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PHILIP HARVEY

Direct Job Creation

In a 1989 book (Harvey 1989), I argued that direct public-sector job creation in programs taking their inspiration from New Deal initiatives, such as the Civilian Conservation Corps (CCC) and Works Progress Administration (WPA), could provide an effective and cost-efficient way of achieving the functional equivalent of full employment. In this paper, I explore the question of why, despite its advantages, the direct job creation strategy only occasionally attracts significant support in public policy debate concerning possible responses to the problem of joblessness in the United States.

I argue that policy debates in this area during the twentieth century have been dominated by three distinct views of the causes of joblessness. I call these three perspectives the "behavioralist," "structuralist," and "job shortage" views of the problem. According to the behavioralist view, joblessness is caused by the behavior of jobless individuals themselves. According to the structuralist view, joblessness is caused by barriers to equal employment opportunity. According to the job shortage view, joblessness is caused by an aggregate shortage of jobs. The behavioralist perspective tends to be favored by conservatives, while the structuralist and job shortage perspectives are favored by liberals (as those designations are used in ordinary political discourse in the United States today).

Direct job creation tends to attract significant interest as a policy response to the problem of joblessness only when the problem is perceived to flow from the existence of an aggregate job shortage. Since this view of the problem tends to attract broad support only during recessions, direct job creation tends to gain significant advocacy only during such periods. During nonrecessionary periods, joblessness is more likely to be attributed to structuralist or behavioralist factors, and support for direct job creation dissipates, except as a form of targeted job training.

Moreover, even during recessions, other policy options compete with direct job creation for support among liberals. Since the late 1930s, Keynesian macroeconomic policies have provided the strongest competition, promis-

ing a remedy for cyclically induced job shortages that is easier to implement and less controversial politically. The result over the past several decades has been diminished support for direct job creation even during recessions.

These tendencies provide a good explanation for the limited interest displayed in direct job creation as a policy response to the problem of joblessness since World War II. Nevertheless, I criticize these trends to the extent that they are based on a misperception of actual labor market conditions. I argue that empirical evidence suggests that aggregate job shortages exist not only during recessions, but across all phases of the business cycle, and that the amount of joblessness experienced in the economy is just as much a product of these conditions during periods of prosperity as it is during periods of recession. What behavioralist and structuralist factors explain, I suggest, is not the dimensions of the joblessness problem (how many people are jobless) but rather, its distribution among population groups (why some people experience more joblessness than others).

Based on this analysis, I argue that direct job creation warrants renewed attention in discussions of the problem of joblessness. Moreover, it is owed this attention not only during recessions, but also during periods of relative prosperity when macroeconomic policies are less likely to provide a satisfactory alternative means of closing the economy's aggregate job gap.

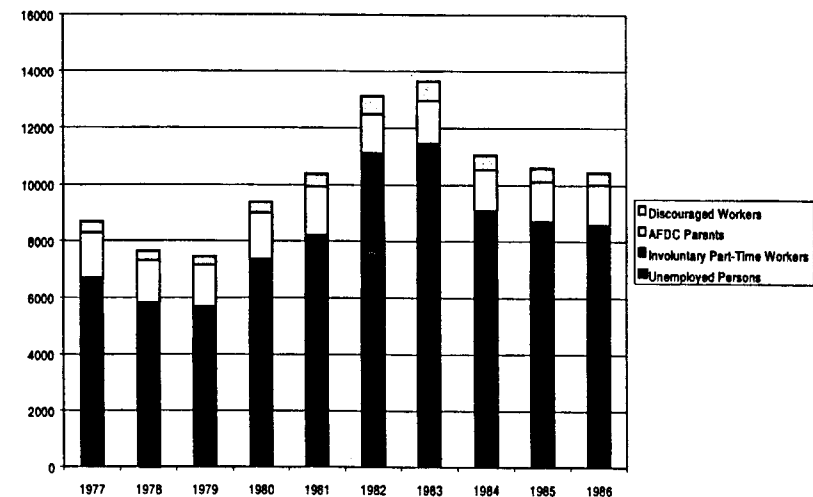
The Advantages of Direct Job Creation

Because readers of this article may be unfamiliar with the attractions of direct job creation as a policy response to the problem of joblessness, I shall begin with a brief review of my earlier work on the subject (Harvey 1989; 1993; 1995), focusing on the issues of program cost and inflation.

Program Cost

My interest in the cost of direct job creation arose out of a desire to determine whether it would be feasible to impose on governments an obligation to secure the right to employment proclaimed in international human rights agreements such as the Universal Declaration of Human Rights (United Nations 1948). To address that question I estimated what it would have cost to achieve full employment by means of direct job creation during a ten-year period of exceptionally high unemployment in the United States (Harvey 1989). The period I selected was 1977 through 1986. The national unemployment rate averaged 7 percent during that period, the third highest ten-year average in over a century. If all able-bodied recipients of Aid for Dependent Children (AFDC) had been counted as unemployed, the unem-

Figure 3.1 Estimated Number of Jobs Needed to Achieve Full Employment, 1977–1986 (thousands)



ployment rate would have averaged about 9.5 percent for the ten-year period. The cost of a job-creation program capable of achieving full employment in such a period seems a good test of the fiscal feasibility of such an undertaking in general.

