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**THE MORAL IMPERATIVE AND
SOCIAL RATIONALITY OF
GOVERNMENT- GUARANTEED
EMPLOYMENT AND RESKILLING**

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ABSTRACT

Unemployment exacts a high cost to its victims, not only in lost income, but also in terms of quality of life (insecurity, depression, abandoned families, divorce, suicide, poorer health). It also exacts a high cost to society in terms of lost output, foregone tax revenue, depreciating human capital, and increased costs of welfare, crime, and health care. Yet modern wealthy societies have, principally for the sake of price stability and to avoid the budget costs of a full remedy, chosen to tolerate a substantial level of permanent unemployment. This article explores the moral conditions of this social choice and its rationality in terms of social welfare. It makes and develops support for two claims: society's tolerance of involuntary unemployment is morally wrong, and it is socially and economically irrational. It concludes that government should guarantee employment by serving as employer of last resort and where appropriate provide for retraining.

Keywords: unemployment, employer of last resort, social morality, social rationality, happiness

THE MORAL IMPERATIVE AND SOCIAL RATIONALITY OF GOVERNMENT-
GUARANTEED EMPLOYMENT AND RESKILLING*

Jon D. Wisman**

“The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes” (Keynes 1936: 372).

“Till there be property there can be no government, the very end of which is to secure wealth and to defend the rich from the poor” (Adam Smith 1978: 404).

“If anyone was unwilling to work, neither should that one eat” (2 Thessalonians 3: 10).

Abstract: *Unemployment exacts a high cost to its victims, not only in lost income, but also in terms of quality of life (insecurity, depression, abandoned families, divorce, suicide, poorer health). It also exacts a high cost to society in terms of lost output, foregone tax revenue, depreciating human capital, and increased costs of welfare, crime, and health care. Yet modern wealthy societies have, principally for the sake of price stability and to avoid the budget costs of a full remedy, chosen to tolerate a substantial level of permanent unemployment. This article explores the moral conditions of this social choice and its rationality in terms of social welfare. It makes and develops support for two claims: society’s tolerance of involuntary unemployment is morally wrong, and it is socially and economically irrational. It concludes that government should guarantee employment by serving as employer of last resort and where appropriate provide for retraining.*

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Modern wealthy societies tolerate a substantial amount of permanent unemployment, in spite of the fact that unemployment exacts a high cost to its victims. They suffer not only lost income, but also a reduced quality of life in terms of insecurity, mental distress, abandoned

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families, divorce, suicide, and poorer health. Unemployment also exacts a high cost to society in terms of lost output, foregone tax revenue, depreciating human capital, and increased costs of welfare, crime, and health care. Although the welfare of the unemployed is sacrificed principally for the sake of price stability and to avoid the costs of a full remedy, much popular ideology, supported by many economists, blames generous welfare programs and the unemployed themselves for unemployment.

This article explores the moral conditions of societies' choice to tolerate unemployment and the rationality of this choice in terms of social welfare. It makes and develops support for two claims: society's tolerance of involuntary unemployment is morally wrong, and it is socially and economically irrational. It concludes that government should guarantee employment by serving as employer of last resort, and where appropriate provide for retraining.

But how can unemployment exist in market economies where the forces of supply and demand are presumed to force prices to levels where markets clear, where all supply is sold, where all workers wishing employment find it? Some workers are, of course, frictionally unemployed or between jobs, having been laid off or quit their previous jobs and not yet located new ones. But not all of those unemployed seeking jobs are frictionally unemployed.¹ Why are these people unemployed?

The Functional Role of Unemployment

A variety of theories have been offered to explain the long-run persistence of unemployment in capitalist economies, many suggesting that unemployment plays a functional role. Of these, Marx's conception of the reserve army of the unemployed was one of the first. Marx argued that capitalism needed a pool of unemployed workers to hold down wages and enforce worker discipline so as to maintain profits.

A modern variant of the work-discipline explanation of unemployment is called efficiency wage theory. Where it is difficult to measure a worker's productivity, it can be difficult to know if a worker is shirking. By paying a wage above the market wage, the employer makes it expensive for an employee to be found shirking and fired. In effect, the firm is buying the worker's cooperation not to shirk. The efficiency wage is the incentive that keeps in line the lucky who have highly paid jobs (Shapiro and Stiglitz 1984: 435). In addition to minimizing shirking, it also limits turnover and allows the firm to select a higher quality workforce. However, because the firm pays a wage higher than the competitive market wage, it generates involuntary unemployment. There is no market pressure forcing efficiency wages downward toward a market clearing wage.²

The higher the unemployment rate, the less this wage premium needs to be above the market wage. Thus high unemployment can contribute to the profitability of the firm (ignoring any effect on aggregate demand).³

Another variant of the work-discipline argument is that unemployment is necessary to keep inflation in check. The fundamental argument is that if the economy were to operate at the level of output necessary to provide jobs to all willing workers, inflationary forces would be unleashed, especially by employees emboldened to demand higher wages as labor markets tighten. By providing competition for jobs the unemployed hold wage price inflation in check. Because the inflation threat posed by tight labor markets has dominated public policy in recent history, it is instructive to tell its story.

Although economists support full employment, the mainstream of the discipline has not formulated theories or recommended policies that insure its realization. In the U.S., the Employment Act of 1946 committed the government to pursue policies that would ensure full

employment.⁴ The embrace of Keynesian economics, first by increasing numbers of economists and then by elected officials, fueled optimism that unemployment could be virtually eliminated. For Keynesians, unemployment suggested inadequate aggregate demand. Thus fiscal and/or monetary policy could be enlisted to augment aggregate demand to the point that involuntary unemployment could be eliminated. The goal was to gather better data and improve analytical techniques so as to be better able to target the appropriate level of aggregate demand. The heyday of such optimism in the U.S. was during the Kennedy-Johnson years of the early 1960s.

This era of macroeconomic optimism was, however, cut short. So-called “stagflation” during the 1970s – simultaneous high unemployment and substantial inflation – challenged the theoretical validity and thus policy relevance of Keynesian economics.⁵ The foundation for a counterrevolution was in place, and since the 1970s, much of the discourse concerning unemployment has been informed by the concept of a “natural rate” of unemployment set forth by Edmund Phelps and Milton Friedman. The general message is that whatever the current rate may be, it is likely close to this natural rate and thus nothing, in terms of adjusting aggregate demand, is to be done. The unemployed have freely chosen leisure over income from work, a choice made attractive and more readily possible by unemployment insurance and other social support measures (Lucas and Rapping 1969). Thus, attempts to lower unemployment through measures to augment aggregate demand are doomed to failure. An increase in government spending or a cut in taxes will cause consumers to cut back on spending as their “rational expectations” inform them that their taxes will eventually have to rise to pay off the government debt created by such measures (Barro 1974), a hypothesis that came to be known as “Ricardian equivalence.” Stimulative monetary policy will merely raise the price level (Friedman 1968). Unemployment can be reduced only by changing the incentive structure facing the unemployed,

most importantly, reducing social support programs that permit the unemployed to more readily choose leisure over employment.⁶

This theoretical position has hardly convinced all economists. Indeed, an apparent consequence of the Keynesian-monetarist-rational-expectations discourse is considerable skepticism concerning any theories that attempt to explain unemployment levels. For instance, Gregory Mankiw, a former Chairman of the Council of Economic Advisors, writes in his popular introductory macroeconomics textbook that “In the end, the trends in the unemployment rate remain a mystery” (2000: 148). Similarly, George Borjas, a noted labor economist and author of a popular textbook in labor economics, writes that “No single theory...provides a convincing explanation of why unemployment sometimes afflicts a large fraction of the workforce, of why unemployment targets some groups more than others, and of why some workers remain unemployed for a very long time” (2008: 487).

