ENDING THE CRISIS WITH GUARANTEED EMPLOYMENT AND RETRAINING

By Jon D. Wisman and Aaron Pacitti

“[No] country however rich, can afford the waste of its human resources. Demoralization caused by mass unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order” (Roosevelt 1934).

“The real problem, fundamental yet essentially simple [is] to provide employment for everyone” (Keynes 1980: 267).

“The voices which, in such a conjuncture, tell us that the path of escape is to be found in strict economy and in refraining, wherever possible, from utilizing the world’s potential production, are the voices of fools and madmen” (Keynes, 1982, XXI: 61).

Abstract: Since 2008, the U.S. economy has been mired in the second worst economic crisis in its history. Conceivably, massive government spending could bring the economy out of this slump as massive war spending ultimately ended the Great Depression of the 1930s. However, a far superior strategy exists: Guaranteeing employment accompanied by retraining to enable all unemployed workers to become absorbed into the regular work force. Beyond ending the crisis, the superiority of this strategy is that it would institutionalize a procedure for insuring that, in an increasingly technologically dynamic and open economy, workers would possess the necessary skills for available jobs. Guaranteeing employment would also eliminate the ecological costs associated with the need to seek growth to generate employment at practically any cost. Finally, it would establish a new moral social contract whereby everyone is granted the dignity that accompanies being a productive member of society. Welfare for those able to work could disappear, along with the degradation and humiliation that accompanies it.

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Eleven percent of the U.S. workforce—6.2 million workers—remained unemployed in 1939, 10 years after the onset of the Great Depression. Two years later, as the U.S. entered World War II, unemployment was halved, and by 1944, the unemployment rate fell to an unprecedented one percent. What happened?

The U.S. government began massive deficit spending and, far less noted, became a de facto employer of last resort when it placed over 10 million Americans in uniform and added another two million to the Department of Defense and other agencies. War-stimulated demand employed an additional five million Americans. In all, employment increased by 17 million

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1 Respectively, Professor of Economics, American University and Assistant Professor of Economics, Siena College.
(Vatter 1985: 16-17), increasing the total labor force by 18 percent. In doing so, it drew minorities and women into the active workforce, breaking through barriers that had traditionally excluded them.

Currently, the U.S. economy is trapped in the second worst economic crisis in its history. Although less severe, it shares common roots in the dramatic rise in inequality preceding both of these crises, resulting in inadequate aggregate demand, massive indebtedness, speculative frenzy, consumption distortions – conditions consequent to the dominance of laissez faire ideology. Many workers have become so discouraged that they have left the workforce entirely, as can be seen by the sharp fall in the employment-population ratio in Figure 1.

![Figure 1. Civilian Employment-Population Ratio, 2007-2013. Source: Bureau of Labor Statistics](image)

The employment-population ratio declined from 63.3 in January 2007 to 58.7 in June 2013. Although the recession formally ended in June 2009 and the share of the population with a job reached a low of 58.2 in November 2010, it has flat lined since, indicating that the economy remains in what many call “The Great Recession.” What is clear is that the continuingly weak economy is a major tragedy for all who remain involuntarily unemployed.

Massive government spending brought the U.S. economy out of the Great Depression, and, \textit{pace} the mistaken budget hawks, it could end the current crisis. However, there is a far superior solution, one that not only would end the crisis, but also address serious social problems, prepare the workforce for an increasingly technologically dynamic and open economy, and better enable the country to address the worsening ecological crisis. It would also establish a new moral social contract that provides everyone with the dignity that accompanies being a productive member of society. Welfare for the work-able could end, along with the degradation and humiliation that accompany it. That superior solution is government guaranteed

\footnote{If the U.S. government were to employ a similar percentage as of this writing (June 2013), the unemployment rate would fall from 7.6 percent to -5.4 percent, due to the fact that 8.5 million new workers not previously in the labor force would have to be employed.}

\footnote{As Keynes put it, “Look after the unemployment, and the budget will look after itself” (1933, CW XXI: 150).}
employment and the requisite retraining to enable all workers to successfully enter the regular workforce.

**INEQUALITY, INADEQUATE DEMAND, AND CRISIS**

Wage stagnation and rising inequality were core causes of the financial crisis of 2008, as had been the case for the 1929 crisis. Over the three decades preceding 2008 and the decade leading up to 1929, wages practically stagnated, lagging far behind productivity gains. The extreme degree of inequality accompanying wage stagnation is captured by the fact that on the eve of both crises, the top one percent received historically high shares—just under 25 percent—of total income (Alvaredo et al. 2013). Wage stagnation and exploding inequality generated three dynamics that made the economy vulnerable to systemic dysfunction in the run-ups to both 1929 and 2008 (Wisman 2013b, 2013c, Wisman and Baker 2010). The first is that they constrained consumption, reducing profitable investment potential in the real economy, and thereby encouraging an ever wealthier elite to flood financial markets with credit, helping keep interest rates low, encouraging the creation of new financial instruments and greater indebtedness as some of the excess income and wealth of the rich was recycled as debt to those below. In both instances rising inequality fueled speculation in both financial and real estate markets, resulting in macroeconomic instability (Kumhof and Rancière 2010, Galbraith 2012).

The second dynamic is that consumption externalities were generated, forcing individuals to struggle harder to find ways to maintain the welfare of their families and their relative social status. The consequence was that, by the eve of the 2008 crisis, the personal saving rate had fallen from 10.4 percent in the early 1980s to become negative in 2006. Between the periods 1898-1916 and 1922-29, personal saving as a percent of disposable income declined 42 percent, from 6.4 to 3.8 percent (Olney 1991: 48-49). Part of the excess income of the rich was recycled into debt to families below, as total household debt as a percent of disposable income doubled from about 62 percent in 1974 to 129 percent in late 2007. From 1919 to 1929, debt as a percent of income almost doubled, increasing from 4.64 percent to 9.34 percent (Olney 1991: 88-89). And by 2007, the average married household worked 19 percent more hours than they did in 1979—the equivalent of over one extra work day per week. In the 1920s, with female participation rates increasing from 24.3 to 25.1 percent, household workweeks may have increased (Smiley 2010: 4).

