

## Economic Side Effects of an EAP Jobs Program

IN THE PREVIOUS chapter's discussion of the effectiveness of an EAP jobs program in combating unemployment and poverty, I did not take into consideration the possible economic side effects of the program. These could include general changes in wage and employment levels, both micro and macroeconomic efficiency effects, and the possibility of increased inflation. I shall consider each of these in turn.

### WAGE AND EMPLOYMENT EFFECTS

If individuals could freely choose between EAP-funded jobs and those available in the regular labor market, one obvious result would be effectively to extend the protection of the federal minimum wage statute to workers who are either not covered by the statute or who are paid less than it requires in defiance of the law. About 10 percent of all nonsupervisory employees in the United States are presently not covered by the federal minimum wage statute. These workers include persons engaged in outside sales work, employees in some low-volume retail trade and service firms, and employees in seasonal amusement establishments. Most of them earn wages at least equal to the statutory minimum, despite their not being covered by the act, but a significant number do not. It has also been estimated that between 30 and 50 percent of workers who would have been paid less than the minimum wage in the absence of the federal statute are still paid less in violation of the law. Altogether, 1.6 million wage workers are known to be paid less than the current \$3.35 federal minimum wage.<sup>1</sup>

An EAP jobs program would deliver substantial benefits to these workers. It would make the minimum wage statute largely self-enforcing and effectively extend its coverage to all workers by providing a wage floor that private employers would have to match to retain their laborforce. In addition, unlike a statutory extension of the act's coverage or a program of more vigorous regulatory enforcement of its standards, an EAP jobs program would ensure the continued availability of jobs for those low-wage workers who currently earn less than the minimum wage.

On the other hand, broadening the effective coverage of the minimum wage statute could reduce employment in the regular labor market, thereby increasing the cost of an EAP jobs program. Neoclassical theory

predicts that by forcing wage rates above the equilibrium level, minimum wage statutes will cause increased unemployment among low-wage workers.<sup>2</sup> Econometric studies generally verify this result, though the observed effect is small. Typically, such studies find that a 10 percent increase in the statutory minimum wage results in a 1 to 3 percent decline in teenage employment but has little or no effect on adult employment. Those studies that distinguish between the effect of changes in the minimum wage rate and changes in the statute's coverage have found that the employment effects of the latter are even weaker.<sup>3</sup>

It cannot be concluded from this, however, that the general level of employment tends to be reduced by either an increase in the minimum wage or an extension of its coverage. This is because an increase in minimum wage rates may cause an increase in aggregate expenditures, and hence in total employment, even if low-wage employment declines.

First, neoclassical analysis predicts that an increase in minimum wages may increase total earnings for low-wage workers, even though employment levels for such workers decline. If the elasticity of demand for labor is less than one in a particular industry, then the additional earnings of workers whose wages are increased to comply with the statute will exceed the lost earnings of workers who lose their jobs.<sup>4</sup> If this happens, and the econometric studies cited above generally find this to be the case, then some redistribution of income in favor of low-wage workers is implied, even if no substitute income is provided for those who lose their jobs. Given the very high marginal propensity to consume of low-income earners, the result of this redistribution is likely to be an increase in aggregate consumption expenditures and a corresponding tendency for aggregate employment to grow.

Second, neoclassical analysis also predicts that an increase in the statutory minimum wage may cause an increase in the demand for higher-wage labor.<sup>5</sup> This is because an increase in the cost of low-wage labor may result in a cost advantage for technologies using more highly skilled labor. As firms substitute new production techniques for old ones, their demand for higher-wage labor may increase. New capital investment will also be required, providing a stimulus for increased employment beyond the immediately affected industry.

Thus, the net effect of an increase in minimum wages on aggregate employment may be positive, even if low-wage jobs are lost. Indeed, the overall stimulus provided to the economy by such an increase may cause a net employment gain even among low-wage workers. In any case, there is no reason to believe that an EAP jobs program would necessarily be rendered more costly because of its tendency to extend the reach of minimum wage legislation. In fact, the existence of such a program would reduce the likelihood of that possibility. Under present circumstances,

low-wage workers who lose their jobs because of an increase in the minimum wage (or an extension of its coverage) are likely to remain unemployed and to experience a dramatic decline in income. An EAP jobs program would ensure their continued employment, thus increasing the net gain in earnings received by low-wage workers. The general economic stimulus provided by increased consumption expenditures by low-wage workers would therefore be increased.

