CHAPTER 1

The Missing Leg of U.S. Social Welfare Policy

IN FORMULATING a strategy for securing the right to employment, the watershed question that has to be answered is whether it is reasonable to rely on macroeconomic policy alone to achieve full employment, or whether a policy of intentional job creation in the public sector is required. In the United States, at least, the historical record suggests that the latter approach is necessary.

It is certainly not impossible for market economies to achieve full employment without intentional public sector hiring and to sustain such a condition for relatively long periods of time. We shall presently see that a number of countries with developed market economies have done just that. The United States has no such record of success in pursuing the goal of full employment, however, and there is no reason to believe that the nation's economy is likely to improve its performance in this regard in the foreseeable future. Indeed, I shall show that the long-term trends are in the opposite direction. In light of this record, any claim that full employment can be achieved in the United States through exclusive reliance on macroeconomic policy (whether interventionist or noninterventionist) warrants considerable skepticism. Those who suggest that the right to employment can be secured in the United States by relying on such means have a very heavy burden of proof to bear. Given the nation's performance record in this area, it is certainly more reasonable to assume that securing the right to employment will require deliberate public sector hiring to provide jobs for those persons unable to find work in the regular labor market. That is what the following analysis attempts to show.

THE HISTORICAL RECORD OF UNEMPLOYMENT IN THE UNITED STATES

The term "full employment" may be used in different ways. It is now frequently defined as the rate of unemployment necessary to keep inflation in check. This is what economists have in mind when they suggest that the economy has in fact achieved or is approaching full employment with an unemployment rate of 5 to 7 percent.[1] If, however, we define full employment as a labor market condition in which the right to employment has been realized, it must mean that enough employment opportunities exist to enable all job-seekers to find a job at wage rates sufficient to support a dignified existence.

This latter definition of full employment was the prevailing one in the 1940s when the term first entered the lexicon of political debate in the capitalist world.[2] For example, in a widely cited book on the subject that was published toward the end of the Second World War, Sir William Beveridge defined full employment as follows:

> It means having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them; it means, by consequence, that the normal lag between losing one job and finding another will be very short.[3]

Even according to this definition, full employment does not mean zero unemployment, since even in an economy experiencing a labor shortage it still takes time for job-seekers to complete job searches, and during that period they will be counted as unemployed.[4] Unemployment of this type is termed "frictional" by economists, and it is generally attributed to the existence of imperfect information in the labor market (and the consequent delay that occurs in matching unemployed workers with available jobs).[5]

Thus, in another widely cited study from the immediate postwar period, an international working group of eminent economists led by John Maurice Clark defined the "practical meaning" of full employment as, "a situation in which unemployment does not exceed the minimum allowances that must be made for the effects of frictional and seasonal factors."[6]

The kind of joblessness that would be eliminated with the achievement of full employment (according to this definition) includes what economists generally refer to as "cyclical" and "structural" unemployment. Cyclical unemployment is joblessness attributable to a reduction in the aggregate demand for labor caused by a general decline in business activity. Structural unemployment is joblessness attributable to changes in the technological, industrial, occupational, geographic, or demographic structure of the economy, such that available jobs do not match the available work force in number, location, or type. The pool of cyclically unemployed workers grows during recessions and then shrinks again during periods of economic expansion. Structural unemployment, on the other hand, can persist for very long periods of time and through all phases of the business cycle.[7]

For the right to employment to be secured, both cyclical and structural unemployment would have to be reduced to negligible amounts and any residual unemployment would have to be attributable to bona fide frictional factors. Assuming adequate prevailing wage levels, this probably

TABLE 1.1
Average Annual Civilian Unemployment Rate in Selected Countries: 1959 to 1986 (percent, adjusted to approximate U.S. concepts)

	United States	*Canada*	*Australia*	*Japan*	*France*	*Germany F.R.*	*Great Britain*	*Italy*	*Sweden*
Mean Rate									
1959–1986	6.1	6.8	4.1	1.8	4.2	2.6	5.6	3.8	2.1
1959–1974	5.0	5.2	2.1	1.4	2.0	0.8	2.9	3.0	1.9
1975–1986	7.6	8.9	6.9	2.3	7.2	4.9	9.1	4.8	2.4
Median Rate									
1959–1986	5.8	6.4	2.8	1.6	2.8	1.5	3.6	3.3	2.0
1959–1974	5.4	5.4	1.9	1.3	1.8	0.6	3.1	3.0	1.7
1975–1986	7.4	8.2	6.3	2.3	7.0	3.8	8.6	4.7	2.4