The third dynamic is that, as the rich took larger shares of income and wealth, they gained more command over ideology and hence politics (Hacker and Pierson 2010, Wisman 2013d). Reducing the size of government, abandoning full employment policies, undermining unions, cutting taxes for the wealthy, reducing welfare for the poor, deregulating the economy, and failing to regulate newly evolving credit instruments flowed out of this ideology, causing policy-induced increases in inequality (Schmitt 2009).

The rise in inequality that brought on these crises now impedes recovery. Inequality reduces aggregate demand by negatively affecting consumption, investment, and government spending (Rohit 2011). Consumption is reduced due to stagnant incomes for the less well off—those with the highest marginal propensity to consume—and rising income for the owners of capital—those with the lowest marginal propensity to consume. Since the start of the recovery from the Great Recession, productivity has risen at an annual average of 1.9 percent while real

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4 Given the caution and deleveraging provoked by the crisis, consumption cannot readily be pumped up by households saving less and taking on higher debt. And given the dearth of investment spending and therefore weak demand for labor, longer work weeks cannot be counted on to fuel additional consumption.
wage compensation has grown by a paltry 0.2 percent per year. Practically all gains from economic growth have accrued to the owners of capital.\(^5\) Labor’s share of national income has fallen 3.8 percent since the official end of the Great Recession (June 2009), while after-tax corporate profits have increased 24 percent. Labor’s share of GDP is at post-WWII low (55 percent) while profits share are at a post-WWII high (11 percent).

Although profits have been robust, net investment that might generate employment has been weak due to anemic consumer demand.\(^6\) What, then, has been done with these profits? Fueled by the Fed’s quantitative easing policies, funds have been flowing into asset markets and cash reserves. Dividend payments as a share of GDP have increased 25 percent since the start of the recovery, and the number of share buybacks by firms, which increases stock prices, has tripled (Amenta 2013). Additionally, firms are opting to hoard cash as opposed to making new investments. U.S firms have increased their cash reserves by approximately 25 percent since the start of the recovery, while the ratio of cash to net assets has increased by approximately 20 percent (Sánchez and Yurdagul 2013).

While the economy was saved from more severely crashing during the first two years of the crisis by highly stimulative fiscal policy, once this threat dissipated, a loud chorus has successfully insisted on budget austerity, causing government spending to decline. Total federal expenditures as a share of GDP had risen by 27.4 percent during the recession, but have fallen 10.1 percent since the start of the recovery.

Since the official end of the recession in June 2009, the three main sources of economic growth—consumption, investment, and government spending—have been too weak to enable a recovery as robust as those following earlier recessions. The redistribution of income away from labor and toward the wealthy has, as noted earlier, dampened consumer demand. This in turn has reduced the incentive of firms to invest in real capital. Fiscal austerity has meant that government spending has been inadequate to counter the low levels of consumption and investment. Constrained private and public sector consumption has reduced net investment and increased cash hoarding by U.S. firms. Austerity has led to contractionary fiscal policy, so that public spending has not been able to offset the decline in private spending.

Not only did an explosion in inequality set the stage for the crisis of 2008, but that explosion continues unabated. Since the start of the recovery, Saez (2012) estimates that the top one percent of the income distribution captured 93 percent of all of the income gains during the first year of recovery from the Great Recession. The distribution of wealth, which accounts for assets and debt as well as income, has followed a similar trend between 2009 and 2011: The bottom 93 percent of households has seen its net wealth fall by 4 percent, while the top seven percent of households have seen their net wealth rise by 28 percent (Fry and Taylor 2013).

Inequality and its continued rise handicap the recovery

The plight of the economy can be seen in the following: Since the start of the recovery, the economy has added an average of 111,000 jobs per month. At this pace, all the jobs lost during the recession will not be recovered until January 2015. Even if all nonfarm job vacancies were immediately filled by unemployed workers, it would still leave approximately 8 million

\(^5\) Capital is overwhelmingly owned by the rich. In 2007, the wealthiest one percent of Americans owned 49.3 percent of stocks and mutual funds, the richest 10 percent, 89.4 percent, leaving the bottom 90 percent with only 10.6 percent (Wolff 2010: Table 9: 52).

\(^6\) Since 1994, net investment as a share of GDP increased by 2.7 percent per year, but has only increased 0.7 percent per year since the start of the recovery. Over the same period, total foreign direct investment by U.S. firms increased 1.7 percent, but rose to 2.2 percent during the recovery.
workers without a job. Such depressed conditions have unsurprisingly led to a vast pool of missing workers. As shown in Figure 2, the number of discouraged workers who have dropped out of the labor force and stopped looking for work entirely has tripled since the recession began. But the slow pace of recovery and massive scale of unemployment and shrinking labor force is only part of the story.

![Figure 2. Discouraged Workers, 1994-2013. Source: Bureau of Labor Statistics](image)

Since the onset of the “Great Recession,” the labor market has dealt a series of harsh blows to the unemployed. Figure 3 shows the near tripling of the post-World War II average duration of unemployment. The share of unemployed workers who have been jobless for more than half a year, shown in Figure 4, has also tripled. This has led to record high levels of the cost of job loss, as workers can now expect to lose over 40 percent of their income during the year following job loss, approximately twice the historic average (Pacitti 2011).

![Figure 3. Unemployment Duration, 1948-2013. Source: Bureau of Labor Statistics](image)
The tragedy of lost income in compounded by the fact that the longer workers are unemployed, the more their skills or human capital atrophy—a loss of a critically important store of personal wealth. The consequence is that when they eventually find employment, they will be less skilled and thus command lower salaries. Edin and Gustavsson (2008) estimated that each year of unemployment causes a five percentile move down the skill distribution. Farber (2011) found that workers who lost their job during the Great Recession and were reemployed received a real weekly wage in their subsequent job that was 17.5 percent lower than their pre-displacement earnings. This analysis includes all durations of unemployment, so the earnings losses for the long-term unemployed are probably much greater than Farber’s final estimate.