The hypothetical program whose cost I estimated would have created enough jobs to eliminate involuntary part-time employment while reducing official unemployment to the 2 percent level for an enlarged labor force that I assumed would include able-bodied AFDC recipients and discouraged workers as well as officially unemployed workers. I estimated that such a program would have needed to create an average of 8.2 million jobs per year over the ten-year estimation period, ranging from a low of 7.4 million in 1979 to a high of 13.6 million in 1983. Figure 3.1 shows the distribution of those jobs among assumed program participants. About three-fifths of the jobs would have gone to officially unemployed workers. The rest would have been divided among involuntary part-time workers, AFDC recipients not already counted as unemployed, and discouraged workers.

I assumed the program would have paid market wages, which I defined as the wage that unsuccessful job seekers reasonably could expect to receive if enough additional jobs became available at existing wage rates to employ them all. For officially unemployed persons, I assumed this would average 79 percent of the average hourly wage earned by nonsupervisory and pro-

duction workers in the United States as a whole. This estimate was based on a 1976 survey of unemployed persons that found this to be the average last wage they actually had earned prior to becoming unemployed. For other program participants (involuntary part-time workers, AFDC parents, and discouraged workers), I assumed that average program wages would equal the average hourly earnings of part-time workers in the United States as a whole.

Based on these assumptions, program wages expressed in 1998 dollars would have averaged \$10.16 per hour for officially unemployed persons and \$6.81 per hour for other program participants. Not all program participants would have earned these wages. Based on their experience and skills, many participants would have qualified only for minimum-wage jobs. I merely assumed that the cited figures would have been the arithmetic average wages paid by a program that paid market wages as I have defined that standard. This assumption, along with others underlying my estimate, are summarized in Chart 3.1.

As indicated in Chart 3.1, I assumed the program would have offered forty-hour-per-week jobs to participants who wanted to work full-time, and jobs averaging twenty hours per week to participants who wanted to work part-time. I assumed that all participants would have been paid for a full fifty-two weeks per year (therefore allowing for the payment of holiday, vacation, and sick leave at whatever levels were deemed appropriate).

I further assumed that an amount equal to one-third of the program's direct wage costs would have been spent on facilities, equipment, materials, and supplies required to carry out the program's work projects. This was the approximate ratio of nonlabor to labor costs in New Deal work programs. It also was the approximate ratio of nonlabor to labor costs in child day care programs operated in the United States during the 1980s—one of the services I assumed the program would produce.

I assumed that program wages would have been treated like any other wage income for tax purposes (which means the employer share of FICA taxes would have been an additional program cost), and that program participants would have been provided the same health insurance benefits as regular federal employees (and on the same terms).

I also assumed that free child care would have been provided to all program participants in child care centers operated as one of the work activities of the program. Interestingly, this means the cost of providing child care to program participants would not have added anything to the program's total cost. The same would have been true of a range of other employee services—such as paid job training, substance abuse counseling, and sheltered-workshop employment for program participants who needed such services.

The estimated year-to-year cost of the program based on these assump-

Chart 3.1

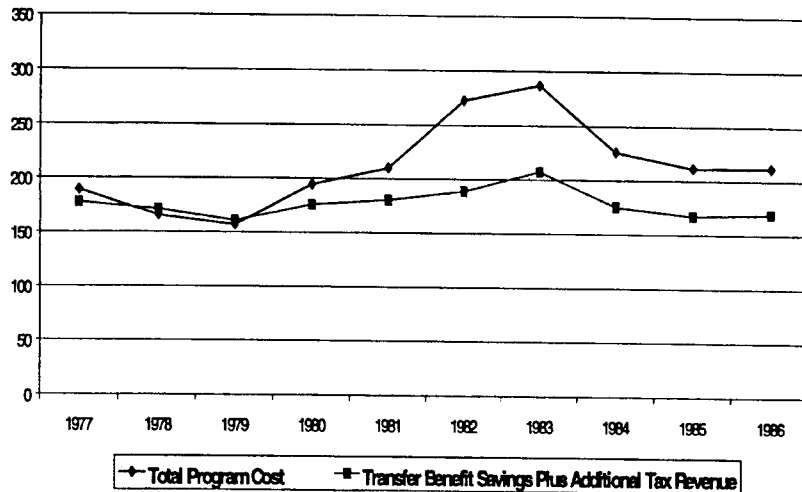
Assumptions Underlying Cost Estimate for Direct Job Creation Program Capable of Achieving Full Employment

Wages:	Program Participants paid "market wages" averaging \$10.16 per hour in 1998 dollars for officially unemployed persons and \$6.81 per hour in 1998 dollars for other program participants.
Hours:	Forty hours per week for persons seeking full-time jobs and twenty hours per week for persons seeking part-time jobs.
Taxes:	Program wages fully taxable. Program employment also covered by Social Security, with program participants (and the government as employer) liable for FICA taxes at same rates as other covered employees (and employers).
Insurance:	Federal employee health insurance benefits provided on same terms as for regular federal employees.
Paid Leave:	Medical leave, holidays, and vacation time provided to program participants at whatever level is deemed appropriate, with cost or benefit covered by assumption that wages would be paid for a full work year (2,080 hours/year for full-time workers and 1,040 hours/year for part-time workers).
Child Care:	Free to all program participants (provided in child care centers operated as employment projects by the program).
Services:	Free job training and other support services (for example, substance abuse counseling or sheltered workshop assignments) provided to all program participants (with services provided through programs operated as employment projects by the program).
Materials:	Spending on nonlabor costs (facilities, tools, materials, and supplies) assumed to equal one-third of program's direct wage bill.