Sources: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, bulletin 2217 (Washington, D.C.: U.S. Government Printing Office, 1985), p. 419 (table 126); and *Monthly Labor Review* 109–11 (monthly, 1986–88), table 46.

means an unemployment rate of 2 percent or less would have to be achieved (possibly with some additional unemployment attributable to very short-term seasonal fluctuations in business activity).

This is the full employment goal that the Clark study suggests is reasonable,[8] and table 1.1 provides strong empirical evidence that it is indeed a good estimate of the frictional unemployment floor in market economies that are either experiencing very rapid economic growth with limited labor supplies or where very aggressive full employment policies have been successfully pursued.

Table 1.1 shows that for the sixteen-year period between 1959 and 1974, Australia, Japan, France, West Germany, and Sweden all had average unemployment rates of 2.1 percent or less. Moreover, despite the dramatic increases in unemployment rates that have occurred in most of the countries listed since then, Japan and Sweden have continued to enjoy unemployment rates close to the 2-percent level. Based on this record, it seems reasonable to conclude that unemployment in the United States would have to be reduced to a similar level before we could safely assume that all persons looking for work at prevailing wages would be able to find it.

Resistance to the idea that this ought to be our working definition of full employment is sure to be strong among policy analysts in the United States. This is attributable in large part to the already-noted redefinition of the term "full employment" that has taken over in the economics profession during the past several decades. Rejecting the earlier view that the term refers to a labor market condition in which everyone seeking work at prevailing wages can find it in a reasonably short period of time, most economists now think of it as a condition of sufficient laxity in the labor market that price stability is ensured without having to rely on an incomes policy.

It can also be argued, however, that demographic and structural changes in the economy have created a situation where the right to employment could be secured with an unemployment rate above 2 percent. I am skeptical of such claims, but if they are correct, then the net cost of the job creation efforts proposed in this book would be lower than my estimates suggest. My use of a 2 percent full employment figure can therefore be regarded as a conservative gesture designed to ensure that my estimates will be more likely to overstate than to understate the size of the job creation effort needed to secure the right to employment in this country.

Table 1.2 shows that, measured on an annual basis, the United States has achieved a rate of unemployment of 2 percent or less only seven times in the past century—in 1906, 1918–19, 1926, and 1943–45. An unemployment rate under 3 percent has been achieved only nine times. An unemployment rate under 4 percent has been achieved only twenty-four times, that is, in only one year out of four. The nation's average (mean) civilian unemployment rate over the past century has been 7.1 percent. Given the disproportionate effect of the depression years of the 1890s and 1930s on this average, however, the median annual rate is probably a better measure of the nation's typical performance in this regard. The median annual unemployment rate in the United States has been 5.5 percent over the past century.[9]

Nor is the economy's performance in achieving full employment improving. While our avoidance of a major depression since the 1930s has meant that the exceptionally high rates of unemployment experienced during that decade and in the 1890s have been avoided, the likelihood that any particular year will be one of greater unemployment than the historic norm has been increasing. As table 1.2 shows, the median annual rate of unemployment from 1890–1945 was 5.3 percent. Since then it has risen to 5.5 percent, despite the economy's better-than-average performance in the immediate postwar period. Between 1946 and 1959 the nation's median annual rate of unemployment was 4.2 percent. In the 1960s it rose to 4.9 percent. In the 1970s it rose to 5.9 percent, and thus far in the 1980s it has been 7.3 percent. The only two decades in the past hundred years with higher median (or mean) unemployment rates than the 1980s it has been 7.2 percent. The only two decades in the past

It is this historical record that leads me to conclude that it is unreasonable to expect either free market forces or macroeconomic policy alone to secure the right to employment in the United States. The existence of substantial involuntary unemployment in the nation's economy cannot be regarded as an exceptional or purely cyclical phenomenon, nor is it a

TABLE 1.2
Annual Civilian Unemployment Rate in the United States: 1890 to 1988 (percent)