Nevertheless, despite theoretical discord among economists on the policy front at the macroeconomic level, a short-run trade-off between unemployment and inflation is generally assumed. Fiscal policy is often invoked to increase employment, albeit most frequently with supply-side rationality, i.e., cutting taxes to stimulate work, saving, and investment incentives in order to boost growth and hence job creation.⁷ But whatever its specific form, an underlying assumption is that at some point lower unemployment threatens price instability, i.e., inflation.⁸ The unemployed are held hostage to the inflation monster. The well-being of some portion of the population – predominately the least privileged (Darity 1999)⁹ – must be sacrificed for the good of the whole. This constitutes a form of tyranny of the overwhelming majority, and this constitutes the moral mistake.

The Moral Imperative of Guaranteed Employment

Humans in their earliest state – that of hunters and gatherers, a state in which we existed for most of our genetic and much of our cultural evolution – had open access to work. Practically all productive resources were public goods. The adoption of agriculture, the growth of inequality, the eventual evolution of civilization brought about a property-rights structure that limits ready access to the means of production. Although these property-rights institutions increased productivity, only those who own or control the principal means of production retain free access. Most others, until the evolution of capitalism, were tied to the land as slaves and serfs or in debt bondage. With capitalism, workers became juridically free, no longer servilely bound to the land. They could seek employment with the owner of property of their free choice. But in a world of highly unequal ownership rights, the great majority were also free of any ownership or rights to the means of production. Their survival depended upon locating an owner of property willing to offer them employment. However, under this property-rights regime, a persistent percentage of those willing to work have been unable to find employment. And in today's world, some, lacking hope of finding work, simply give up and are not counted as officially unemployed.

Arguably, there are compelling reasons for preserving these property rights. Combined with other capitalist social institutions, these property rights have provided for the highest general standards of living in history. But a cost of doing so has been to place a heavy burden on the least privileged members of society – those incapable of locating owners of the means of production who are willing to hire their labor services.

These property rights cannot exist without a government empowered to define and enforce them. In this sense, the government – in a democracy, the citizens – is fully complicitous in the unavailability of work for some. This suggests a moral responsibility to

guarantee everyone a job.¹⁰ Indeed, some legislation has embodied the spirit of this moral claim, even if full employment has not been realized.¹¹

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 Jackson's town lottery, all citizens had equal chances of winning, whereas in the job lottery the chances – as determined by social background, race and sex – vary greatly.¹² Although those who draw unemployment are not literally stoned to death, a few actually die deaths far worse, and most suffer immensely.

It is the high personal costs borne by the unemployed that makes the claim of a moral obligation to socially guaranteed employment especially compelling.

The Personal Costs of Unemployment

Much of mainstream economics focuses primarily on the pecuniary costs to workers of being unemployed (e.g., Feldstein 1978). These principally include lost income and thus lower consumption, depreciation of human capital, and in some instances, loss of health insurance. There are, however, many other costs that are either consequent to these costs or in addition to them that receive less attention. Indeed, it has been claimed that these “non-pecuniary” costs drastically outweigh the monetary and consumption costs of not possessing a job (Winkelmann and Winkelmann 1998: 66). These additional personal costs of unemployment to its victims are well-documented. They include poorer health, mental distress, alcohol abuse, lowered social status, lowered self-esteem, marital instability, proneness to violence and crime, increased

vulnerability to suicide, loss of networking opportunities, lower levels of personal fulfillment.

In this section, a brief survey will be presented of a selection of studies tracing the personal costs of unemployment.

Material Insecurity

The threat of unemployment creates significant insecurity. According to Davis, Smith, and Marsten (2000), in the United States over any ten-year period in recent decades, about 30 percent of the workforce has been unemployed. The average unemployment spell has gone from 12 to 16 weeks since the 1960s and the probability of an average family experiencing an income drop of half or more has jumped from 7 to 17 percent since the early 1970s (www.hamiltonproject.org).

Job insecurity almost always means income insecurity (Davis, Smith, and Marsten 2000). This is especially the case in the U.S. The unemployment insurance average replacement ratio in the U.S. for qualifying workers is about 38 percent. However, in the mid-1990s only 44 percent of unemployed workers qualified for benefits,¹³ and about one quarter of these failed to file for benefits (Anderson and Meyer 1997). These benefits generally expire after 26 weeks.¹⁴

Thomas Kieselbach (2003) notes that the pecuniary costs of unemployment are disproportionately heavy burdens to the least well-off of the unemployed who lack access to private institutions such as banks and insurance companies that are available to the more fortunate for helping out with life's uncertainties. Instead, they must look to relatives and state services that serve marginalized persons. Accordingly, Edward Wolff's research has found that the poorest 20 percent of the population has no financial resources to fall back upon, meaning that sudden unemployment for these affected families entails extreme hardship. Those in the second poorest quintile have financial resources to last only slightly more than half a month at

125 percent of the poverty level. Even those in the middle quintile do not have resources to last for more than two months at this level (1998). Thus the threat of unemployment places considerable stress on 60 percent of the population.¹⁵

Loss of Human Capital

Human capital – the full complement of skills and capabilities that a worker possesses in the labor market – generally depreciates during periods of unemployment. Unemployment “...may generate a loss of cognitive abilities as a result of the unemployed person’s loss of confidence and sense of control” (Sen 1997: 161). Or, as Amartya Sen goes on to argue, “The discouragement that is induced by unemployment can lead to a weakening of motivation and make the long-term unemployed more resigned and passive...There is...considerable evidence suggesting that the typical effect, especially of long-term unemployment, is one of motivational decline and resignation. This can yield a hardening of future poverty and further unemployment...” (Sen 1997: 162-63). Price, et. al. (1992) also note how unemployment can lower self-confidence, leading to lower social assertiveness that impairs effective job search. As the duration of unemployment grows, there is a decline in the perseverance needed to solve problems (Baum, Fleming, and Reddy 1986). Peter Kelvin and Joanna Jarrett report that the unemployed are both preoccupied with time and find themselves unable to use time effectively or productively (1985: Ch. 5). Antoni Calvo-Armengol finds that “Long unemployment spells can generate a desocialization process leading to a progressive removal from labor market opportunities and to the formation of unemployment traps..... [Thus the] average probabilities of finding employment [are] on the order of 0.30 after one week of unemployment, 0.08 after eight weeks of unemployment and 0.02 after a year of unemployment” (2004: 443; 428; see also, Darity and Goldsmith 1993; 1996).

Because of human capital depreciation, the unemployed often suffer wage penalties when re-absorbed into the economy. Analyzing statistics from the British labor market, Wiji Arulampalam finds that “the wage penalty associated with a job interruption (unemployment incidence) is estimated to be around 10% over the first year, decreasing to about 7% in the second year, with a long-run or permanent penalty estimated at 1.9% [per annum]” (Arulampalam 2001: F577). Arulampalam characterizes this as “unemployment scarring.”