THE SUPERIORITY OF GUARANTEED EMPLOYMENT AND RETRAINING OVER MASSIVE GOVERNMENT SPENDING

Although massive government spending could conceivably bring the economy fully out of the Great Recession, it is far inferior to instituting a comprehensive program guaranteeing employment and the retraining necessary to enable workers to find employment in the regular economy for two principal reasons. First, government spending could only reduce

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7 Due to the severity of the current crisis, a large number of firms have been forced into bankruptcy. Between March 2008 and March 2010, corporate bankruptcies doubled, and have yet to return to their pre-recession levels (U.S. Federal Courts 2013). The new firms that are being and will continue to be created will generally deploy the most recent technological advances, often meaning that workers released by the defunct firms will not possess the skill mix needed by the new ones. Not only does this prolong their unemployment, but the enhanced demand for more highly skilled workers augments the polarization of the workforce and generates greater long-term structural unemployment.

8 The difference between a five percentile fall in the skill distribution and a 17.5 percent decline in earnings can be accounted for due to the different scales, but also because the decline in earnings is due not only skill decay, but shorter hours when reemployed (Farber 2011).
unemployment to its so-called natural rate, or the non-accelerating inflation rate of unemployment (NAIRU), below which inflation is believed to become a problem. At that point, monetary authorities can be expected to “take away the punchbowl,” ending the economic expansion that pulls workers into the active workforce. Thus government spending could substantially reduce unemployment, but not eliminate it. The Congressional Budget Office (2013) estimates that the 2013 value of the NAIRU has temporarily risen from its long-term value of 5.5 to percent to 6.0 percent, while Weidner and Williams (2011) estimate a rise to 6.7 percent. Thus, according to these estimates, to avoid inflationary pressures, 8.6 to 10.4 million workers must remain unemployed, sacrificed for the presumed good of everyone else. But in fact all would suffer the loss their potential output, and the social wealth loss as skills or human capital depreciate, not to mention the severe social consequences of unemployment. A guaranteed employment program would make these sacrifices unnecessary.

Second, government spending alone would not address the increasingly severe problem of workers not being adequately prepared for an ever more technologically dynamic economy. By contrast, a program to guarantee employment and any necessary training would eliminate, or at least greatly mitigate, long-term structural unemployment, the problem of the skills firms demand not being matched by the skills workers can supply.

Since the industrial revolution, as production processes became increasingly sophisticated, government-provided public education prepared workers for more complex workplaces. However, since the 1970s, education, especially for the less privileged, has not kept pace with the more sophisticated needs of the economy. The plight of the less privileged

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9 As Rudi Dornbusch (2002) famously put it, “None of the postwar expansions died of old age, they were all murdered by the Fed” (cited in “Of Shocks and Horrors”). However, the 2001 and 2007 recessions were not caused by Fed tightening, but rather by the popping of asset bubbles.

10 In a recent study prepared for the think tank Third Way, Frank Levy and Richard J. Murnane claim that “For the foreseeable future, the challenge of ‘cybernation’ is not mass unemployment but the need to educate many more young people for the jobs computers cannot do.” (Cited in Tankersley 2013: A9).

11 There is considerable debate surrounding the role of structural unemployment in the current crisis. Some argue that the unemployment problem is largely structural and therefore that fiscal and monetary policies are incapable of addressing it in the short run (Brooks 2010, Kocherlakota 2010, Rajan 2010). Others appeal to evidence suggesting that the current elevated unemployment rate is almost entirely cyclical, and thus could be reduced using traditional expansionary policy (Valletta and Kuang 2010; Lazear and Spletzer 2012; Chinn, Ferrara, and Mignon 2013). The argument set forth in this article is that an ELR program with a training component could alleviate short-term unemployment problems whether they be cyclical or structural, and that from a long-term perspective, mitigate the effects of rapid technological change, human capital depreciation, and an inadequate educational system that creates the conditions for structural unemployment.

12 As Mokyr (2002) notes, “the Industrial Revolution and the subsequent technological developments after 1760 led to many production processes that required a level of competence that was beyond the capability of the household” (140).

13 In spite of an economy that has become enormously more complex over the past four decades, Chandler points out that “Nationally, the [SAT] reading score for the Class of 2011, including public- and private-school students, was 997, down… 33 points from 1972, [while] the average math score was 514, … up five from 1972” (2011: A1). International comparisons confirm this educational failure. Among 25 to 34 year olds with university degrees, the U.S. had sunk to 12th place in 2010. The World Economic Forum ranked the U.S. 52nd among 139 nations in the quality of its university math and science instruction in 2010. Almost half of all science graduates in the US are foreigners. Further evidence of the failure of the American educational system to adequately produce the skills
can be seen in the fact that the educational achievement gap between children from rich and poor families is roughly 30 to 40 percent greater for those born in 2001 than those born in the mid-1970s and is now more than twice as large as the black-white achievement gap (Reardon 2011). This means that the formal education that society provides to some of its future workers is not adequate for the job demands created by more rapid technological change.

Further, in an ever-more-complex economy, the training most receive when young is not adequate for their full work lives. More and more need, and will need continual retraining. While much of this training is on-the-job, some workers will lose their jobs and for lack of necessary skills, not find comparable new ones. Although publicly provided formal schooling might provide some of the necessary re-skilling, some workers who perform poorly in school settings learn well when training is part of their jobs.14

The traditional model—that future workers receive their education when young and that any future re-skilling occurs on the job—no longer suffices in a work world where skills are continually become antiquated. To maintain skills and full employment in increasingly sophisticated workplaces, a new model is needed, one that provides those who do poorly in school with needed skills while continually retraining those who become and remain unemployed because of obsolete skills.