1890	4.0	1905	4.3	1920	5.2	1935	20.1	1950	5.3	1965	4.5	1980	7.1
1891	5.4	1906	1.7	1921	11.7	1936	16.9	1951	3.3	1966	3.8	1981	7.6
1892	3.0	1907	2.8	1922	6.7	1937	14.3	1952	3.0	1967	3.8	1982	9.7
1893	11.7	1908	8.0	1923	2.4	1938	19.0	1953	2.9	1968	3.6	1983	9.6
1894	18.4	1909	5.1	1924	5.0	1939	17.2	1954	5.5	1969	3.5	1984	7.5
1895	13.7	1910	5.9	1925	3.2	1940	14.6	1955	4.4	1970	4.9	1985	7.2
1896	14.4	1911	6.7	1926	1.8	1941	9.9	1956	4.1	1971	5.9	1986	7.0
1897	14.5	1912	4.6	1927	3.3	1942	4.7	1957	4.3	1972	5.6	1987	6.2
1898	12.4	1913	4.3	1928	4.2	1943	1.9	1958	6.8	1973	4.9	1988	5.5
1899	6.5	1914	7.9	1929	3.2	1944	1.2	1959	5.5	1974	5.6		
1900	5.0	1915	8.5	1930	8.7	1945	1.9	1960	5.5	1975	8.5		
1901	4.0	1916	5.1	1931	15.9	1946	3.9	1961	6.7	1976	7.7		
1902	3.7	1917	4.6	1932	23.6	1947	3.9	1962	5.5	1977	7.1		
1903	3.9	1918	1.4	1933	24.9	1948	3.8	1963	5.7	1978	6.1		
1904	5.4	1919	1.4	1934	21.7	1949	5.9	1964	5.2	1979	5.8		

Summary:	*Mean Rate*	*Median Rate*
1890–1986	7.1	5.5
1890–1945	8.2	5.3
1946–1988	5.6	5.5
1946–1959	4.5	4.2
1960–1969	4.8	4.9
1970–1979	6.2	5.9
1980–1988	7.5	7.2

Sources: U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: U.S. Government Printing Office, 1975), p. 135 (series D–86); and *Employment and Earnings* (monthly), table A–3.

diminishing problem. It describes the economy's normal state. Without supplemental public sector hiring designed to secure the right to employment, the United States economy cannot be presumed capable of providing jobs at prevailing wage rates for its entire labor force.

It should also be noted that because of the very uneven distribution of unemployment among different population groups and in different areas of the country, even if an average unemployment rate of 2 percent was achieved for the labor force as a whole, significant pockets of much higher unemployment would continue to exist. In June 1987, for example, when the national civilian unemployment rate was 6.1 percent, the unemployment rates in 269 distinct metropolitan areas identified by the Bureau of Labor Statistics ranged from 2.2 percent (in Portsmouth, New Hampshire) to 20.5 percent (in McAllen, Texas).[10] The unemployment rate among black youths between the ages of sixteen and twenty-four with less than four years of high school education was 50.9 percent. The corresponding rate for similarly qualified white youths was 19.3 percent, while the rate for adult male workers with a professional specialty was only 2.2 percent.[11] Thus, even if full employment were achieved for the economy as a whole, direct job creation by the government would probably still be needed to secure the right to employment for particular groups of job-seekers.

Unemployment and Social Welfare Policy

A failure to face up to this necessity can be detected not only in government employment policy, but in social welfare policy generally. Consider, for example, the changes recently enacted in the federal Aid for Families with Dependent Children (AFDC) program.[12] The AFDC program provides cash income assistance to needy children and a caretaker relative (usually the mother) when at least one of the children's parents (usually the father) is absent from home, incapacitated, dead, or (in some states) unemployed.[13] Jointly funded by the federal government and the states, AFDC benefits vary widely in different states of the country, but the level of support provided is generally well below the poverty line. On a nationwide basis, benefit payments for the typical AFDC family of three averaged $360 per month in 1987, supplemented by an average $200 monthly food stamp benefit. When added together, these benefits provided an average family income equal to only 74 percent of the official poverty line for a three-person household.[14]