Poorer Physical Health

Studies have found that unemployment has significant negative consequences for the physical and mental health of its victims. M. Harvey Brenner has reviewed 127 years of historical data on the effects of cyclical unemployment on seven physiological and psychological indicators of health: cardiac disease, liver disease, suicide, homicide, psychiatric hospitalizations, alcoholism, and over-all mortality. He found that in the United States, a one and a half percent rise in the rate of unemployment correlated with an increase of as many as 51,000 deaths and 6,000 hospitalizations in the following five years. (Reported in Kates and Grieff 1990: 32). D’Arcy and Siddique have found that the unemployed visit physicians 33 percent more frequently than the employed (1985: 609), in spite of the fact that the former more frequently are without health insurance.

Poorer Mental Health or Mental Distress

Many studies identify a causal link between unemployment and mental distress. As David Dooley summarizes it, “A century of research on the mental health impact of employment status has documented the generally adverse effects of job loss....[and] ...this literature includes quite heterogeneous studies with respect both to theory and method” (2003: 9, 10; see also Dooley and Catalano 1980; Dooley, Fielding, and Levi 1996). Marie Jahoda (1988) identifies

five non-pecuniary latent benefits of work that relate to psychological well-being: work provides for time structure; it provides regular contact and interactions with others outside the immediate family; it connects individuals into goals beyond their personal ones; it provides identity and status; and it keeps them active. Because unemployment deprives the individual of a regular institutionalized diet of these benefits, it has, she finds, destructive psychological consequences. Dooley concurs: "Employment provides not only manifest (wages) but also latent (e.g., time structure, status) functions, the loss of which would likely provoke distress in many workers." (2003: 11).

A large number of other studies lend support to Jahoda's thesis. They show that involuntary unemployment leads to a higher risk of mental illness and depressive symptoms and that re-employment has a positive effect on both of these conditions. P.R. Jackson (1985), using a General Health Questionnaire that is used to diagnose various forms of non-psychotic psychological disorders, found the scores of the unemployed to be relatively higher than those of the employed, suggesting a lower level of well-being for the former. Further, when re-employed, the scores fell by nearly half. A study of the unemployed in Britain found that whereas twenty percent of unemployed men earned scores on the Beck Depression Index (BDI) that reveal them as depressed, only five percent of employed men were found to be so (Rose 2004: 3). A study by Steven Platt and John C. Duffy found that the availability of welfare payments did not seem to reduce the higher incidence of depression among the unemployed (reported in Kates and Grieff 1990: 31).

The consequences of unemployment for mental well-being varies with marital status and gender. Lucia Artazcoz, et. al. (2004) report that unemployed single men are less likely to have mental health problems than unemployed married men. By contrast, unemployed single women

are more likely to develop mental health problems than married unemployed women, presumably because men are more frequently relied on as the “breadwinners.”

Not unexpectedly, the distress caused by unemployment is in substantial part dependent upon “social norms.”¹⁶ It depends upon whether the unemployed are socially viewed as personally “inadequate” or as victims of an economy unable to provide jobs for all. It would likely follow, therefore, that the higher the level of unemployment, the less the unemployed would feel their condition to be a personal failing. Research supports this. Clark and Oswald report that “distress from unemployment is less among the youth¹⁷ and among workers in high-unemployment areas” (1994: 658).¹⁸

Associated or as a result of mental distress are a number of taxing life conditions such as social isolation, alcohol abuse, marital instability, and most extreme, suicide.

Social Isolation/Exclusion

The unemployed participate in fewer social leisure activities and more solitary leisure activities than do their employed counterparts, resulting in greater levels of perceived latent deprivation and depressive symptoms, as well as lower self esteem (Waters and Moore 2002). A sample study of workers during the Great Depression found that WPA workers revealed that they had significantly higher morale, general adjustment, social participation, and social status than did unemployed workers receiving direct-relief support (Chapin and Jahn 1940: 13). Sen notes that “Unemployment can be a major causal factor predisposing people to social exclusion. The exclusion applies not only to economic opportunities, such as job-related insurance, and to pension and medical entitlements, but also to social activities, such as participation in the life of the community, the lack of which may be quite problematic for jobless people” (1997: 161). Research reveals that “Unemployment threatens the overall integration of young people into

society” (Kieselbach 2003: 74).

Alcohol abuse

Studies indicate that the unemployed have significantly higher percentages of problems relating to alcohol than does the overall population (Dooley et. al. 1992; Dooley 2003). Ahr, Gorodezky, and Cho (1981) have also found a link between unemployment and mental instability and alcohol abuse. Clearly, alcohol abuse and mental instability can negatively affect the chances of re-employment as well as other domains of their lives.

Marital instability

Given the pecuniary and non-pecuniary personal costs of unemployment, it is hardly surprising that a toll is also taken on marriages. The stress suffered by the unemployed is contagiously suffered by others in the household, especially spouses (Rook, Dooley, and Catalano 1991; Hans-Tore 2005). Scott South notes that “...judging from the frequency with which it appears in the literature, a positive association between the divorce rate and the business cycle would appear to be one of the most firmly confirmed facts in family sociology” (1985: 31).

Atkinson, Liem and Liem find that “unemployment has a negative effect on marital and family support in part through its effect on the husband’s psychological well-being” (1986: 317). Further, Macmillan and Ross note that male unemployment may increase domestic violence: “...in intimate relationships, patterns of employment that threaten masculine identity may ultimately result in violence from this perspective. The meaning of employment for one partner can only be understood in relation to the employment status of the other partner. It signifies a challenge to the culturally prescribed norm of male dominance and female dependence. Where a man lacks this sign of dominance, violence may be a means of reinstating his authority over his wife” (1999: 949).¹⁹

Increased vulnerability to suicide

A wide body of research has found a significant link between unemployment and suicide in many different cultures (Lewis and Sloggertt 1998; Lin 2006; Maris 1977; Prichard 1992; Ruhm 2000; Viren 1996; Yang and Lester 1995). For instance, a study using panel data covering seven Asia-Pacific countries found that “a one percentage point increase in the unemployment rate raised the predicted suicide rate by 1.2 percentage points” (Lin 2006: 730). The increased suicide rates among the unemployed are generally attributed to feelings of worthlessness and being unwanted that comes with unemployment (Sen 1997: 161). Social exclusion, spatial isolation, decreased self-esteem, alcohol abuse, lack of independence and decreased wages all play a part in mental illness and suicide.

Lower levels of personal fulfillment

Given the negative personal consequences of unemployment noted above, it is not surprising that studies indicate that unemployed individuals tend to report low happiness scores (Clark and Oswald 1994; Winkelmann and Winkelmann 1998; Argyle 2001). Further, those who have experienced unemployment in the past tend to be less happy with their lives than those who have never been unemployed (Clark, Georgellis, and Sanfey 2001). This should not be unexpected given that unemployment frequently is followed by divorce, depression, addiction, and violence. And again, supporting the importance of social norms, the decline in happiness following upon becoming unemployed appears smaller the higher the unemployment rate in the individual’s reference group (Clark 2003).

In terms of happiness, it has been found that people can apparently adapt to even severe conditions. For instance, long-term paraplegics do not attest to being unhappy (Brickman, Coates and Janoff-Bulman 1978; Oswald and Powdthavee 2005). However, people do not adapt

well to chronic pain, and strikingly, to unemployment (Lucas, Clark, Georgellis and Diener, 2004). Research shows, as Winkelmann and Winkelmann report, that “being unemployed increases mental distress by more than does suffering impaired health (1998: 1). Clark and Oswald find that “being unemployed is worse, in terms of lost ‘utility’ units, than divorce or marital separation (1994: 658). Moreover, research suggests that the unemployed do “not get used to their situation – the satisfaction of the unemployed does not improve as they stay unemployed for a second consecutive period” (Winkelmann and Winkelmann 1998: 7). This has been supported in a study by Lucas, Clark, Georgellis and Diener that found that “The experience of unemployment did, on average, alter people’s setpoint levels of life satisfaction. People were less satisfied in the years following unemployment than they were before unemployment, and this decline occurred even though individuals eventually regained employment” (2004: 11).