Thus it is in the best interest not only of workers but of society generally that a critical component of a new model be a government employer of the last resort program that not only insures continuous employment but also the necessary skills for workers to successfully enter and re-enter the regular labor market.

**HOW GOVERNMENT GUARANTEED EMPLOYMENT AND RETRAINING WOULD WORK**

Under such a program, employment could be guaranteed to everyone willing and able to work (zero involuntary unemployment) by making government the employer of last resort (ELR). In recent years, a number of economists have advocated just this (Attali and Champain 2005; Forstater 1998, 2006; Harvey 1989; Kaboub, 2012; Mitchell and Wray 2005; Palley 2001; Vickrey 1992; Wisman 2010, 2013a; Wisman and Reksten 2013; Wray 1998a, 1998b, 1999, 2007).

An ELR program might work as follows. Federal funds would be given to local governments who would then distribute resources as needed to community employment centers, so that employment opportunities could be tailored to meet local needs (Kaboub 2012). Employment is then offered to anyone who seeks work but would otherwise be without a job.15 Workers are “[hired] off the bottom” (Mitchell and Wray 2005: 236) and the offered wage serves necessary for the more dynamic economy is the pressure employers are putting on Congress to exceptionally permit more highly skilled workers into the U.S. To the extent their petition is successful, demands for strengthening education in the U.S. will be attenuated.

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14 This is well supported by the success of the apprentice programs of Germany, Austria, and Switzerland, which provide workers, who accept lower wages, two to three years of firm-funded on-the-job training, in addition to education provided by the state (Dustman and Sconberg 2012). These programs have been successful at smoothing the transition between apprenticeships and employment by equilibrating the skills demanded to the skills being supplied (Parey 2009, Ryan 2001).

15 Or, in technical terms, the program would operate so as to provide an infinitely wage-elastic demand for labor. The price of labor in the program would be set independent of market conditions, absorbing all redundant labor at that price. That is, the market sets the quantity, but not the price.
as a price floor—a living minimum wage.\textsuperscript{16} Upon losing a job, unemployment insurance could cover a set number of weeks for the individual’s job search, at the end of which, should a job not have been located, the individual may join the ELR program.\textsuperscript{17} No other form of public support need be available to unemployed, but able-bodied workers. Thus, those choosing to not accept such employment would be voluntarily unemployed, and welfare could be restricted to those physically or mentally unable to work.

Entering into the ELR program would entail working in a government-created or approved job and/or receiving training. The goal would be to keep the entire workforce at work or in training and to move workers into the private economy as quickly as possible. A job placement component, working in conjunction with private employers, could facilitate re-entry into the regular labor market.

An ELR program would face the challenge of employing workers in domains that do not directly compete with private or current public sector jobs. Domains might include programs for assisting the elderly population, tutoring less-privileged children, day care, and improving the quality of the public space by providing flowers, benches, statuary, and fountains along streets and in parks.\textsuperscript{18} The American Society of Civil Engineers (2013) gave the United States a grade of a D+ for the current state of its infrastructure. Thus major projects such as burying utility cables; creating seawalls in flood-prone areas; providing public broadband internet access to all areas of the country, including rural ones; road and bridge repairs; improved public transportation; and high-speed rail in population-dense areas offer productive and socially useful avenues for employment. But one of the most promising uses of ELR workers would be to employ them in “green jobs,” such as alternative energy manufacturing, that provide the tools and incentives to reduce the likelihood that our species commits ecocide (Forstater 2006).

Although at the outset such a program might be inefficient due to frictional adjustments and the time needed for skill acquisition, its efficiency should improve in the nature and quality of work performed, in its training component, the management of resources, and in its ability to help participants locate employment.\textsuperscript{19} An ELR program might come to be seen as is the public school system—as a necessary social institution for economic dynamism and fairness.

An ELR program would be countercyclical because it absorbs into a buffer stock those who are laid off from the private sector during a downturn, and would serve as the ultimate automatic stabilizer. Government would buy excess labor supply as a buffer stock and release it as the demand for labor in the private sector increases. Unemployment insurance currently

\textsuperscript{16} An ELR could end-run the claim that the minimum wage cannot be raised without causing further unemployment. Those losing jobs as the living wage is slowly lifted would fall back into the ELR sector where training would raise their skill level and productivity, making the higher wages profitable for their future employers.

\textsuperscript{17} An ELR program could also be crafted to provide part-time work for those only able to find part-time work in the private sector or who can only work part time due to family responsibilities.

\textsuperscript{18} Wray offers an extensive list of of potential ELR jobs (1997: 15-16). He also suggests that an ELR program might fund “…qualifying non-governmental non-profit organizations, such as Americorps, VISTA, the Student Community Service Program, the National Senior Service Corps, the Peace Corps, the National Health Service Corps, school districts, and Meals on Wheels...” (2007: 11).

\textsuperscript{19} Although job retraining programs in developed economies have produced mixed results, none have been as comprehensive as what is here advocated. Studies reveal that how retraining programs are structured is critical in determining effectiveness (Keckman, LaLonde, and Smith 1999). Furthermore, training is only effective when there are existing jobs that require workers. An ELR would provide both the training and the jobs.
provides this sort of buffer stock of workers, but with the disadvantages of incentive problems, lower incomes, and eroding human capital. Moreover, when the private sector expands, it can hire from the buffer stock of workers with greater confidence that they possess the appropriate work habits and skills. The reserve army of the unemployed is replaced by a disciplined and better skilled reserve army of ELR employees.

An ELR approach differs radically from the strategy of stimulating aggregate demand to create jobs. In an aggregate demand approach, reaching full employment is sought indirectly through stimulative fiscal and monetary policy, although, as noted earlier, monetary authorities bring expansions to an end well before actual full employment is achieved in order to avoid excess inflationary pressures. A guaranteed employment program, by contrast, would go directly to the problem by providing all willing and able unemployed workers with a job. Whereas managing aggregate demand to increase employment is a “trickle down” approach, an ELR is a “bubble-up” approach with jobs created for workers at the bottom (Wray 2007: 17). Full employment would exist regardless of the level of aggregate demand, although with full employment aggregate demand would remain robust. It is a supply-side as opposed to a demand-side solution to the problem of unemployment.