In everyday parlance AFDC is commonly called "welfare," though that term is also used to refer to general assistance programs. General Assistance (GA) is a generic term used to describe public relief programs that are wholly funded by state and local governments. Eligibility requirements and benefit levels for GA programs vary even more widely than for AFDC programs. In some states the GA recipient population consists primarily of unemployed single adults. In other states such persons are categorically ineligible for GA assistance. In general, GA programs are conceived as a last resort safety net for the "worthy poor" who are ineligible for other income maintenance programs.[15] On a nationwide basis, total expenditures for GA benefits equal only about 12 percent of total expenditures for AFDC benefits.[16]

Criticism of "welfare" programs has generally focused on AFDC. In recent years this criticism has concentrated on the program's alleged failure to provide adequate incentives for its adult beneficiary population to try to become self-supporting, and on its failure to provide the job training and work experience necessary for such efforts to succeed. To remedy this defect, Congress and the Reagan administration agreed in the fall of 1988 to a package of significant revisions in the program. Senator Daniel Patrick Moynihan (D–N.Y.), the principal architect of the legislation, has characterized it as an effort to redefine the meaning of welfare dependency. "Receiving income support is no longer to be a permanent or even extended condition but, rather, a transition to employment."[17]

The legislation requires states to establish education and training programs for adult AFDC recipients,[18] and some AFDC recipients will be required to work in exchange for their benefits.[19] To further encourage job-seeking efforts, the legislation also requires states to continue child and health care assistance to recipient families for a limited period of time after they leave the program.[20]

What is notable about this reform package is that it relies exclusively on "supply side" remedies to the problem of welfare dependency. AFDC recipients are to be provided with marketable skills and appropriate incentives to enter the labor market. It is simply assumed that thus equipped and motivated, they will be able to find adequately remunerative employment to support themselves and their children.

This ignores the possibility that the difficulties facing welfare recipients in becoming self-sufficient are rooted more in "demand side" deficiencies in the nation's labor market than in "supply side" deficiencies within the welfare recipient population itself. If job opportunities are plentiful relative to the number of able-bodied persons living in poverty, then a social welfare policy designed to assist or induce the able-bodied poor to enter (or reenter) the regular labor market seems intuitively reasonable. But if job opportunities are not plentiful relative to the need for them, then such a policy is much harder to justify.

This does not mean that a restructured AFDC program designed to enhance the employability of its clients will necessarily fail to place them in jobs. What is unrealistic is to expect such a strategy significantly to reduce the size of the dependent population in need of some form of public assistance. Any regular labor market jobs filled by former AFDC recipients will thereby become unavailable to other unemployed workers. Left unemployed, these workers are likely themselves to become dependent on some form of public assistance, or at least to develop a need for such assistance, whether or not it is provided. With sufficient coaching you may be able to help every loser in a game of musical chairs to win a seat in subsequent rounds of the game, but there is always going to be someone left standing when those rounds are completed. To provide everyone with a seat you have to add chairs to the circle. To end welfare dependency you have to add jobs to the economy.

A proper rethinking of social welfare policy in the United States must rest on a realistic assessment of the job-creating capacity of the nation's economy. As I have argued, such an assessment suggests that policymaking in this area must be based on the assumption that the economy is normally incapable of providing jobs for all those who need them. No other conclusion seems reasonable in light of the record of persistently high levels of unemployment that typify the historical record in the United States, both before and after the federal government began to play an active role in managing the economy. A social welfare policy that ignores this fact while aiming to help the able-bodied poor to become self-sufficient will almost certainly fail. Only if such a policy is combined with a truly effective full employment program does it stand a reasonable chance of success.

This is something that the original architects of the nation's existing social welfare system clearly understood. The overall structure of the system is based on a set of proposals made by a cabinet-level Committee on Economic Security appointed by President Roosevelt in 1934. Chaired by Secretary of Labor Frances Perkins, the committee was formed to make recommendations as to how the nation could best provide its people "some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours."[21] In addition to Secretary Perkins, the committee consisted of Secretary of the Treasury Henry Morgenthau, Attorney General Homer Cummings, Secretary of Agriculture Henry Wallace, and Federal Emergency Relief Administrator Harry Hopkins. The committee's recommendations were immediately implemented with the passage of the Emergency Relief Appropriations Act of 1935 in April of that year,[22] and of the Social Security Act of 1935 a few months later.[23]