Social Costs of Unemployment

The most obvious social costs of unemployment include the loss of output, the loss of tax revenues, and increased government expenditures such as unemployment benefits and social support.²⁰ If the unemployed suffer more illness as a result of unemployment, then the expenses of taxpayer-sponsored healthcare programs increase. Eva Mueller has found that historically consumer confidence issues arising from increased unemployment are “...the ingredients of a self-perpetuating inhibition to economic growth that spells underemployment of our resources, human and material” (1996: 19)

Although other costs of unemployment are generally viewed as private, many of the private costs of unemployment also have a public dimension. For instance, if unemployment increases the likelihood that an individual will participate in criminal activities, then not only is

this a potential cost to the individual, but to society as well. In this section, these social costs are briefly surveyed.

Many studies have found a correlation between increased unemployment and increased criminal activity.²¹ For instance, Stephen Raphael and Rudolf Winter-Edmer find a “positive and highly significant effect of unemployment on property crimes, both in the aggregate and for individual offenses” (2001: 274).²² Studies by Grogger (1998) and Gould (2002) reveal that youth criminal activity positively correlates with the unemployment rate.

Unemployment might also fuel prejudice against minorities and immigrants. As Sen notes, “Since immigrants are often seen as people competing for employment (or ‘taking away’ jobs from others), unemployment feeds the politics of intolerance and racism” (1997: 163). Sen also contends that gender relations might also be harmed, since gender conflict arises “because the entry of women into the labor force is often particularly hindered in time of general unemployment” (Sen 1997:164).

It has also been found that adolescent boys with unemployed parents were less likely to be confident about the future or to be independent and hopeful than were boys from families that “were not plagued with unemployment” (Storm 2003: 399). Neighborhoods with high unemployment present bad role models for children. Further, adolescents who attempt suicide are more likely to have an unemployed father than adolescents who do not attempt suicide (Storm 2003: 401).

Finally, prolonged periods of unemployment, by increasing inequality (Galbraith 1998: 133-49), have been found to heighten political unrest (Parvin 1973). This was vividly seen in poor suburbs of major cities in France in November 2005 (Attali and Champain 2005).

Socially Guaranteeing Employment

If tolerating involuntary unemployment is morally wrong and socially irrational, then what can be done? Employment could be socially guaranteed to everyone willing and able to work (zero involuntary unemployment) by making government the employer of the last resort (ELR). In recent years, a number of economists have advocated just this (e.g., Attali and Champain 2005; Forstater 1998, 1999; Harvey 1989; Kregel 1991, 1999; Mitchell and Wray 2005; Palley 2001; Vickrey 1992; Wray 1998a, 1998b, 1999, 2007)²³

Such a program might work as follows. Government offers employment to anyone who seeks work but would otherwise be without a job.²⁴ Government, as Mitchell and Wray put it, “hires off the bottom” (2005: 236). The offered wage serves as a price floor, a minimum wage for labor, presumably providing a “living wage.”²⁵ After losing a job, unemployment insurance could cover a set number of weeks for the individual’s job search. If at the end of this period a job has not been located, then the individual could join the ELR program.²⁶ No other form of public support need be available to unemployed able workers. Thus, those who would not accept such employment would be revealing that the offered wage is below their reservation wage (the lowest acceptable wage) and thus they could be considered voluntarily unemployed.

Entering into the ELR program would entail working in a government created 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 regular economy as quickly as possible. A job placement component could facilitate re-entry.

An ELR program would be countercyclical in that it would absorb into a “buffer stock”²⁷ those who are laid off from the private sector during a downturn. Thus it would serve as a powerful automatic stabilizer. Government buys excess labor supply as a buffer stock and releases stock as demand for labor increases. It should be noted that currently unemployment

insurance also provides this sort of buffer stock of workers, albeit with the disadvantages of lower incomes and without the benefits of maintaining a disciplined work force.²⁸ Moreover, in a ELR program, when the private sector expands, it can hire from the government's buffer stock of workers, with greater confidence that such workers will possess the appropriate work habits or skills than if it drew from a buffer stock of unemployed workers. The reserve army of the unemployed is replaced by the reserve army of ELR-employed potential employees.

An ELR approach contrasts radically with the Keynesian struggle to attain full employment by raising aggregate demand to a level where all unemployed workers are drawn into active employment. In a Keynesian approach, unemployment is the consequence of a demand-constrained economy, and government relies upon indirect policies (fiscal and/or monetary) to augment aggregate demand to eliminate unemployment.²⁹ In contrast, guaranteed employment would go directly to the problem by providing all willing and able unemployed workers with a job.³⁰ Any able-bodied worker refusing such a job would be voluntarily unemployed and thus not due public assistance beyond some minimal humanitarian level. ELR would create full employment regardless of the level of aggregate demand. It is a supply-side solution to the problem of unemployment.

Working in an ELR might carry some social stigma. However, it would be less than eating in a soup kitchen or sleeping in a shelter.³¹ That is, the alternative to searching for a job in the private sector or taking a job in the ELR program would be far less attractive than at present. Moreover, if everyone were guaranteed a job, then society would not need feel guilty about a bare-bones minimum welfare program. Able-bodied workers would have no easy excuses for not working.

There are a number of benefits in addition to full employment that would result from an

ELR program. First, as Wray argues, “ELR generates full employment, but with the least disruption to markets and to macroeconomic stability” (2007: 8). Second, guaranteed employment would promise to enhance productivity in the economy as a whole. The training aspect of an ELR would work towards reducing the frictional unemployment resulting from the skills of unemployed workers not matching the skills needed by employers.³² 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 (This sort of job search represents an investment in human capital, thereby increasing productivity).³³

Third, 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.

Fourth, ELR could be structured so as to bring about universal health care.³⁴ If government employment were to provide full health care benefits, then private employers would be pressured to offer the same to attract employees.³⁵ Indeed, an ELR would marketize a large portion of social welfare.

Fifth, the training component of an ELR could improve the productivity and thus wages of those workers at the lower end of the job spectrum who, although employed most of the time, suffer frequent job loss, interludes of unemployment, and little or no skill accumulation.

Finally, as Vickrey points out, “Under conditions of full employment, trade-balance deficits become not a matter of exporting jobs, but of importing capital” (1992: 342).

It is generally believed that the introduction of an ELR program would create an initial inflationary shock, especially if ELR wages were set above minimum wages. Also, its introduction would increase aggregate demand if the increase in government spending were not

offset by cuts in other government spending or increases in taxes.³⁶ However, Mitchell and Wray (2005; Wray 1998) argue that after its introduction, it would be anti-inflationary, or failing that, at least non-inflationary. But would not guaranteed employment embolden workers to demand higher wages? Wray 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” (2007: 18).³⁷

Moreover, workers within the program would presumably come to possess the skills needed in the private sector. Or at a minimum, workers would be disciplined. If such workers were to be more productive, this would put 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 hire workers from the buffer stock who are obviously willing to work, are disciplined and perhaps well-trained. In an expansion, as workers are pulled from the buffer stock into the private sector, spending in the ELR program would decrease, countering some of the inflationary pressures of the expansion. That is, even in an expansion, labor markets would be loose.³⁸ Mitchell and Wray 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” becomes zero (Mitchell and Wray 2005: 4).