Finally, an ELR program could be decentralized so as to better meet local needs. For instance, states could receive ELR budgets from the Federal Government proportional to their rates of unemployment (Wray 1999: 485). If the program were to be administered by states or smaller political jurisdictions, then the ELR wage could be set in terms of the local cost of living, and/or it could be set lower the higher the percent of the local labor force absorbed into the program, so as to preserve incentives for mobility.

**BENEFITS OF GUARANTEED EMPLOYMENT**

There are a number of significant benefits, in addition to full employment, that would result from an ELR program. First, guaranteed employment would enhance productivity by providing not only jobs, but training to match the skills needed by employers. It would reduce structural unemployment resulting from the skills of unemployed workers not matching the skills needed by employers. This skills mismatch is likely to become a growing problem as the pace of technological change quickens and globalization expands (Wisman and Reksten 2013). Also, by removing the threat of unemployment, workers might be less reluctant to leave jobs for which their skill mix is ill-suited to search for a better fit.20

Second, guaranteed employment and retraining would eliminate bias associated with hiring the long-term unemployed, ending the problem of “duration dependence” that results when rising levels of unemployment duration beget further increases in unemployment duration due to negative signals and depreciated human capital (Kroft, Lange, and Notowidigo 2012).21

Third, the training component of an ELR would especially improve the productivity and wages of workers at the lower end of the job spectrum who, although employed most of the time, suffer from involuntary part-time employment, unstable and insecure jobs, frequent interludes of

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20 Although this could increase turnover rates, and thus short-run adjustment costs, it would likely lead to productivity gains in the long run as job fit would improve over time.

21 Dickens and Ghayad (2013) have hypothesized that the shifting outward since 2008 of the Beveridge curve—the empirical relationship between unemployment and vacancies—may be due to the fact that the long-term unemployed are viewed by employers as damaged goods.
unemployment, little or no skill accumulation, and lasting earnings losses (Couch and Placzek 2010; Farber 2008, 2011; Stevens 1997).

Fourth, an ELR would significantly reduce inequality as its living wage would eliminate poverty for able workers and its training component would increase skill levels and therefore wage levels, especially for those at the bottom of the income distribution. Better skilled workers would be accumulating wealth in the form of human capital, which would translate to higher incomes. Reduced inequality would, as discussed above, lower the likelihood of economic crises and accelerate recoveries from downturns.

Fifth, an ELR would ultimately eliminate the need for minimum wage legislation. To attract workers, private employers would have to pay a wage equal to or higher than that paid by the government program. Additionally, an ELR would eliminate the need for unemployment insurance, and for the work-able, nutrition assistance, and other stigma-inducing and degrading income-support programs.

Sixth, it would guarantee full employment with the least disruption to markets and macroeconomic stability (Wray 2007). Bond and equity markets would not hang on every word uttered by leading policy makers for hints about the future directions of policy in a struggle to reduce unemployment. Rather than fighting the contrary twin problems of unemployment and inflation, the focus would be maintaining price stability.

Seventh, an ELR would mitigate, and perhaps eliminate, the negative macroeconomic effects of the secular shift toward a service-producing economy, namely longer and slower recoveries from recession (Olney and Pacitti 2013).

Finally, as Vickrey (1992) points out, “Under conditions of full employment, trade-balance deficits become not a matter of exporting jobs, but of importing capital” (342). Thus domestic demand would be stimulated through open economy channels.

THE COST OF GOVERNMENT GUARANTEED EMPLOYMENT AND RETRAINING, AND THE COST OF UNEMPLOYMENT

Several economists have estimated the likely cost of an ELR program (Attali and Champain 2005; Gordon 1997; Wray 1997, 1998, 2011). A more extensive study by Kaboub (2012) estimates that a comprehensive and very generous ELR program, with a three-tier skill-based wage scale, “could employ 23.4 million people for less than $600 billion annually, or less than 4% of GDP, with the added benefit of increasing GDP by nearly one trillion dollars per year” (109). Although a training component for such a program would considerably increase costs in the short run, it would more than pay for itself with large lasting long-run benefits such as those listed above.

Forecasting the long run costs and benefits of an ELR program, especially one with a sophisticated reskilling component, would be difficult and lies beyond the scope of this paper. It

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22 Robert Gordon has identified six “headwinds” that he believes will slow or even end U.S. economic growth. Inadequate education is one, but “the most important quantitatively in holding down the growth of our future income is rising inequality” (2012: 17).

23 Stiglitz contends that “In the wake of the 2008 global financial crisis, there is now an increasing global consensus that inequality leads to instability and that instability contributes to inequality” (2012: 91).

24 This corresponds to the costs estimated by Attali and Champain for France (2005: 6-7). Kaboub’s (2012) hourly wage scale would be $21 for skilled workers, $18 for semi-skilled, and $15 for unskilled, all with a $10,000 annual benefits package. These figures could easily be adjusted to suit local costs of living and community needs.
would entail estimating the value produced by ELR workers, the enhanced productivity of ELR-trained workers when they enter the private labor force, the resulting increase in tax revenues and the decrease in social costs currently resulting from unemployment. Unemployment benefits beyond a brief few weeks following job loss to enable a new job search would disappear and other income-support program costs would decline. Unemployment-generated health costs borne by Medicaid would be practically eliminated. Murray (2012) estimates that, using a standard macroeconomic model, an ELR implemented today could be budget neutral—neither increasing nor decreasing the deficit—because the growth-inducing effects and tax increases would offset the operating costs.