tions is shown in Figure 3.2. Expressed in 1998 dollars, these costs would have averaged \$213 billion per year. While high, this level of spending is not unprecedented for a major social insurance benefit. In 1986, for example, the jobs program would have cost \$146 billion in current dollars compared to \$194 billion actually spent for Social Security pension benefits.

Figure 3.2 also includes estimates of certain offsetting savings and revenues that such a program would have generated. The offsetting savings shown in Figure 3.2 consist of reduced spending on cash and in-kind transfer benefits actually provided to able-bodied persons of working age and their dependents during the ten-year period. I estimated that these savings would have covered about 60 percent of total program costs over the ten-year pe-

Figure 3.2 Estimated Cost of Achieving Full Employment through Direct Job Creation, 1977–1986 (billions of dollars)



riod. The offsetting revenue shown in Figure 3.2 consists of additional income and payroll tax payments by program participants. I estimated that this revenue would have covered another 20 percent of the program's total costs during the ten-year period.

As Figure 3.2 illustrates, the program's remaining funding deficit (about 20 percent of total program costs) would not have been spread evenly across the ten-year period, but would have been concentrated in 1982 and 1983 when the nation's unemployment rate was elevated by the worst American recession since the Great Depression.

This calls attention to a third source of savings such a program would have generated. A jobs program such as I have described would be a powerful automatic stabilizer—functioning in that respect like the nation's Unemployment Compensation program—but with a much stronger countercyclical impact because of its greater size. If the program I have described had been in place during the 1977–1986 period, the deep recession of the early 1980s almost surely would have been less severe. This, in turn, would have resulted in lower program costs and a smaller program deficit. It also would have resulted in substantial increases in government tax receipts during the period—additional revenues that reasonably could have been attributed to the jobs program. I did not try to estimate what the program's likely countercyclical effect would have been. Nor did I try to estimate the savings and revenues likely to have resulted from that effect, but they could have

been substantial. It is significant to note in this regard that, prior to the recession of the early 1980s, the program would have had virtually no budget deficit after taking into consideration transfer benefit savings and additional income tax revenues attributable to it.

A fourth source of savings attributable to the program would have consisted of reductions in government spending for items other than transfer benefits. Joblessness has been shown to contribute to a range of social and medical problems that impose significant costs on governments other than the payment of transfer benefits. These problems range from increased criminal activity to increased heart disease. A jobs program that reduced unemployment to genuinely voluntary levels almost surely would have produced savings in budget areas not included in the estimate of transfer program savings shown in Figure 3.2.

Finally, my cost estimate for the program was based on the assumption that everything the program produced would have been given away for free. Such a policy is certainly not required, and there is no reason to believe it is even desirable. If the program sold some of its output, even at deeply discounted prices, the program's funding deficit would have been reduced. In deciding what, if anything, to charge for the goods and services produced by such a program, fiscal policy considerations could play a role. For example, if it were considered desirable that the program be fiscally neutral compared to current levels of taxation and government spending, prices for program outputs could be set at a level calculated to achieve that goal. Given the relatively small size of such a program's likely funding deficit (after taking into account other sources of savings and revenue), that particular goal should be easy to achieve. In fact, my analysis suggests that such a program is more likely to save governments money than to require additional outlays, in which case fiscal neutrality would require either additional government spending for other purposes or a tax cut.

Other fiscal policy goals could be pursued, of course. My point is that support for the use of direct job creation as a means of achieving full employment is not necessarily linked to support for deficit spending or an expansionary fiscal policy. Operation of such a program could be combined with increased deficit spending, the maintenance of balanced government budgets, or a deflationary policy devoted to generating government budget surpluses.

Inflationary Pressures

Because inflationary pressures tend to increase as unemployment rates fall, it is natural to worry about the possible inflationary effects of using direct

job creation to achieve full employment. Interestingly, direct job creation may be the least inflationary way to achieve full employment.

When full employment is approached as a result of growing aggregate demand, both demand-pull and cost-push factors contribute to the build-up of inflationary pressures. Growing aggregate demand puts pressure on prices (the demand-pull factor) while tightening labor markets place upward pressure on wages (the cost-push factor).

Consider what would happen, however, if unemployment rates were to fall with little or no increase in aggregate demand. My analysis of program costs suggests that even a very generous direct job creation program could be financed in a way that was fiscally neutral. In other words, such a program could achieve the functional equivalent of full employment without increasing demand for the economy's existing output of goods and services. The increased income of program participants (and increased purchases of supplies and materials used in the program) could be exactly offset by (1) increased income tax payments by program participants and by vendors selling goods and services to the program; (2) reductions in government transfer payments; and (3) increased payments to government for a portion of the goods and services produced by the jobs program. The result would be a somewhat larger public sector, but no net increase in demand for privately produced goods and services and, therefore, no demand-pull effect on product prices.