An EAP jobs program would probably also exert some upward pressure on the general level of wages, since the establishment of effective full employment would strengthen the general bargaining power of both unionized and nonunionized workers. The general inflationary effect of an increase in the level of wages will be considered later in this chapter. The question that is of concern at this point is the likely employment effect of such a general increase in wage levels.

The employment effect of a general increase in wages would be similar to that of an increase in statutory minimum wage rates. On the one hand, increasing the cost of labor relative to other factors of production would tend to reduce the demand for labor in the regular labor market. On the other hand, the economic stimulus provided by increased consumption (due to increased wage payments) and increased investment (due to the substitution of capital for labor in the process of production) would tend to increase the demand for labor. Which tendency would predominate cannot be determined *a priori*, but the existence of an EAP jobs program would increase the likelihood that the net employment effect of a rising wage level would be positive. This is because such a program would ensure the continued employment of workers who lost their jobs as a result of the wage increase, thereby augmenting the increased earnings (and consequent consumption expenditures) of workers whose jobs were not eliminated.

An EAP jobs program that guaranteed working parents an income at least equal to the poverty line would also cause demographic shifts in the low-wage sector of the labor market. Parents employed in jobs paying less than they could earn in the jobs program would presumably abandon those jobs in order to seek work in the program. This would create additional low-wage employment opportunities in the regular labor market for workers without dependent children, but low-wage working parents would be disproportionately represented in the EAP work force.

It is not clear how many workers there are in the low-wage sector of the economy trying to support families on minimum wage jobs. In 1986 the total number of workers with hourly wages at or below the federal minimum of \$3.35 per hour included 283 thousand husbands, 1 million wives, 337 thousand women who maintain families without husbands present, and twenty-nine thousand men who maintain families without

wives present. Thus, the employed laborforce included 1.7 million family heads or coheads earning the minimum wage or less. The number of persons earning \$4.35 per hour or less included 5.6 million family heads or coheads (1.1 million husbands, 3.4 million wives, 1 million women who maintain families, and 129 thousand men who maintain families).<sup>6</sup>

Unfortunately, these figures do not indicate how many of these low-wage husbands and wives have dependent children, nor the average size of the low-wage families counted (whether headed by a married couple or a parent without a spouse present). It is therefore impossible to say how many of these workers would have been eligible for EAP jobs paying above market wages. These figures provide an outside boundary, however, for the number of persons presently employed in the regular labor market who might be drawn into an EAP jobs program by the prospect of earning above-market wages, thereby creating an equal number of private sector vacancies for workers without children who would otherwise have to rely on the jobs program.

As I noted in my discussion of this phenomenon in chapter 2, a restoration of the federal minimum wage to its historic level would probably reduce this tendency to negligible proportions, because a higher minimum wage would mean that only low-wage workers with exceptionally large families would be eligible for above-market wages in EAP-funded jobs. If, however, large demographic shifts did occur in the laborforce due to the availability of above-market EAP wages for low-income parents, then the implications for the program would be substantial.

First, women with children would be disproportionately represented among EAP job-holders. Instead of being just an employment program, it would become the institutional focal point of society's response to the so-called feminization of poverty. This could pose a problem for the program if it succeeded to the negative image of the AFDC program, but it could have the opposite effect if program participants were viewed by the public as working parents struggling to support their children. The concentration of family heads among program participants would also facilitate the delivery of special support services to their families. In other words, a demographic concentration of single mothers in the program could be beneficial, but it would also present public relations risks.

A second effect of the demographic shifts in the low-wage work force that the program might cause would be an opening up of employment opportunities for unemployed workers without children in the low-wage sector of the regular labor market. The major beneficiaries of this trend would be low-skilled youthful workers, the group in the economy that currently experiences the highest rates of unemployment of any age cohort. Employers would be forced to hire greater numbers of such persons because of the movement of low-wage parents into the EAP laborforce.

