Wealth and Jobs: The Broken Link

For most of the 20th century, a symbiotic link existed between value creation and job creation. When businesses prospered, employment expanded and communities thrived. This virtuous circle was good for business and good for society.

But now the relationship between value creation and job creation is more tenuous. In the United States, for example, the corporate sector—judging from most companies’ earnings reports—is doing well, yet people are struggling to find work. Perhaps job creation will catch up with value creation, as confidence grows in the future of the economy. But what if this is a symptom of a deeper structural issue?

Two factors that once supported the link between business growth and job growth have fundamentally changed. Businesses in the 20th century were both more industrial and more local than they are today. To grow, an industrial firm had to expand mass production and mass distribution. An increase in the demand for products, whether cars, washing machines, or TV sets, eventually created additional jobs on the assembly line and in the supply and distribution chain.

These jobs were local, and over time they became well-paying middle-class jobs. As a result, in the U.S. for most of the 20th century the rise of business coincided with the rise of the middle class, creating confidence in the system and establishing the American Century.

Fast forward to today. When Google, Facebook, or another of the amazing companies that exemplify the new American economy doubles in size, it doesn’t multiply jobs the way fast-growing industrial firms once did. A hedge fund trading billions of dollars needs far fewer people than would a traditional bank handling similar sums. And often new jobs are going to a few skilled, highly paid knowledge workers rather than to many middle-class workers.

Moreover, business is no longer local. Decent production capability is distributed more widely in the world and can be developed more quickly, further weakening the link between business growth and local job growth. This is the Global Century, in which jobs ignore borders and move quickly to lower-cost regions.

To be sure, both these changes benefit society overall, enabling prosperity for far more people around the globe. The rise of a middle class in India and China ultimately produces many new customers for the likes of Google and Facebook. But these benefits will be realized in the long run. To people worried about finding jobs now, the short run is all that matters—and politicians looking to get elected have no choice but to respond to those short-term concerns.

The stakes are high. I don’t have the answers, though government policies and business practices that promote innovation, entrepreneurship, and the formation of skilled human capital seem essential. Executives and politicians must find new ways to link value creation and job creation. If they don’t, business leaders will continue to lose legitimacy in society, especially if they keep prospering while people around them are struggling. Instead of a virtuous circle, the relationship between business and society will become a vicious circle.

When society is angry at business, the risk that governments will enforce overreaching regulation is real. Moreover, that anger distances citizens from the source of answers to many of our most urgent issues. None of the major problems confronting the globe today—sustainability, health care, poverty, financial-system repair—can be solved unless business plays a significant role. But to do that, business must restore its stature and help to address the anxiety about job creation.

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