Consider, too, that the increased demand for labor produced by the hypothetical program I have described would emanate not from private-sector employers competing for workers in bottle-necked industries, but from a government program that offers work (1) at fixed wage rates no higher than those prevailing in the market for similarly qualified labor, and (2) only to persons unable to find employment in the regular labor market. Such a program should not generate cost-push pressures in the labor market. In fact, the program's labor force could function as a "buffer stock" tending to stabilize wage rates at the level paid by the program (Wray 1998).

Some temporary inflation could be expected as *relative* wage rates adjusted to the increased relative bargaining power of low-wage workers, but there is no reason to believe such adjustments would cause a permanent inflationary spiral. The likely end result should be a somewhat flatter wage distribution with no increase in basic inflationary tendencies (see Harvey 1989, 75–78).

Alternative Strategies for Combating Joblessness

The surprising conclusion that flows from my analysis of program cost is that a generous direct job creation program could achieve full employment

without (1) requiring increased taxes or deficit spending; or (2) significantly increasing inflationary pressures in the economy. This raises the question of why the idea has had such a low profile in policy battles since World War II. There was a flurry of interest in the idea in the 1970s—as reflected in the enactment of the Comprehensive Employment and Training Act (CETA)—but except for that period, the idea has been conspicuous for the lack of attention it has received from scholars and politicians alike.

This puzzling omission is symbolized in my mind by the response of liberals to the civil rights movement and the rediscovery of poverty in the early 1960s. It was widely recognized at the time that poor people and disadvantaged minority groups wanted more and better jobs. The official slogan of the 1963 March on Washington was "Jobs and Justice," and, lest the message be misinterpreted, the demonstration's official list of demands included the adoption of a massive direct job creation initiative by the federal government (Hamilton and Hamilton 1997, 123–128). Instead of direct job creation, however, the liberal response to the demonstration and to the political movement it represented focused exclusively on structuralist remedies for the problem of joblessness—initiatives designed to attack employment discrimination, to remedy educational and training deficits among jobless individuals, and to move a larger share of the nation's jobs into economically depressed communities. No significant direct job creation initiatives were undertaken during the decade. As one commentator has noted,

The poverty policies of the 1960s incorporated two decisions about the proper focus of labor market policies: such policies should be remedial measures targeted on the lowest end of the labor market, and they should aim to alter the supply of labor by modifying workers' characteristics rather than seeking to change the demand for labor. (Weir 1992, 64)

Another commentator described this policy even more succinctly: "The Johnson administration's aim was 'not more jobs, but a more equitable distribution of the nation's 3.5 percent unemployment.'" (Mucciaroni 1990, 71).

Why didn't liberals embrace direct job creation as a primary element in their response to the problem of joblessness in the 1960s? Direct job creation had constituted the heart and soul of the New Deal's response to the problem of joblessness (Harvey 1989, 18–20; Committee on Economic Security 1985, 23–24, 27–30; Burns and Williams 1941; National Resources Planning Board 1943; Rose 1994). When liberals regained effective political power in the 1960s, why didn't they resurrect the New Deal's policy agenda in this area, and why has direct job creation continued to receive so little attention from liberals (except during the CETA period) since then? I believe the key to this

puzzle resides in the different way liberals thought about the problem of joblessness in the 1960s compared to the 1930s.

The strategy for combating joblessness preferred by conservatives has never varied in its fundamentals. This strategy can be termed “behavioralist” because it is based on the view that joblessness is caused by the failure of jobless individuals to seek work with adequate determination and to accept it on terms the market sets. According to this view, the goal of public policy should be to avoid rewarding jobless individuals for their nonoptimal behavior. Humanitarian considerations may dictate that public assistance be offered to jobless individuals, or at least to their minor dependents, but the amount of aid offered should be as small as possible and be accompanied by measures designed to discourage jobless individuals from accepting it. This strategy dominated public policy responses to joblessness in the United States prior to the 1930s (Harvey 1999b), and it is currently experiencing a resurgence of popularity (see, for example, Mead 1992).

Liberals have pursued two different policy responses to the problem of joblessness during the twentieth century. The first of these strategies—which I call the “job shortage” approach—is based on the view that joblessness is caused by the economy’s failure to provide enough jobs for everyone who wants to work. According to this view, public policy should focus on efforts to reduce the economy’s job gap while providing jobless individuals with reasonably generous and nonstigmatizing forms of public assistance. This strategy dominated American public policy responses to joblessness during the 1930s (National Resources Planning Board 1943; Burns and Williams 1941), and it has been periodically resurgent since then for short periods of time during recessions (Levitan and Gallo 1991).

The second liberal response to the problem of joblessness can be called the “structuralist” strategy because it is based on the view that joblessness is caused by structural barriers to equal employment opportunity embedded in the economy. These barriers are of three general types. The first are skill barriers that prevent jobless individuals from qualifying for available jobs. The second are geographic barriers that limit the accessibility of available jobs. The third barrier is employment discrimination that causes employers not to hire members of disfavored groups.