For those concerned that an EAP jobs program would become a permanent low-wage ghetto for disadvantaged youths, this tendency would be reassuring. It would tend to ensure that a broad range of employment opportunities would be available to such youths, beyond those available in the jobs program itself. Low-wage working parents would have the same choice, of course, but they would tend to be attracted to the jobs program because of the higher wages they could earn there.

#### EFFICIENCY EFFECTS

Before discussing the efficiency effects of an EAP jobs program, some clarification is needed regarding the meaning of the concept of economic efficiency itself. Because of the influence exerted by neoclassical economic theory on policy analysis in the United States, a tendency exists to assume that economic efficiency necessarily means the maximization of market output relative to market input, both measured in monetary terms. This definition of economic efficiency is derived from the profit-maximizing goal ascribed to individual firms in neoclassical theory. To regard the efficient realization of this goal as an analogue for all forms of economic efficiency, however, effectively ignores other economic goals that are worthy of pursuit and devalues a wide range of nonmonetary costs associated with market-oriented economic activity. The normative judgement implicit in this restricted vision of economic efficiency is rarely scrutinized.

Efficiency is an engineering concept that relates outputs to inputs in a quantitative relationship. In order to use the concept, a decision must be made regarding the specific outputs and inputs to be measured, like miles per gallon, miles per hour, or carbon dioxide emissions per gallon or mile. This involves a decision based on the nature of one's interest in the process, and, as the above examples suggest, may reveal differences in the value systems of different optimizers.

In defining the concept of economic efficiency, a similar choice must be made regarding the nature of the outputs and inputs that it is thought desirable for society to maximize and minimize. Economic efficiency does not necessarily mean the maximization of monetary output relative to monetary input. To assume that it does involves making a value judgement regarding the perceived purpose of economic activity. Analysts who attach greater importance to the distributional effects of an economic process than to its effect on GNP or market competitiveness are not thereby expressing a willingness to sacrifice "economic efficiency" for the sake of achieving certain equity goals. They are defining economic efficiency as the maximization of those equity goals relative to some set of inputs or opportunity costs that they think it is desirable to minimize.

Rational policy analysis needs to be self-conscious regarding its assumptions and it needs to be prepared to justify them. Uncritical acceptance of the neoclassical definition of economic efficiency violates this principle and hinders the development of fully reasoned policy recommendations by prejudging a vitally important and clearly debatable issue, namely, the question of what standards it is most appropriate to apply in judging an economy's performance.

Despite misgivings on this score, I am going to use the concept of economic efficiency in its conventional sense in the discussion that follows. This decision stems partly from limitations of space, which prevent a thorough critique and reformulation of the concept of economic efficiency, and partly from the fact that questions regarding the possible negative side effects of an EAP jobs program are rooted in a neoclassical vision of the economy, and I feel bound to address those concerns.

There are three efficiency effects that I shall discuss in this context. The first is the effect of an EAP jobs program on the microeconomic efficiency of labor. The second is its effect on the competitiveness of particular industries, both domestically and internationally. The third is its effect on the macroeconomic efficiency of the economy.

#### *The Microeconomic Efficiency of Labor*

What effect would an EAP jobs program have on the productivity of labor relative to its cost? In addressing that question I will assume that an EAP jobs program would exert upward pressure on wages, especially in low-wage industries, while simultaneously increasing labor's sense of security and independence. Put baldly, I will assume that workers would be less fearful of displeasing their employers.

It is possible that under such circumstances worker discipline and effort would diminish, thereby lessening the productivity of labor, but such a result is far from certain. Economic security improves worker morale and may lead to less interest in "feather bedding" on the part of labor. Both of these tendencies can increase the productivity of labor. Unions might take advantage of their increased bargaining strength to wrest productivity-lessening concessions from management, but with the achievement of full employment there would be less reason for unions to press for the maintenance of work rules designed mainly to save jobs rather than to achieve an intrinsically desirable pace of labor. Moreover, recent research calls into question the widely held assumption that strong unions reduce labor productivity in any case.<sup>7</sup>

The same disparity in possible outcomes also exists for individual workers. Employers would clearly have to rely more on the carrot and less on the stick in their relations with their employees, but it is difficult to say

what effect this would have on productivity. In short, worker discipline and effort are complexly determined variables, and it is hard to predict what effect an EAP jobs program would have on them.

