

DAILY GLOBAL COMMENTARY

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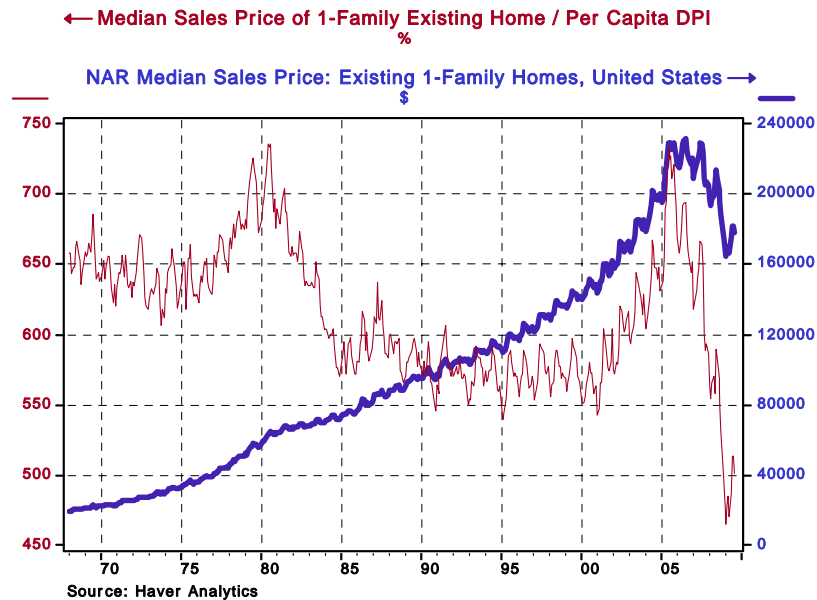
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Increase Employment the Same Way You Increase Home Sales

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Every month in its survey of economists' forecasts, the *WSJ* asks various inane questions. In its latest survey, one of the questions had to do with what the government could do to increase employment. Now that health-care "reform" appears to be on its way to being a done deal, the D.C. issue *du jour* is employment stimulus. Various kinds of employer-tax incentives are in the initial stages of being proposed. Of course, the editorial board of the *WSJ*, which has never encountered a tax cut it did not encourage, is lobbying for a cut in the Social Security payroll tax. Good idea if the *WSJ* editorial board also argues for an equal cut in Social Security benefit payments. Fat chance of that occurring – i.e., a cut in Social Security benefit payments.

Home sales have picked up this year. Why? One important reason is that the price of homes has fallen in both absolute and relative terms (see chart below). Why did home sales sag prior to this year's pick up? Supply was greater than demand *at the prevailing prices*. By sellers cutting their offer prices of homes, the quantity demanded of those homes picked up. Yes, there is a gimmicky tax credit that effectively has lowered the sales price to a first-time homebuyer and has increased the future tax liabilities of everyone. But I would argue that the biggest stimulus to home sales this year has been the drop in the prices of these homes.



What does this have to do with stimulating employment? Clearly, at *prevailing wage rates*, the supply of labor exceeds its demand. Do unemployed workers want to become employed again? Take a hint from successful sellers of homes – lower your prices, i.e., wage rates. This is not meant to be cruel and uncaring. Rather, I am just trying to explain how markets come into equilibrium.