According to the structuralist view of the causes of joblessness, public policy to combat the problem should focus on removing barriers to equal employment opportunity. General education and special training programs should be provided to jobless individuals; employers should be provided incentives to locate businesses in depressed communities or regions; and employment discrimination should be outlawed. This is the liberal strategy that dominated public policy responses to joblessness in the 1960s, and it is

the strategy that has continued to dominate liberal thinking about the problem since then (Sundquist 1968, 57–110; Mucciaroni 1990, 32–42).

These two liberal strategies are not inconsistent with one another and could be pursued simultaneously, but, generally, that has not happened (Harvey 1999a). As indicated above, the job shortage approach dominated the liberal policy agenda in the 1930s, while the structuralist approach has dominated liberal thinking since the 1960s. Why? The most obvious answer is to be found in the contrast between general economic conditions in the 1930s and the 1960s. When the economy is suffering a recession or depression—especially one as severe as that of the 1930s—it is obvious to almost all observers that there aren’t enough jobs to go around. Disadvantaged population groups are likely to suffer disproportionate joblessness during such periods, but solutions to their special problems are likely to be perceived as contingent on a solution first being found for the aggregate shortage of jobs dragging down the entire economy.

In contrast, when the economy as a whole is prospering, as it was during the 1960s, the special problems of disadvantaged population groups stand out as exceptional rather than as similar to the problems suffered by workers in general. The elevated unemployment rates suffered by minority populations and the persistent joblessness suffered by the able-bodied poor appear to reflect problems unique to them. The liberal response is not to absolve the economy of blame, but to look for a solution to the special problems suffered by disadvantaged population groups. This results in policies designed to end or compensate for the disadvantages suffered by members of these population groups rather than a reduction in aggregate levels of joblessness.

The pattern is understandable. During recessions, when the existence of job shortages are taken for granted, liberals tend to advocate policies designed to close the economy’s job gap. During nonrecessionary periods, when aggregate job shortages seem less important as a source of social stress than the special disadvantages that handicap certain population groups, liberals tend to advocate structuralist policies designed to attack those disadvantages.

It is only during recessions, then, that liberals are likely to attach a high priority to reducing aggregate levels of joblessness, and direct job creation may not be the most attractive policy option for pursuing that goal. Since the late 1930s, Keynesian macroeconomic theory has provided a powerful and attractive alternative strategy for combating joblessness in periods of recession. Liberals gravitated to the Keynesian strategy in the late 1930s and, following the practical demonstration of its success during World War II, direct job creation seemed no longer necessary (Weir 1992, 27–61; Mucciaroni 1990, 17–45). The demotion of direct job creation in the liberal policy arsenal was symbolized by the terms of the full-employment legislation pro-

posed by liberals in Congress in 1944. It would have obligated the federal government to maintain full employment—but not by direct job creation. Instead, the proposed legislation relied upon an automatic appropriation of sufficient funds to maintain full employment by Keynesian means (Bailey 1950).

Since then, Keynesian measures almost always have seemed more attractive to liberals than direct job creation as a means of closing the economy's job gap during recessions. The exception that proves this rule was liberal support for direct job creation during the 1970s when the problem of "stagflation" undermined confidence in the Keynesian policy alternative. Direct job creation—in the form of the CETA program—attracted surprisingly broad support as a less inflationary response than Keynesian measures to unacceptably high unemployment rates during the recession of 1973–75 (Mucciaroni 1990, 83–90).

Reassessing the Strategies

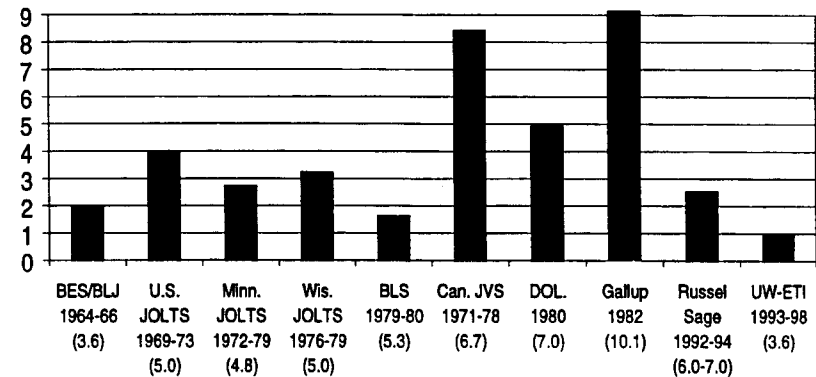
To assess the relative strengths and weaknesses of behavioralist, structuralist, and job shortage strategies for combating joblessness, it is helpful to distinguish between the aggregate level of unemployment in society and its distribution among population groups. The role of this distinction is illustrated by the following parable.

There once was an island with a population of 100 dogs. Every day a plane flew overhead and dropped ninety-five bones onto the island. Every day the dogs fought over these bones. Every day ninety-five dogs ended up with bones, while five went hungry. Hearing that there was a problem of bonelessness on the island, a group of social scientists was sent to assess the problem and to recommend remedies.

