.

Moreover, Cooper argues, by fixing the price of gold arbitrarily, Washington would undermine the faith in its unchanging value. The public might regard the gold standard as "a fair weather vessel, likely to capsize and be abandoned in the first serious storm."

Learning from West Germany

"Germany's World Class Manufacturers" by Joseph A. Limprecht and Robert H. Hayes, in *Harvard Business Review* (Nov.-Dec. 1982), Subscription Service Dept., P.O. Box 3000, Woburn, Mass. 01888.

Cultural differences make it difficult to apply the lessons of Japanese industry in the United States. But according to Limprecht and Hayes, respectively a U.S. Foreign Service officer and a Harvard professor of business, West Germany is similar enough to offer useful models for U.S. managers.

Industries in the two countries face major problems. A doubling of real wages during the 1970s to an average of \$16,000 made West German workers among the world's highest paid. Yet the 12 percent factory absenteeism rate is the world's second highest, only behind Sweden's. Moreover, German factories must import many raw materials; they must find overseas markets for 50 percent of their business, versus only 10 percent for U.S. firms.

The West German reputation for quality goods, the authors argue, is the result not of German cultural traits but of a deliberate strategy: The West Germans stress technical competence. Students are introduced to the sciences early, studying physics in fifth grade, and those not bound for college enter three-year company-run apprenticeship programs at age 16. Some 350,000 companies offer such programs; half of all 16-year-olds enroll annually. Experienced workers, not recent MBA graduates, are given shop-floor supervisory positions.

Indeed, there are no graduate business schools in West Germany; managers hold degrees in engineering and other technical fields. This nuts-and-bolts orientation, along with infrequent transfers (once every seven or eight years versus once every two or three for U.S. executives) ensures that managers stay in touch with workers on the shop floor. Such communication is a hallmark of the West German style. By law, all major corporate decisions must be ratified by worker councils.

West German management is distinguished by other traits. It tends, for example, to emphasize long-term planning over short-term performance. Indeed, corporate financial statements often obscure quarterly results. West German industry also leans heavily on incremental technological changes, while, "as the [U.S.] auto, steel, and machine-tool industries grimly attest," the authors say, top American managers slight such improvements and seek technological breakthroughs.

Although U.S. executives are widely admired for their financial and marketing acumen, Limprecht and Hayes note, they are often bested