An ELR program would, of course, be expensive. Over a decade ago, Wray (1997: 12)

estimated that in the U.S. as many as eight million workers might be part of a buffer stock, costing about \$100 billion on a yearly basis, or about one percent of GDP, not counting additional spending on administrative expenses or services that might be offered to these workers (Wray 1998: 541).³⁹ However, this cost would be partially offset by the elimination of the current benefits going to these individuals, thus leaving \$25 to \$50 billion a year to be covered (Wray 1997: 13). Similarly, Wendell Gordon (1997: 226) estimates that the welfare programs that would no longer be necessary if an ELR were to exist could likely fund 50 percent of the latter's costs.

Forecasting the long run costs of an ELR program would be difficult. It would entail estimating the value produced by ELR workers, the enhanced productivity of ELR-trained workers when they enter the non-ELR work sphere, the resulting increase in tax revenues and the decrease in social costs currently resulting from unemployment. Unemployment benefits would disappear and social support cost would decline. Unemployment-generated health costs borne by medicaid would be reduced, if not eliminated. Unemployment-generated crime would decrease.⁴⁰

The program could be decentralized so as to better meet local needs. For instance, states could receive an ELR budget from the Federal government relative to their rate of unemployment (Wray 1999: 485). If the program were to be administered by states or even smaller political jurisdictions, then the ELR wage could be set in terms of the local cost of living. Further, the local ELR wage could be set lower the higher the percent of the local labor force absorbed into the program, so as to preserve incentives for mobility.⁴¹

An ELR program would also face the challenge of employing workers in domains that do not directly compete with the private sector or with current public sector jobs. Domains that

come to mind include programs for assisting the ever-expanding elderly population, tutoring less-privileged children, day care, and improving the quality of the public space. The latter might include burying electric lines, and providing flowers, benches, statuary, and fountains along streets and in parks.⁴²

In addition to being expensive, at the outset, such a program would likely be inefficient. However, with time, its efficiency should improve in the nature and quality of work performed, in its training component, and in its ability to help its participants locate employment. Attitudes towards such a program would also likely change. Just as the public school system is seen as a necessary social institution for economic dynamism and fairness, so too might be an ELR program.

Danish Flexicurity

Although no nation has a full ELR program as outlined above, during the Great Depression, the Works Progress Administration (WPA) was created in 1935 by executive order and it offered government jobs to the unemployed on an unprecedented scale. Ninety percent were blue collar jobs that often substituted labor for capital.⁴³ Its projects included building highways, clearing slums, building libraries, reforestation, rural rehabilitation, and the arts. By its termination in 1943, it had spent about \$11 billion, employing over 8.5 million people (making the program the country's largest employer) on 1,410,000 individual projects. During its eight-year history, it built 651,087 miles of highways, roads, and streets; constructed, repaired, or improved 124,031 bridges, 124,110 public buildings, 8,192 parks, and 853 landing fields (*Encyclopedia of American History*). It also “drained malarial swamps, exterminated rats in slums, organized nursery schools, and taught illiterate adults to read and write” (Wray 1997: 14)⁴⁴

The closest approximation in a wealthy country to the ELR outlined in the previous section is the so-called Danish Flexicurity program. The understanding behind the Danish model is that whereas the unemployed are expected to seek jobs, the government is expected to ensure that adequate jobs exist and that workers are adequately trained for the available jobs. To the extent that adequate jobs do not exist, then government is expected to provide them.

To ensure labor market flexibility, in most cases, employees can be fired with only a week's notice (Madsen 1999: 16).⁴⁵ Consequently, job turnover is relatively high compared to the rest of the EU, with an average job tenure equivalent to that of the United Kingdom (Ploughmann and Madsen 2005: 293). Between 20 and 25 percent of workers are affected by unemployment every year, and 45 percent of Danes do not strongly agree with the statement "my job is secure" (Madsen 2006: 141;153). However, job training and generous unemployment insurance makes changing jobs less threatening. Denmark promotes "employment security rather than job security." Insofar as job changes generally promise to better match workers and jobs, greater economic efficiency is attained (Farber 1999).

Denmark's model could be seen as a hybrid approach that blends Anglo-Saxon flexible labor markets with state-supplied unemployment benefits, hence the name "flexicurity" (Madsen 2006: 139). The Anglo-Saxon model might be described as "welfare-to-work," while the Danish model could be called "welfare-through-work" (Etherington and Jones 2004: 20). Whereas the former leads to a low-skill, low-wage spiral that causes social tensions and impairs the economy's ability to compete globally, the latter avoids these problems through "job rotation" that allows employees who may not be suited for one position to acquire skills to perform in another. This limits the competition for low-skill positions, thereby removing the ability of employers to pay low wages (Etherington and Jones 2004: 20).⁴⁶

The model could be seen as part of the Danish commitment to the “principle of universalism,” which also entitles all the country’s citizens access to the same basic level of healthcare, education and housing.⁴⁷ There is also in Denmark, a widely held belief that all citizens deserve the satisfaction of working (Ploughmann and Madsen 2005: 290).

If a worker loses a job and qualifies for unemployment benefits,⁴⁸ then she receives them immediately and for two years without obligation (the “passive phase” of the program).⁴⁹ She must, however, create a resumé within one month of losing her job and meet with a specialist within three months. About half of unemployed workers find new positions within six months, and about 70 percent return to work within the year. If still unemployed after two years, then she must engage in a compulsory retraining program, the active Labor Market Program (ALMP). The program has been decentralized so that regions can more successfully train workers for their specific needs.

During the past decade and a half, Denmark has been able to increase its labor force participation rates, while cutting its unemployment rate from 12.6 percent in 1993 to 3.6% in 2006. The GDP growth rate, which was zero in 1993, increased to 5.5 percent in 1995 and was 3.2 percent in 2006. It has also avoided the inflationary pressures that many economists predicted (Ploughmann and Madsen, 2005: 288).⁵⁰

The Danish model is expensive. Denmark spends about four percent of its GDP on labor-market programs, about 20 times what the U.S. spends and among the highest percentage of any OECD country.⁵¹

Fairness in the Pursuit of Happiness

The Danish model outlined above is not meant to serve as a blueprint for other societies.⁵² Instead, the intent is to show that considerable progress toward an ELR program in a

wealthy country has proven possible. Moreover, as noted above, it has developed without the feared inflation consequences. It is, however, expensive and any ELR program could expect to be likewise.⁵³

There are, however, reasons to believe that the costs should not be considered a serious obstacle. Indeed, it is possible that it could be implemented without in fact reducing anyone's welfare, if understood in terms of happiness.⁵⁴

A substantial body of work in psychology, especially in what has come to be called "happiness research," finds that above a fairly low threshold, subjective well-being does not correlate with higher incomes and thus higher levels of consumption. Although it has been found that average levels of satisfaction are considerably lower in very poor countries than in rich ones, after a certain income level has been attained, further increases in income do not seem related to higher levels of subjective well-being (Diener and Diener 1995; Veenhoven 1993; Easterlin 2001, 2002). Thus, although socially guaranteed employment would require some redistribution of resources from the better off to the less fortunate, it may not decrease welfare (understood as happiness), even for the more privileged who would have to give up some claim on resources.