The social scientists ran a series of regressions and determined that bonelessness was associated with a lack of motivation on the part of boneless dogs and that boneless dogs also lacked important skills in fighting for bones. As a remedy for the problem, some of the social scientists proposed that boneless dogs needed motivational training (or possibly just a good kick in the side) to get them moving when the bones began to fall each day. Others proposed that boneless dogs be provided special training in bone-fighting skills.

A bitter controversy ensued over which of these two strategies ought to be pursued. Over time, both strategies were tried, and both reported limited success in helping individual dogs overcome their bonelessness—but despite this success, the bonelessness problem on the island never lessened in the aggregate. Every day, there were still five dogs that went hungry.

Figure 3.3 Estimated Number of Officially Unemployed Persons Per Job Vacancy, Scattered Surveys 1964–1994 (average contemporaneous unemployment rate in parentheses)



The point of this parable is not to suggest that the social scientists were mistaken in assessing the causes of bonelessness on the island. In one sense, they were right. A lack of motivation or a lack of skill in fighting for bones did cause the dogs that suffered these deficits to go without bones. The problem with their analysis was that, in concentrating their total attention on factors that determined the distribution of bonelessness among the dog population, they ignored the process that actually determined how many dogs went without bones. They discovered why some dogs suffered more bonelessness than others; but they could neither explain nor suggest policies to remedy the fact that there always were five hungry dogs on the island.

Like the bonelessness problem in this parable, there is strong evidence that the level of joblessness in the United States economy is determined by the aggregate number of jobs that employers are willing to fill at any point in time compared to the number of persons who want employment. The best evidence of this relationship is found in job vacancy surveys that occasionally have been conducted in the United States since the mid-1960s (Abraham 1983; Holzer 1989, 1996; Employment and Training Institute 1993).

Figure 3.3 shows the ratio of officially unemployed persons to job vacancies found in these surveys. The data suggests that substantial and continuing job shortages are not just a fact of economic life during recessions. The shortages are most severe during recessions, but they persist at a lower level of severity during periods of relative prosperity as well.

The surveys conducted in the mid-1960s are particularly intriguing because liberals were politically dominant at the time, yet chose to pursue an

exclusively structuralist strategy in combating the problem of joblessness. Aggregate unemployment rates were very low by historic standards, averaging only 3.6 percent in the surveyed labor markets, yet the surveys suggest there still were almost twice as many active job seekers as there were available jobs.

Moreover, these surveys probably understate the extent of the job shortages that actually existed. First, the data do not take into consideration categories of job needers other than officially unemployed workers. If we counted involuntary part-time workers, discouraged workers, and able-bodied welfare recipients as unemployed, the job gaps shown in Figure 3.3 would be substantially larger.

Second, there is some evidence that the proportion of all job vacancies that are for part-time jobs is higher than the proportion of all job seekers who desire part-time work (Employment and Training Institute 1993). A comparison of full-time equivalent job vacancies to full-time equivalent job seekers most likely would enlarge the job shortages reported here.

Finally, since workers can (and frequently do) occupy more than one job, while job vacancies normally cannot employ more than one worker, the number of job vacancies needed to provide employment for everyone who wants work is greater than the number of unemployed persons seeking (or needing) work.

It is possible, of course, that aggregate unemployment rates are elevated by structural and/or behavioral factors as well. This would mean that the level of unemployment is partly determined by the size of the economy's aggregate job gap and partly by structural or behavioral factors. This almost certainly is true. There always are some jobs that go begging in the economy. The question is how many.

The job vacancy rates reported in these surveys generally varied in accord with the so-called Beveridge curve—with vacancy rates rising as unemployment rates fell (Holzer 1989, 27–29). This phenomenon is consistent with the conclusion that structuralist and behavioralist factors do affect the vacancy rate and thereby also affect the aggregate level of unemployment. Still, average vacancy rates over time tended to be in the 1.5–2.5 percent range. If the economy's unavoidable frictional unemployment floor is somewhere in this range, this survey data suggests that structural and behavioral problems probably haven't contributed very much to aggregate levels of unemployment in the United States during the past several decades.

What, then, do behavioralist and structuralist accounts of joblessness explain? Are they simply mistaken? I do not think so. What they explain is the distribution of joblessness—not how many people are without work, but who those people are likely to be.

While job vacancy rates appear to be significantly lower than unemployment rates in the U.S. economy, job turnover rates appear to be significantly higher. Job turnover data is also scarce, but what little exists suggests that gross hiring rates are very high. In the study reported in the next-to-last bar of Figure 3.3, job turnover data was collected in addition to job vacancy data. The average job vacancy rate was only 2.7 percent, but the annual gross hiring rate—the proportion of all jobs filled by persons newly hired in the preceding twelve months—was 25.7 percent (Holzer 1996, 143). If this were the average figure over time for the entire economy, it would mean that over 30 million jobs become available every year.

Because job turnover rates are high, each unemployed person can be viewed as having multiple opportunities to secure a job over the course of a year, even if there is a shortage of jobs relative to job seekers at any point in time. Stated differently, there may not be enough jobs to go around, but enough jobs become available over time that unemployed persons would not have to wait very long for a job if all job seekers had an equal chance of being hired as positions became available.