The point that needs to be made about the social welfare system conceived by the Committee on Economic Security is that it had two legs. The set of income transfer programs established under the authority of the Social Security Act of 1935 put only one of those legs in place, the leg that addressed the economic security needs of those members of society who were either not expected to work or who were only temporarily unemployed. These programs included a joint federal/state unemployment compensation system, a federal old-age pension system, a joint federal/state program of income assistance for children lacking a breadwinner's support (the predecessor of AFDC), and a joint federal/state public health service. The committee also commended the idea of establishing a national health insurance program, but it deferred recommending the immediate establishment of such a program pending more detailed planning.[24]

The system's other leg, indeed its primary leg, was supposed to provide "employment assurance" to those members of society who were expected to be self-supporting through work.

> The first objective in a program of economic security must be maximum employment. As the major contribution of the Federal Government in providing a safeguard against unemployment we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time. Public-work programs are most necessary in periods of severe depression, but may be needed in normal times, as well, to help meet the problems of stranded communities and overmanned or declining industries.[25]

The important feature of this part of the committee's plan was that it accepted as given the fact that "employment assurance" could not be achieved through the stimulation of private employment alone. The government would have to supplement the regular demand for labor with a program of public employment designed to be "as nearly like private employment as possible."[26] Nor was the need for such a program perceived to exist only in periods of economic recession.

> In periods of depression public employment should be regarded as a principal line of defense. Even in prosperous times it may be necessary, on a smaller scale, when "pockets" develop in which there is much unemployment. Public employment is not the final answer to the problem of stranded communities, declining industries, and impoverished farm families, but it is [a] necessary supplement to more fundamental measures for the solution of such problems. And it must be remembered that a large part of the population will not be covered by unemployment compensation. While it will not always be necessary to have public employment projects to give employment assurance, it should be recognized as a permanent policy of the Government and not merely as an emergency measure.[27]

Authority to implement this leg of the social welfare system envisioned by the Committee on Economic Security was granted to President Roosevelt in the Emergency Relief Appropriation Act of 1935, under whose authority the Works Progress Administration (WPA) was established in May 1935.[28]

It should not be supposed that these steps were universally welcomed in the United States. There was strong opposition to both legs of the social welfare system that the Roosevelt administration tried to establish, and it was only because of the gravity of the crisis that the nation faced that social innovation on this scale was possible. I shall have more to say in chapter 6 about the unusual political conditions that permitted this kind of experimentation to occur and the opposition that it engendered. Writing in the very different political climate of the 1980s, it is well to remember just how great the sense of economic crisis had to be for such a fundamental reform of the nation's social welfare system to be possible.

It is also important to note that the sheer size of the nation's unemployment problem in the 1930s, when combined with the strong opposition to government employment programs that did exist, meant that the goal of providing "employment assurance" through the establishment of such programs was not achieved. Jobs were never provided for more than about 45 percent of the unemployed.[29]

With the arrival of full employment during the Second World War, the supplementary government employment programs established in the 1930s were terminated. This step was in full accord with the policy articulated by the Committee on Economic Security that "it will not always be necessary to have public employment to give employment assurance." However, as the war drew to a close, it meant that an entirely new legislative effort was needed if the committee's original plan for a two-legged social welfare system was to be reinstituted. This effort was mounted but it failed.[30] Since then we have tried to walk on one leg only, to hobble along with half a social welfare system.

To recapitulate, the existing social welfare system of the United States was originally based on a two-legged policy. The first leg of the policy was to provide employment assurance to people who were expected to be self-supporting, relying on special government employment programs if necessary. The second leg of the policy was to provide income transfers to needy persons who were not expected to be self-supporting, relying on a variety of federal and state programs to deliver the benefits. During the 1930s both legs of the policy were partially implemented, but the only programs that remained in place following the Second World War were those originally intended to serve people who were not expected to be self-supporting. When Congress refused to restore the other leg of the system, the United States was left with a crippled welfare policy. It certainly would not surprise the original architects of the nation's social welfare system that it has had trouble doing its assigned job with only one of its policy legs in place. What probably would surprise them is that anyone should think that the system's present deficiencies could be cured without restoring that missing leg.