Research in this domain also finds that above a certain material threshold, it is in the realm of work that well-being is most readily achieved. As Robert Lane has put it, "It is in work, not in consumption and, as research reports show, not even in leisure, where most people engage in the activities that they find most satisfying, where they learn to cope with their human and natural environments, and where they learn about themselves" (1991: 235).

Having a job – working – is very important for self-identity. A World Values Survey found that "only 22 percent of respondents agreed that a job is just a way of earning money, and

63 percent said that they would enjoy having a paying job even if they did not need the money” (Alesina, Glaeser, and Sacerdote 2002: 239). Diener and Seligman, in reviewing the literature on economic psychology on well-being, find two of the six major factors to be: To live in a democratic and stable society that provides material well-being, and to have rewarding and engaging work and an adequate income (2004: 25).⁵⁵

It is not conceivable that happiness might exist without self-esteem. Indeed, John Rawls suggested that it is “perhaps the most important primary good” such that without it nothing else has much value (1971: 440). But it is very difficult to maintain self-esteem when involuntarily unemployed. To be viewed as a full and responsible member of society requires that one be viewed as a contributing member. Moreover, within good workplaces, work provides a ready medium in which self-esteem can flourish. In work we contribute to society’s wealth (as opposed to drawing upon society’s wealth via consumption), and thus we have grounds for a sense that we are participating in achieving society’s well-being. If we are fairly autonomous and possess a degree of control over the work process, we achieve a sense of accomplishment. We can aid our fellow workers and bask in their appreciation for our assistance and our skills. Self-esteem is obviously highly dependent upon social esteem.

If society were living near the subsistence level, then the moral challenge of guaranteeing employment to all workers might be more daunting. It might fit with conundrums such as “is it morally proper to sacrifice one innocent individual to save five others.”⁵⁶ In a wealthy society, by contrast, one in which most live far above subsistence, the moral imperative is clear. The overwhelming majority consigns a small minority – generally the least privileged – to suffer unemployment to enable the majority’s increased luxury consumption. This would be morally unacceptable even if their increased luxury consumption increased their happiness, which

apparently it does not.

Why not before?

If the problem of unemployment could be readily solved, why has it not been done? Why have politicians not latched onto the idea of an ELR? Richard Arneson offers that “Probably the reason modern democracies do not guarantee work to all who are willing to take it is simply that a genuine full-employment policy would favor the interests of the perennially unemployed but run counter to at least the perceived interests of nearly everybody else” (1990: 1136).⁵⁷ This is, of course, the “tyranny-of-the-majority” argument. Tony Aspromourgos proposes two additional possibilities: ignorance and the potential of unemployment to serve ideological functions (2000:154). He finds the first implausible. And although he views the second as possible, he also notes that the cost of such a program might be cause for significant political constituents to view it as unattractive (155).

It could be argued, however, that Aspromourgos underestimates the extent of ignorance and the related ideologically-driven discourse concerning unemployment. As noted earlier, many economists essentially blame the unemployed for their unemployment because the latter do not adequately seek and accept the available jobs. To the extent that this view is accepted, no moral imperative of socially guaranteeing employment will be recognized. This argument might also well nourish a widespread view that the government can do nothing to eliminate unemployment short of shredding the safety net beneath them.⁵⁸ Secondly, economists use the term “natural rate of unemployment,” suggesting that nature mandates a certain level of unemployment such that nothing can be done.⁵⁹

Government, as Adam Smith pointed out over two centuries ago, must provide for certain public goods that would not be provided in adequate quantity by the private sector. He identified

education as among these public goods (1776: 651). And indeed, with the rise and expansion of capitalism, the state – mostly in its local form – began offering, and eventually requiring public education. The nature of work and society had changed such that formal, as opposed to on-the-job education became necessary. And as the nature of work became ever-more sophisticated, years of schooling were extended, eventually including university education.⁶⁰ This model presumed that while young, individuals could be provided with the fundamental skills they would need in their worklives. What more they might need would be provided by the workplace. Until recent times, this model worked fairly well.⁶¹

However, the pace of change within capitalist societies has been increasing geometrically, meaning that what society provides its future workers when they are young increasingly is not adequate for their full worklives. More and more must continually be retrained. While much of this training has been, and will surely continue to be on the job, some will need additional options that can be publicly provided. That is, a new model is needed, one that responds to the ever-quicken pace of capitalism that not only increases “churn” or the frequency with which workers lose their jobs, but also renders old skills obsolete or inadequate. We need a new model that addresses this unemployment and the need for life-long education and re-training. An ELR program that includes a training component could constitute an important part of such a model.

Vickrey has argued for the social rationality of eliminating unemployment: “There are sufficient advantages to developing an economy with chock-full employment to warrant urgent and concentrated attention to working out the practical details and bringing the concept to realization” (1992: 345). Indeed, eliminating the social cost of unemployment, combined with the greater dynamism promised by a better skilled workforce might more than offset the cost of

guaranteeing employment. Moreover, as has been argued here, the personal costs of unemployment, and the importance of work for self-esteem and thus a chance at happiness, constitute a moral imperative for guaranteeing employment to all who are willing and able to work.⁶²

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NOTES

1. "Discouraged workers" are those who have abandoned hope and thus given up the search for employment. They are not counted as unemployed, and thus not included in the official unemployment statistics. In the U.S., approximately 20 percent of officially unemployed individuals have been unemployed for at least 27 weeks (Borjas 2008: 486).

2. Curiously, Jon Elster (1988) uses the framework of efficiency wage theory to argue against socially guaranteed employment. His argument is based on the mistaken understanding that workers in such a program would be paid the same wage as that received by workers doing comparable jobs in the private sector. For a fuller critique, see Arneson 1990.

3. Although there is debate among labor economists concerning the validity of efficiency wage theory, it has received empirical support by comparing wage and unemployment levels across regions and countries (Blanchflower and Oswald 1994; Bellmann and Blien 2001; Card 1995). Regions with high wages have low unemployment, those with low wages have high unemployment. This empirical relation is graphically captured in the downward-sloping "Wage Curve" where wages are found on the vertical axis and the unemployment rate on the horizontal axis.

4. In a sense, so too did the National Labor Relations Act of 1935. See Spengler 1968. Although the Full Employment Act of 1946 proclaimed the right of all Americans "able to work and seeking work" to regular, full-time employment, it stopped short of guaranteeing such

employment.

5. By and large, Keynesian economics viewed unemployment as due to inadequate aggregate demand and inflation as due to excess aggregate demand. Thus, it was more-or-less presumed that inflation and unemployment could not occur simultaneously. For them to occur at the same time would be a contradiction: inadequate and excess aggregate demand occurring simultaneously .

6. As Martin Feldstein has put it, “the low private cost of unemployment is responsible for many of the one million unemployed who quit their last job....It is easy to see how our system of taxes and transfers drastically lowers the relative private cost of unemployment and thereby induces higher unemployment” (1978: 156). The essence of the mainstream solution is to make unemployment hurt to the point that the unemployed are prompted to seek out and accept available jobs. Yet research by William Darity and others suggests that unemployment itself generates debilities that promise to perpetuate unemployment: “We observed that since spells of unemployment and even underemployment produce learned helplessness, low self-esteem, and depression, those spells can lead to reduced intensity and persistence of search, reduced cognitive efficiency, and reduced motivation to acquire skills that might improve prospects for re-employment” (1999: 495). A study by Clark and Oswald (1994), drawing on a British Household Panel Study, also rejects the hypothesis that unemployment is voluntary.