This suggests the image of a hiring queue. Unemployed workers are waiting their turn to move to the head of the line and get a job. If particular groups of workers lose jobs more frequently than other groups of workers, or if they do not move through the hiring queue as quickly as others, they will experience more unemployment. It is the causes of these differential rates of unemployment that behavioralist and structuralist explanations of joblessness help us to understand, even if they tell us nothing at all about how much unemployment there is in the economy.

If I am correct in this assessment—that the level of unemployment is determined by the size of the economy's job shortage, while the distribution of that unemployment is determined by structuralist and behavioralist factors—then the goals of behavioralist and structuralist policies for combating joblessness also require reassessment. The goals of these policies should not be seen as the reduction of unemployment, but rather as the equalization of its social burdens.

There is nothing to be said against this policy goal in principle. If 5 percent unemployment were equally shared by the entire labor force, it would mean, in effect, that everyone would have to take a two-week unpaid vacation each year. Episodes of unemployment as short as that seem unlikely to cause major social problems. The question that must be asked, however, is whether structuralist and behavioralist policies reasonably can be expected to achieve this goal under job-shortage conditions. Their actual performance in this regard has not been stellar. There are a number of factors that likely contribute to the disappointing success rates of these policies.

The first reason is the peculiar way in which labor market queues work. Labor markets tend to reward success with more success and punish failure with more failure. Under conditions of full employment, this tends to sort workers among jobs, but under conditions of less than full employment, it creates special disadvantages for jobless individuals who are seeking work, even in the absence of structuralist impediments to their employment.

Unemployed job seekers are sometimes described as queuing for jobs, but hiring queues function differently from most waiting lines. The distinguishing characteristic of most queues is that people move forward from the back to the front of the line as they wait. Hiring queues tend to move in the opposite direction. The longer a job seeker remains jobless, the less attractive she is likely to become to potential employers. The most attractive candidates are likely to be those who haven't even joined the hiring queue—currently employed persons who are looking for a new or second job. And available data suggests there may be as many of them as there are unemployed job seekers (Bureau of Labor Statistics 1997).

This does not mean that structurally disadvantaged job seekers cannot find work, but it makes it harder for them. Nor does this mean that efforts to help jobless individuals overcome structural barriers to equal employment opportunity will fail, but that such efforts must overcome the natural tendency of labor markets to favor the already advantaged with more success. The larger the economy's aggregate job shortage, the longer hiring queues will be, and the farther back in line unemployed job seekers, especially disadvantaged job seekers, are likely to find themselves.

Second, to the extent that special efforts to help disadvantaged job seekers do succeed, the population most likely to sacrifice jobs to the newly employed comprises workers who are only marginally better situated and who probably have personal characteristics very similar to those of the assisted population. A redistribution of the burdens of joblessness among the lowest strata of the labor force isn't likely to reduce the social harms caused by the problem. The severity of this problem is linked to the size of the economy's job gap, because that is what determines the intensity of the competition for available jobs among unemployed and marginally employed workers.

Third, if jobs are scarce, efforts to increase the employment of disadvantaged individuals are likely to elicit nullifying counterresponses from more privileged workers. The counterresponse may take benign forms, such as increased investment in education, but they also may take less benign forms, such as growing resentment directed at disadvantaged groups and increased opposition to access-broadening initiatives. Opposition by white male workers to the use of hiring preferences to increase the employment of minority

and women job seekers illustrates this kind of reaction. Whether it takes benign or destructive forms, the efforts by more privileged workers to keep ahead in the competition for available jobs is likely to frustrate efforts to increase the job security of less advantaged workers.

Finally, to the extent that the distribution of joblessness is a product of discriminatory hiring practices, the existence of a significant job gap makes it much harder to alter employer practices. Surplus labor supply provides both a cover for discriminatory hiring practices and an economic cushion that allows employers to indulge their biases. Proving discriminatory treatment is very difficult when large numbers of workers apply for a small number of jobs and are evaluated according to multiple, incommensurable hiring criteria. This may be one reason for the prevalence of discriminatory firing cases over discriminatory hiring cases in employment discrimination litigation (Donohue and Siegelman 1991). The existence of labor surpluses also permits employers greater latitude in deciding where to locate their businesses, avoiding minority populations if they want, without fear of not being able to recruit adequate numbers of workers (Holzer 1996, 131). As the economy's job gap shrinks, the economic pressure on employers not to discriminate increases, and the deterrent effect of antidiscrimination law probably becomes more effective.

These factors do not mean that structuralist and behavioralist strategies cannot succeed under job-shortage conditions, but they do suggest that the limited success these strategies have enjoyed may be based on the failure to link them to an effective policy for reducing the economy's job gap. We implicitly accept this fact, for example, when we acknowledge that current welfare reform initiatives are not likely to work if the economy goes into recession. Why? Jobs turn over, even during a recession. Why shouldn't we expect welfare recipients to grab those openings? What we implicitly acknowledge in recognizing the limitations of welfare reform in those circumstances is that the existence of a large job gap reduces the likelihood that welfare recipients will be able to find work.

The same can be said, however, of the smaller but still significant job gaps that exist in periods of relative prosperity. Structuralist and behavioralist policies work better during periods of relatively low unemployment, but the continued existence of a significant aggregate job shortage, even in periods of relative prosperity, tends to limit the effectiveness of such policies.