For the unemployed who are absorbed into an ELR, there are also non-pecuniary costs that would be eliminated. It has been estimated that these costs drastically outweigh the monetary and consumption costs of not possessing a job (Winkelmann and Winkelmann 1998: 1). Sullivan and Von Wachter (2009) find evidence of higher mortality rates for workers who experience job loss, and estimate that for workers displaced at age 40, life expectancy falls by 1-1.5 years. Job loss also results in poorer health outcomes, especially those related to elevated stress and anxiety such as heart attacks and strokes (Burgard, Brand, and House 2007); higher divorce rates (Charles and Stephens 2004); loss of social standing, self-esteem, and contact with friends and family (Taylor et al. 2010); and lower levels of emotional well-being, such as worry, sadness, and stress (Marlar 2010, Kruger and Muller 2011).25

Many of the personal costs of unemployment also have a public dimension. Studies have found a correlation between increased unemployment and increased criminal activity. Grogger (1998) and Gould (2002) find that youth criminal activity positively correlates with the unemployment rate. Unemployment fuels prejudice against minorities and immigrants (Sen 1997). Adolescents with unemployed parents do less well in school, and those who attempt suicide are more likely to have an unemployed father (Storm 2003: 401).

There is the possibility that an ELR program would initially be inflationary, especially with ELR wages set above minimum wages. However, Mitchell and Wray (2005) and Wray (1998) conclude that after its introduction, it would be anti-inflationary, or at worst, at least non-inflationary. But would not guaranteed employment embolden workers to demand higher wages? Wray (2007) counters this possibility by noting that

while workers have the alternative of ELR jobs, employers have the opportunity of hiring from the ELR pool. Thus if the wage demands of workers in the private sector exceed by too great a margin the employer’s calculation of their productivity, the alternative is to obtain ELR workers at a mark-up over the ELR wage. This will help to offset any wage pressures caused by elimination of the fear of unemployment (18).

Moreover, workers within the program would presumably come to possess the skills needed in the private sector, boosting productivity, and thus applying downward pressure on prices. Worker productivity might also be enhanced if increased job turnover improved job fit. Upward wage pressures might be lessened in an inflationary period as employers could readily

25 In a description of European males during the 1930s, Temin has vividly captured the debilitation of unemployment:

Unemployed men in the European Great Depression were exceedingly idle; an increase of apathy reduced all forms of recreational activity. Men passed their time doing essentially nothing; when asked, they could not even recall what they had done during the day. They sat around the house, went for walks, or played cards and chess. Most men went to bed early; there simply was no reason to stay awake. They contributed less to the running of the household than before, sometimes not even turning up on time for meals (2008: 681).
hire workers from the buffer stock who are willing to work, disciplined, and well-trained, causing a race to the top in recruitment and providing incentives for workers to supply high levels of on-the-job effort. In an expansion, as workers are pulled from the buffer stock into regular employment, ELR spending would decrease, counteracting some of the inflationary pressures of the expansion. That is, even in an expansion, labor markets would be relatively loose.26 Mitchell and Wray (2005: 4) also speculate that the anti-inflationary character of ELR might end the need for restrictive monetary policy to address inflationary pressures. After its introduction, no further inflationary pressure should result and the natural rate of unemployment, or NAIRU, would become zero.

**REDUCING INEQUALITY AND PROMOTING MOBILITY**

Guaranteeing employment to all able-bodied workers would constitute a major step toward reducing inequality,27 and thereby grounding a strong base for adequate aggregate demand and robust economic performance.28 An ELR’s ability to reduce inequality would especially be true if its wage were set to provide a living wage. The long-sought goal of eliminating poverty within a capitalist system for those able and willing to work would at last be realized. An ELR would also reduce inequality by augmenting the human capital of the least privileged, those whom current social conditions and the education system cheat out of an adequate preparation for work life. Guaranteeing employment and adequate skills to enter the regular labor market could be expected to provide cumulative benefits as poverty and dysfunctional neighborhoods disappear. Children would grow up in families where parental employment offers social and personal respect, and in neighborhoods where the able are gainfully employed.

Additionally, ELR jobs that provide needed resources to underserved communities could revitalize previously neglected areas and increase economic mobility. Forty percent of individuals born into the bottom quintile of the income distribution remain there as adults, and 70 percent remain below the middle quintile, with African Americans in particular less likely to surpass their parents income (Urhan et al. 2012). This constraint in opportunity results from a lack of access to the educational, economic, social, and cultural resources needed for upward mobility. Attempts to improve schools for the less privileged have met with limited success, due in large part to the high unemployment and social dysfunction in the neighborhoods in which these schools are located.29 Guaranteeing employment would promise to dramatically improve

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26 Wray argues that “Further, reduction or elimination of employment taxes related to the unemployment insurance program will also attenuate pressure on prices, as will reduction of private and social costs of unemployment (e.g., reduction of crime will lower business costs)” (1998: 544).

27 Assessing a massive number of studies, Wilkinson and Pickett (2009) have found that more unequal societies score lower on practically every measure of quality of life.

28 The so-called “Golden Age of American Capitalism”—the thirty years following World War II—came with what Burns termed a “revolutionary leveling” (cited in Williamson1991: 11), and what Goldin and Margo dubbed the “Great Compression” in the wage distribution (1992).

29 Rising inequality has also played a critical role in its influence on public expenditures for public goods, a dynamic addressed by Christopher Lasch in his last major work, *The Revolt of the Elites* (1996). He noted that as economic elites take an ever-greater share of income and wealth, they tend to isolate themselves in social enclaves such as gated communities, exclusive clubs, and private schools. They tend to work in jobs, live in neighborhoods, and move in circles where they literally do not see those struggling to stay on their feet. Because of elites’ disproportionate political power, this withdrawal from the wider society and from direct contact with the concerns of
the quality of these neighborhoods and their schools. The training component of an ELR would catch those whom schools fail, providing them with the human capital necessary for employment and enable the social and self-respect that accompanies having a job.

Until recent decades, America was widely known as the land of exceptional opportunity, holding out the potential for anyone to rise to the very top.\textsuperscript{30} Rising inequality has eroded that legacy and the potential for vertical mobility is now greater in many other wealthy societies.\textsuperscript{31} An ELR with a training component would insure that everyone can accumulate the human capital with which to have a fair chance of advancing.