7. Politicians, and even many economists, argue that economic growth is the secret to reducing unemployment. Yet, although unemployment has varied over the business cycle, it has shown no tendency to decline over the long run, suggesting that some level of unemployment serves a functional role in the economy. The focus upon growth to eliminate unemployment as well as other social ills has prompted Richard Anderson-Connolly to note that:

“There is some powerful type of irrationality or deception at work when many people can simultaneously recognize that the problems of insecurity and poverty have shown little or no improvement (and perhaps a worsening) over the last, say forty years, despite the enormous growth in the economy, yet at that same time they believe that economic growth in the future will eliminate problems like insecurity and poverty” (2006: 113).

8. And, as William Vickrey notes “under current practices the only way in which fiscal and monetary authorities can restrain inflation is by creating unemployment” (1992: 341). The minimum prudent unemployment rate is frequently referred to as the “natural rate of unemployment,” or more technically expressed as the “non-accelerating inflation rate of unemployment” (NAIRU). Stock prices also tend to fall when unemployment dips dangerously low. Thus, some level of unemployment appears necessary for the well-being of capital markets.

9. Moreover, as Wray and Forstater 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” (2004: 262).

10. The moral claim set forth here is not meant to suggest any particular theoretical foundation for a theory of morality. Instead, it is intended to be consistent with the three major foundations

that have been formulated to support moral claims. These are deontological theories that ground morality in duties or proper comportment, as opposed to action that leads to some end such as welfare or happiness; utilitarian theories that view moral conduct as that which maximizes welfare or happiness; and virtue theories that focuses on the character of actors.

11. In the U.S., in addition to the National Labor Relations Act of 1935 and the Employment Act of 1946, the Trade Adjustment Assistance program of 1962 set a precedent for this view of social responsibility. In a 1962 special message to Congress on Foreign Trade, President John Kennedy argued “When considerations of national policy make it desirable to avoid higher tariffs, those injured by that competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the Federal Government...” (A special message to Congress on Foreign Trade Policy, January 25, 1962; cited in Mastel, 2006: 45). The Full Employment and Balanced Growth Act of 1978 set as a national goal “the fulfillment of the right to full opportunities for useful paid employment at fair rates of compensation of all individuals able, willing, and seeking employment.” Further, it specified a dual mandate for the Federal Reserve System: it “shall maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”

Other expressions of this moral or social responsibility include: FDR in 1944 calling employment a “basic human right;” and On January 1, 1967, Senator Abraham Ribicoff supporting a government-guaranteed job to all jobless able-bodied workers on the radio show “Meet the Press” on January 1, 1967 (Spengler 1968: 195). The idea of a “right to work” (*droit au travail*) dates back to the French Revolution of 1848 and was embraced by the Enlightenment (Spengler 1968). **Article 23 of the Universal Declaration of Human Rights, adopted by the General Assembly of the United Nations in 1948, set forth that “Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.”** For a recent discourse defending the principle of a right to work, see Harvey 2007.

12. Thus, even if unemployment were good for the economy generally, social tolerance of unemployment violates Rawls’s “difference principle,” according to which “inequalities must contribute effectively to the benefit of the least advantaged” (Rawls and Kelly 2001: 64; see also Wanberg, Griffiths, and Gavin 1997).

13. The unemployment insurance reciprocity rate has since fallen in the United States. In calendar year 2006, there were 35 unemployment insurance recipients for every 100 jobless workers (U.S. Department of Labor. 2007: <http://www.workforcesecurity.doleta.gov/unemploy/content/data.asp>)

14. Benefits are usually extended during recessions.

15. Research by Christopher Whelan concludes, not unexpectedly, that “the major factors leading those located in the lower social classes to experience higher levels of psychological distress are their greater exposure to unemployment and economic deprivation; in particular,

exposure to deprivation of an extreme kind which involves the enforced absence of necessities such as food, clothing, and heat” (1994: 58).

16. Social norms refer to beliefs held by members of society.

17. However, studies have shown that recent graduates who find themselves unemployed have far less self-esteem and confidence than their peers who find jobs (Dooley 2003). Sen points out that “Youth unemployment can take a particularly high toll, leading to long run loss of self-esteem among young workers and would-be workers” (Sen 1997: 162).

18. Andrew E. Clark (2003) examined a sample of British workers over a 7-year period of time and found that “unemployment hurts less the more there is of it around” and thus “the unemployed report higher levels of well-being as others’ unemployment rises. The psychological experience of unemployment is tempered by the labor market status of those with whom the individual is in close contact” (326). Thus rising unemployment levels would reduce search efforts and prolong unemployment. The policy implication is that it is important to intervene in labor markets before “a new social norm of higher unemployment becomes established” (346). This social norms hypothesis may also help explain the seemingly more intractable character of high unemployment in many European countries.

19. Yet the authors note that perhaps due to improper research design there is a “failure to find consistent associations between employment and spousal violence”(949).

20. Thus others than the unemployed suffer. As Sen puts it “...unemployment hits the incomes of others in two distinct and mutually reinforcing ways: it cuts down the national output and it increases the share of the output that has to be devoted to income transfers” (1997: 161). He also notes how high unemployment, such as that in Western Europe, can lead to conservatism towards technological progress, thereby impairing economic dynamism; and resistance to raising the retirement age, thereby not only constricting potential output, but also impeding an easing of the retirement cost burden facing future generations (165).

21. For surveys of some of this research, see Cameron 1988; Freeman 1996.

22. They go on to point out that

“...between 1993 and 1998, victimization rates declined for every major type of crime, with both violent and property crime rates falling by approximately 30 percent. Occurring concurrently ... was a marked decrease in the civilian unemployment rate. Between 1992 and 1998, the national unemployment rate declined in each year from a peak of 7.5 percent to a 30-year low of 4.5 percent” (Raphael and Winter-Edmer 2001: 259).

23. Much of this recent work builds upon Hyman Minsky’s development of the ELR concept, beginning in the mid-1960s (1965; 1966; 1986).

24. 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, and the program would absorb all redundant labor at that price. That is, the market sets the quantity, but not the price.

25. In the U.S., the low level of the current minimum wage does not provide adequate income for a one-earner family to rise above the official poverty level. Although this state of affairs is widely lamented, it is alleged that the minimum wage cannot be raised without causing further unemployment. An ELR could end-run this scenario. In a transitional period, those losing jobs as the minimum wage is slowly lifted would fall back into the buffer-employment sector where training would attempt to raise their skill level such that their productivity would make the higher wages profitable for their future employers (Technically, the value of their marginal product would be raised to equal a higher wage level).

26. An ELR program could also be crafted to provide part-time work for those who are only able to find part-time work in the private sector or who can only work part-time due to family responsibilities such as child or parental care.

27. L. Randall Wray refers to a policy of government as employer of last resort as “a public-sector-as-buffer-stock-employer” (1998b).

28. During early capitalism, the household often provided the function of a buffer stock employer of last resort. This is still true in much of the developing world. Those losing their jobs frequently fall back into some form of informal employment in the household. However, households in modern rich economies can no longer generally provide this function.

29. But, in fact, as Wray points out, “...no capitalist society has ever operated at anything approaching true, full employment on a consistent basis without direct job creation on a large scale by government” (2007: 3-4).