In light of these considerations, a strong argument can be made that an effective strategy for combating joblessness cannot be founded on behavioralist and structuralist policies alone. It has to include an effective strategy for reducing or eliminating the economy's job gap—not only in periods of recession but in periods of relative prosperity as well.

Resurrecting the Direct Job Creation Option

Given the strong commitment of American liberals to direct job creation in the 1930s, it seems surprising at first that the policy option has attracted so little interest since World War II. The neglect of the idea is understandable, however, in light of its linkage to the job-shortage explanation of the problem of unemployment. Only during recessions is the existence of an aggregate job shortage taken for granted in the United States and, since the 1930s, Keynesian theory has tended to eclipse direct job creation as the preferred liberal strategy for closing the economy's job gap during such periods. The only time direct job creation commanded strong support in the post-World War II era was during the 1970s when unemployment rates rose sharply in an inflationary environment that seemed to checkmate Keynesian anti-cyclical measures.

This analysis suggests that support for direct job creation as a policy response to joblessness is likely to flourish only when two conditions are satisfied. First, the problem of joblessness must be perceived to flow from an aggregate shortage of jobs and not just from behavioralist or structuralist impediments to successful job-search activities. Second, the limitations of other policies designed to eliminate job shortages must be recognized.

The factual bases for both of these conditions appear to have been satisfied at virtually all times during the past four decades in the United States, but perceptions are another matter. The empirical evidence is compelling that job shortages are endemic in the United States economy, but liberals as well as conservatives tend to ignore the importance of aggregate job shortages as an explanation of joblessness except during recessions. In nonrecessionary periods, the problem is thought to have different roots—either structural barriers to equal employment opportunity (the liberal explanation) or behavioral problems on the part of the unemployed themselves (the conservative explanation). Like the social scientists in my parable of the dog-bone island, both liberals and conservatives have trouble seeing that the dimensions of the problem may have a different cause than the distribution of the problem among population groups.

Even if the importance of aggregate job shortages in causing the problem of joblessness were widely recognized, however, liberal support for direct job creation would remain weak as long as Keynesian measures were perceived to provide an alternative strategy for achieving that goal. This is a reasonable political stance. Macroeconomic measures tend to be less controversial than the creation of new government programs—especially government employment programs. To the extent that Keynesian macroeconomic manipulations can close the economy's job gap, such policies constitute a reasonable first choice for liberals seeking to combat joblessness.

You do not have to believe in a 6 percent “non-accelerating inflation rate of unemployment” (NAIRU), however, to acknowledge that driving unemployment down to the 2 percent level through macroeconomic stimulation alone is likely to cause serious inflationary problems. That is why some Keynesians now embrace direct job creation as a desirable, and possibly essential, component of an effective full-employment policy (see, for example, Mosler 1997–1998; Wray 1998). Direct job creation provides a useful complement to macroeconomic stimulation as a means of eliminating aggregate job shortages in the economy. Fiscal stimulation can be relied upon up to the point that inflation problems arise. From that point on, direct job creation is the logical choice to eliminate any remaining job gap.

Structuralist policies designed to achieve equal employment opportunity also would complement such a strategy, helping to ensure that the benefits of full employment are equally shared by all. In other words, support for direct job creation does not imply an abandonment of historical commitments either to Keynesianism or to structural labor market reforms. There is nothing inconsistent in pursuing those policies along with direct job creation. Indeed, a combined policy including Keynesian, structuralist, and direct job creation elements ought to be attractive to liberals once they recognize that the root cause of joblessness, in periods of prosperity as well as during recessions, is an endemic shortage of jobs relative to the number of persons seeking work in the economy.

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DAVID COLANDER

Vickrey, Macro Policy, and Chock-Full Employment

There is work to do; there are men to do it. Why not bring them together? No, says Mr. Baldwin. There are mysterious, unintelligible reasons of high finance and economic theory why this is impossible. It would be most rash. It would probably ruin the country. Abra would rise, cadabra would fall. Your food would cost you more. If everyone were to be employed, it would be just like the war over again. And even if everyone was employed, how can you be perfectly sure that they would still be employed three years hence? If we build houses to cover our heads, construct transport systems to carry our goods, drain our lands, protect our coasts, what will there be left for our children to do? No, cries Mr. Baldwin, it would be most unjust. The more work we do now the less there will be left to do hereafter. Unemployment is the lot of man. This generation must take its fair share of it without grouching. For the more the fewer, and the higher the less. (Keynes 1931, 91)

Two aspects of Bill Vickrey's approach to economics are, for me, defining.* The first is that Vickrey was a deeply religious and moral individual. Because morality was fully integrated into his views of economics, understanding Vickrey's moral vision is important for an understanding of his support

*Bill Vickrey's twinkling eyes, spontaneous laugh, and warm smile made it clear to anyone who met him that he approached life in an open manner—no pretensions, no games—simply "here is the way I see it." I write this paper in that same spirit. Vickrey's passion was his hope that he could guide our society toward achieving "chock-full" employment. I supported and support him in that hope. This paper attempts to put his views on macro policy into perspective and to explain the reasoning that leads from economic theory to Vickrey's views.