**AVOIDING ECOLOGICAL CATASTROPHE**

There is a growing consensus among scientists that human activity is dramatically changing the environment, with severe future consequences if appropriate action not be taken. And the urgency of such action is becoming increasingly apparent. As reported by Kissling and Singer (2012: B3), “many climate experts suggest that we have less than two decades before we reach a point of no return—after that, nothing we can do will prevent climate changes from spiraling into disaster.” This threat is made more acute by the fact that the current crisis has decreased the focus on environment issues, as politicians seek growth at practically any cost to lower unemployment (Eilperin and Craighill 2012: A3).

The output of today’s world economy is valued at $65 trillion, and over the next two decades, it is expected to double. Cohen (2012: 47) reports that, whereas global electricity consumption has doubled since 1980, it is expected to double again by 2030, placing additional enormous strains on the environment. The oceans—the “lungs of the earth”—are 30 percent more acidic today than the pre-industrial level and their acidity is projected to double by the end of the century, posing a severe threat to the sea food web. Furthermore, “the OECD projected that, by 2050, without more effective energy policies fossil fuels will supply 85 percent of energy demand, thus implying a 50 percent increase in greenhouse gas emissions and worsening urban air pollution “(2012: 47).

It was inevitable that humanity would reach a point where its continued activities would pose a severe challenge to the earth’s environment. Until recent centuries, the human population was small enough and its technology not sufficiently developed that collective human activity could upset global equilibria. It is true that earlier human societies created local ecological devastation, such as deforestation, severe soil erosion, and polluted waterways. They even did so to the point of causing their civilizations to collapse (Diamond 2005). However, their ecologically harmful actions were never before on a sufficient scale to threaten the ecology of the whole earth and thus threaten humanity’s very future. But this threat’s inevitability is shown by the numbers. Cohen (2012: 49) reveals that “since 1700 human numbers have grown

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\textsuperscript{30} Among the factors underlying this social mobility were the lack of defined classes, less inequality, abundant land in the nation’s early history, and the world’s best education system between the 1830s and 1970s.

\textsuperscript{31} A number of studies have found upward mobility between generations to be lower in the U.S. than in other countries such as Canada, Sweden, Germany, Spain, Denmark, Austria, Norway, Finland, and France (D’Addio 2007; Hertz 2007; Mishel, Bernstein, and Allegretto 2007; Mazumder 2005; Solon 1992).
elevenfold, soon to be twelvefold, while economic activity per person has grown twelvefold.” The cumulative impact on the environment of this exploded population in possession of ever more powerful technologies has been such that today, the threat of ecological devastation is no longer in question among the overwhelming majority of scientists in all fields of ecology.

This challenge is compounded by the fact that in democracies political parties across the spectrum, striving to hold onto or acquire office, struggle to convince the electorate that their advocated policies hold the greatest promise of stimulating economic growth and reducing unemployment. The continuing contemporary crisis has heightened the pressure to be convincing, and when in power, to show results.\(^{32}\)

However, this pursuit of employment creation through growth at practically any cost means that the struggle to successfully address what arguably is humanity’s greatest struggle—avoiding ecological devastation—is seriously compromised. Guaranteeing employment and where necessary reskilling all capable of work, would sidestep this problem. Economic growth would no longer be necessary to generate employment. This does not mean that growth would cease. Indeed, productively employing all able workers and providing them with appropriate skills would promise to enhance the potential for growth. But society would be free to pursue “smart” growth, that which is ecologically benign, or which reverses ecological damage, thereby ensuring better lives for future generations.

A NEW MORAL SOCIAL CONTRACT

Despite theoretical discord among economists on the macroeconomic policy front, a short-run trade-off between unemployment and inflation is generally assumed. Whatever the measures taken to stimulate growth and thereby generate employment, there is an underlying assumption that at some point lower unemployment threatens rising inflation. As Vickrey (1992) has made clear, the only accepted political means of restraining inflation is by using fiscal and monetary policy to create unemployment, or by increasing employment insecurity through the use of part-time workers (Pacitti 2013). Stock prices also tend to fall when unemployment dips dangerously low, presumably due to expectations that very low unemployment may provoke wage inflation, generalized price inflation, and higher interest rates (Roubini 2013). Thus, some level of unemployment appears necessary for the well-being of capital markets.

Unemployed and part-time workers who desire full-time positions—generally society’s least privileged (Darity 1999)—are held hostage to the inflation monster. As Wray and Forstater (2004) put it, “the job of fighting inflation through unemployment is horribly disproportionately shared and is mostly put on the backs of those who have no market power to cause wage inflation in the first place” (262). So that most of society can profit from price stability, a minority—the least privileged—are condemned to be unemployed, sacrificed for the good of the whole. This constitutes a form of tyranny of the overwhelming majority, an immoral social condition.\(^{33}\)

\(^{32}\) The belief that economic growth can decrease unemployment is, of course, true in the short run. However, although more robust growth typically lowers unemployment, it is never a permanent decline. Thus, in spite of decades of growth, unemployment levels have not trended downward. For instance, in spite of a more than doubling of economic output in the post-WWII U.S., between 1948 and 1976, the average unemployment rate was 5 percent, and between 1977 and 2013, it averaged 6.4 percent.

\(^{33}\) The social conditions and social choice that condemn some to unemployment has a parallel in Shirley Jackson's classic and macabre short story, "The Lottery." It is the story of an annual ceremony at which a town's citizens draw lots, and then the "winner" is stoned to death. Presumably this is natural and good, in the interest of the broader community. As old man Warner puts it, "Lottery in June, corn be heavy soon." The difference is that in Shirley
Guaranteeing employment and providing the training necessary for all workers to participate in the economy would end this tyranny by establishing a new social contract. Yet it would not be a radically new one. Government has participated in opening opportunity throughout U.S. history, especially by providing access to land and the education necessary for economic success.