30. Alternatively, whereas managing aggregate demand to increase employment might be characterized as a “trickle down” approach, an ELR might be characterized, in Hyman Minsky’s terms, as a “bubble-up” approach “because jobs are offered to workers at the bottom, whose spending then induces firms to increase production of consumer goods – creating new jobs, some of which can be filled by recruiting out of the pool of ELR workers” (Wray 2007: 17).

31. Wray suggests that a potential stigma problem might be dealt with in the U.S. by promoting the program as universal “Americorps” service (2007: 15).

32. Recently, some Post-Keynesians have suggested that frictional unemployment is becoming more significant with the quickening of the pace of technological change and globalization. New technology or cheaper foreign producers enable products to be produced with less domestic labor, while on the demand side at some point a sort of satiation sets in. Although workers released from declining sectors could theoretically find employment in new expanding sectors, their skill sets may be inappropriate (Trigg 2004).

33. On the other hand, a high level of labor mobility, especially if resulting from a low level of employment protection, could lower individual worker incentives to improve firm-specific skills.

34. The costs of offering health insurance for ELR workers might not substantially add to government spending, as employed workers need less medical attention than do the unemployed and spending on Medicaid and Medicare would be reduced.

35. Critics claim that if wages are set too high in ELR, especially with healthcare benefits, then workers might be drawn out of the private sector, or held there only by inflationary wages. Proponents of an ELR counter that the one-time increase in prices following the introduction of an ELR would draw workers out of the program and prices would then stabilize (Palley 2001: 3).

36. Malcolm Sawyer (2003) has argued that inflationary pressures would continue to haunt ELR even after its introduction. For a refutation, see Fullwiler (2007); Mitchell and Wray 2005.

37. “This is [according to Wray] the primary ‘price stabilization’ feature of the ELR program” (1998: 543).

38. “Further, [as Wray points out] 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 (for example, reduction of crime will lower business costs)” (1998: 544).

39. To help offset capital costs, some underused public capital stock might be used. For instance, for the training portion, some of the under-utilized after school, week-end, and vacation capital stock of public schools and community colleges could be used.

40. The average annual costs of holding someone in prison in 2005 was \$23,876, varying from a low of \$13,000 in Louisiana to a high of \$45,000 in Rhode Island. The annual costs to taxpayers for the U.S. prison population of over 2.3 million people (over one in 100 adult Americans) is about \$55 billion (Alzenman 2008).

41. For a discussion of different ELR program designs, see Wray 2007.

42. Wray offers an extensive list of jobs that might be undertaken by an ELR program (1997: 15-16). He also suggests that in the U.S., 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). Wray notes that “Use of existing groups would help minimize start-up costs and duplication of administration costs” (1997: 14).

43. Wray reports that “the program incurred non-labour costs equal to 25% of its budget” (2007: 12).

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44. It has been suggested, however, that the WPA slowed a movement of market forces toward full employment. Robert Margo, for instance, claims that “By providing an alternative to the employment search (which many WPA workers perceived, correctly or not, to be fruitless), work relief may have lessened downward pressure on nominal wages” and thus a market led recovery of full employment (1991: 333).
45. “In both Denmark and the UK an employer can dismiss an individual worker with short notice using a written statement and without the involvement of a third party” (Madsen 2006: 147).
46. Suppose for instance that trade or technology renders jobs obsolete in a certain sector. Rather than being forced to compete for low wage jobs, displaced workers have time to find appropriate jobs that meet their skills or to form new skills.
47. The rights to healthcare, education, pensions, etc., are not based upon an individual’s labor market history, but instead are secured merely by their status as Danish citizens (Madsen 1999: 10).
48. To qualify for unemployment benefits, a worker must complete 52 weeks of ordinary, unsubsidized employment within three years (Madsen 1999: 17).
49. The unemployment benefits replacement rate is 90 percent of previous wages for low-income earners. The average is about 60 percent. The eligibility period for these benefits is now four years.
50. Equally striking is the level of worker satisfaction. As Madsen puts it, “The paradox is that the vast majority of studies of working-life satisfaction (and life-satisfaction in general) come to the conclusion that Danes are among the populations expressing the highest level of job-satisfaction and sense of stability in their workinglife. With respect to life satisfaction in general, the Danes are simply the happiest Europeans that one can find” (2006: 148).
51. French economists Jacques Attali and Vincent Champain note that a full count of unemployment in France comes to about 19 percent of the workforce and that France spends 4.2 percent of GDP on labor and unemployment support programs. They estimate that an ELR for France would in the end cost about the same amount, or four percent of GDP (2005: 6-7).
52. It might be noted, however, that Attali and Champain report that the ELR model they propose for France was inspired by the Danish model (2005: 5).
53. However, as noted earlier, Wray (2007) estimates that an ELR program for the United States might cost about one percent of GDP, about one-fourth of the costs of the Danish program.
54. Alternatively, Sen (2002) has suggested that welfare be understood in terms of capabilities. He suggests efficiency in freedom space as opposed to efficiency in utility space. Expanding freedom space means increasing the range and significance of the options available to

individuals. An ELR could be seen as fitting into this capability approach that focuses on positive freedoms to do and become, as opposed to the libertarian freedoms from (negative freedom).

55. The other four are: to have supportive friends and family, to be reasonably healthy and have treatment available in case of health problems, to have important goals related to one's values, and to have a philosophy or religion that provides guidance, purpose, and meaning to one's life.

56. It is of note, however, that Wray (2007) has found and examined versions of ELR programs that have been successful not only in a middle-income country (Argentina's *Jefes* programme), but also in a low-income country (India's Maharashtra's Employment Guarantee Scheme).

57. As William Vickrey has put it, "It is one of the awkward facts of current political life that unless unemployment reaches extreme levels, those who tend to regard inflation as a more serious threat to their well-being are likely to outnumber significantly those who think unemployment [due to the inflation threat] is the greater threat" (1992: 341). Wray and Forstater point out that "the original draft of the Humphrey-Hawkins Act contained a job guarantee: however it was dropped in the final version, due largely to fears over costs and possible inflationary impacts" (2004: 270).

58. Consequently, there is no public discourse concerning the functionality of unemployment, no open discourse about whether the unemployed must suffer so that the labor force is adequately disciplined and so that the rest of the population can avoid the inconvenience of greater inflation or the expense of paying for solutions to unemployment. Far from recognizing that the unemployed actually serve a delegated social function, much current ideology encourages people to dwell on what a nuisance they are. Measures that are taken to lend them a hand are resented because this ideology suggests that they cannot really be helped without hurting them – making them welfare-dependent.

59. The choice of the term natural rate of unemployment is lamentable, if not scandalous, "one of the most vicious euphemisms ever coined" (Vickrey 1992: 341). It is economics at its worst, economics as ideology. It acts to sanitize the social practice of letting the unemployed pick up the tab for serving as a disciplining device for the labor force and keeping the lid on inflation. It suggests that this is the way the natural world must be. Nothing can be done. It may not be pretty, it may not be fair, but it is what nature mandates.

60. In most countries, the state pays for most of the costs of higher education. Even in the U.S., with its huge number of private universities and colleges, over two-thirds of all students attend public institutions.

61. Yet still today about 13 percent of U.S. adults have not completed high school. And of these, about half are not employed even when the economy is in a boom phase (Wray and Forstater 2004: 268).

62. And as Wray has put it, "No other program [than an ELR] can *guarantee* access to jobs at

decent wages” (2007: 1).