FINAL REFLECTIONS

If guaranteeing employment and reskilling are such a good ideas, why have they not always been more central to politicians whose success in gaining office and holding onto it has depended upon offering a convincing program to reduce unemployment? One possibility is that in earlier instances in which governments provided jobs for the destitute, it too frequently occurred in “the jail-like workhouse, [that] forcibly separated husbands, wives and children in order to punish the poor for their destitution, and discourage them from the dangerous temptation of procreating further paupers” (Hobsbawm 1968: 69-70). Moreover, given the lamentable character of so much work during earlier capitalism, perhaps it was not readily conceivable that the state could guarantee work that was anything but dehumanizing. Perhaps the strategy of setting forth a convincing program to stimulate economic growth so as to generate more jobs was a safer political bet, especially when most of those without jobs do not exercise their right to vote.

Nevertheless, there was a push for guaranteed employment in the U.S. during the trying period of the 1930s that resulted in three job creation programs employing 1.4 to 4.4 million people each month (Rose 2013: 155). There was also an unsuccessful attempt to make “Employment Assurance” a part of the Social Security Act. What is seldom realized is that during World War II the U.S. government instituted an ELR, albeit without this intention when 12 million men and women—approximately 18 percent of the labor force—were directly employed. In 1943, a “New Bill of Rights” was proposed, but not adopted, that would have entailed the “formal acceptance by the Federal Government of responsibility for insuring jobs at decent pay to all those able to work regardless of whether or not they can pass a means test” (cited in Rose 2013: 170, emphasis in original). In his 1944 State of the Union address, Roosevelt advocated an “economic bill of rights” that would include the “right to a useful and remunerative job” and the “right to earn enough to provide adequate food and clothing, and recreation” (cited in Rose 2013: 170).

The original draft of the Full Employment bill of 1945 affirmed that “all Americans able to work and seeking work have the right to useful, remunerative, regular, and full-time employment” (cited in Rose 2013: 170), which, had it been retained, would have obliged the Federal Government to guarantee employment. The Humphrey–Hawkins Full Employment Act of 1978 was the last attempt to strengthen government’s commitment to full employment, but it came forth in a political climate that was rapidly turning against labor’s interests. It came at the closure of the “Great Compression” (Goldin and Margo 1992), during which labor had made historically unprecedented gains as inequality decreased.

Stagflation in the 1970s delegitimated Keynesian economics,34 setting the stage for a strong rejection of government intervention in the economy.35 Attention was shifted, through the

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34 As Chicago School economist John Cochrane has put it, “When inflation came in the nineteen-seventies, that was a major failure of Keynesian economics” (cited in Cassidy 2010: 31). As early as 1980, Robert Lucas wrote that “At
use of the Laffer curve, to the alleged growth-depressing high taxes, especially on the rich, that were claimed to reduce entrepreneurial energies and incentives to save and invest, resulting in stagnation and anemic tax revenues. Welfare, union power, and labor legislation were claimed to have sapped work incentives. As this understanding of the economy became more entrenched, the push for directly assuring workers jobs was abandoned and forgotten not only by policy makers, but by almost all modern macroeconomists. An elite had recaptured the political ideology and the political process (Hacker and Pierson 2010; Wisman 2013d).36

Milton Friedman claimed that “only a crisis—actual or perceived—produces real change (1982: ix). In keeping, the reversal of the gains labor had made since the 1930s came during a period of crisis, the stagflation of the 1970s. Today, the U.S. economy again finds itself in a prolonged crisis. Might the times again be ripe for “real change,” one that brings this crisis to an end, prepares the workforce for an ever more technologically dynamic future, makes the ecological challenge less intractable, ends poverty and welfare, and restores a high level of social mobility to America? Moreover, an ELR with a training component might find wide support across the political spectrum, since it would privilege work—the ever-present ethic in the American experience that everyone should contribute productively to society—while ending welfare for those able to work.

A final reflection is that, as noted above, there is something morally amiss in a rich economy that leaves a portion of its workforce unemployed and without adequate skills to find employment. Unemployment is both the largest market and political failure. And, no matter the unemployment rate, it is morally wrong for an overwhelming majority of the population to condemn a portion of society—the least privileged—to a life of unemployment and under-employment. Economic, social, and emotional well-being are tied to having a job (Wisman 2010). The personal costs that these unfortunates must suffer are far too high, and, as noted earlier, it constitutes a tyranny of the overwhelming majority. It sacrifices those who are generally the poorest to what is perceived, mistakenly, to be in the best interests of the society. Equality of opportunity, just outcomes, and ecological survival constitute a moral, social, and economic imperative to guarantee employment and re-training for the full workforce.

research seminars, people don’t take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another” (19).

35 Perelman claims that “the political climate during the Nixon administration terrified many conservatives, who worried about the prospect of a radical takeover of the state and the end of capitalism, as they knew it” (2007: 32).

36 The political victory of the elite was abetted by the rapid rise of the importance of money in political campaigns. For instance, the number of firms with registered lobbyists increased from 175 in 1971 to almost 15,000 in 2007—an increase of over 8,000%. Between 1974 and 2009, the total number of corporate political action committees increased sixteen-fold, from 89 to 1,598 (Wisman and Pacitti 2012). Research reveals that expenditures on creating and disseminating ideology yield high returns (Glaeser 2006).

37 In the U.S., job training has bipartisan support. Retraining programs were supported by Republican Presidential candidates, Mitt Romney and Newt Gingrich. Even the ultra-conservative Paul Ryan has claimed that “equipping workers with the skills and tools they need is a proper role for the federal government to assist with” (reported by Goldstein 2012: B3).

38 Offer reports that “The strongest determinant of low life satisfaction is absence of social connection, particularly unemployment and separation...” (2007: 7). Professor of psychiatry James Gilligan claims that the inability to find a job is the foremost driver of shame and worthlessness (2011).
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