There is another efficiency effect of rising wages, however, which is more certain to occur. This is the encouragement that rising wages would provide for the introduction of labor-saving or labor-displacing technological and organizational innovations in the production process. These innovations will tend to increase the physical productivity of labor, whether or not the monetary costs of production decline below the levels experienced before the wage increase.<sup>8</sup> From the firm's point of view, innovations of this type may simply mitigate the decline in economic efficiency caused by the wage increase, but from society's point of view the result is a clear gain in the economy's overall efficiency, so long as displaced workers find alternative employment that is at least as productive as their old work. The reason the efficiency gain may not be realized at the firm level is because workers have captured it in their prior wage gain.

All of this is simply a roundabout way of saying that real investment increases the efficiency of an economy, and wage gains can induce real investment. The reason for this is twofold. First, rising wages may render technological innovations profitable that would not otherwise be so. Second, a rising wage level may result in an increase in aggregate consumption, which in turn induces increased real investment.<sup>9</sup>

### *Industrial Competitiveness*

Regardless of the effect of an EAP jobs program on aggregate economic efficiency, individual industries could be harmed by a tendency for wages to rise. This would be especially true in the low-wage sector of the economy where the largest wage increases would be likely to occur. Indeed, there may be industries or individual firms whose survival depends on their access to low-wage labor. This could be the case because of foreign competition or because demand for the goods and services they sell is extremely price-elastic. In either case, if an EAP jobs program caused wages to rise significantly in the low-wage sector of the labor market and compensating technological innovations were unavailable, the industry or firm could experience substantial harm.

If foreign competition is the source of the problem, then the issue posed would be no different from the much-debated one of whether a protectionist trade policy should be adopted to save particular industries. Orthodox trade theory asserts that an across-the-board decline in domestic industries cannot follow from a free trade policy (unless the rest of the world is willing to subsidize a nation's consumption indefinitely through ever larger foreign exchange lending). Some industries will decline as

foreign producers take over their markets, but export industries will just as surely expand to satisfy the growing demand created by larger dollar holdings by foreigners. In other words, structural change will occur in the economy.<sup>10</sup>

Arguments can be made that particular structural changes are undesirable, but for a diversified industrial economy, the issue usually boils down to one of competing private interests. How much harm will a free trade policy visit on losers in a structural reorganization of the economy? Will there be more gainers than losers? Can the latter be compensated? Will they be compensated?

The existence of an EAP jobs program could materially affect the resolution of these issues. By providing substitute employment for workers who lose their jobs as a result of trade-induced structural changes in the domestic economy, such a program would provide an automatic mechanism for compensating the largest group of potential "losers" in an open economy. It would also provide an ongoing institutional mechanism for assisting those workers to find different jobs, enter different professions, or move to different communities. Finally, it would provide long-term employment to fill any residual structural employment deficit.

This latter point is particularly important. Even if exports tend to grow apace with imports, it does not necessarily follow that employment growth in export industries will compensate for job losses in declining industries. That will depend on the relative labor intensity of the affected industries (as well as on differences in the multiplier effect of changes in income in each industry). A growth in petroleum product exports of \$100 million need not create as many new jobs as would be lost from a decline in garment industry sales of equal magnitude.

The existence of a permanent institutional structure capable of delivering effective compensation to displaced workers could have a significant impact on public debate regarding trade policy, by reducing political support for protectionist measures among workers. This would provide small comfort, of course, to the owners of businesses harmed by foreign competition. Their opposition to free trade policies would continue, unless they too were compensated.

Even if a low-wage industry faced no international competition, it might still be squeezed by rising wages attributable to an EAP jobs program. The nature of the effect would depend on how industry sales were affected by two counteracting tendencies attributable to a wage increase. The first is an increase in consumer income. The second is an increase in the price of whatever goods or services the industry sells. Since price increases induced by rising wages would be greatest in those industries that employ the highest proportion of low-wage workers, whereas increased sales would be more evenly distributed throughout the economy,



total revenues in low-wage industries would probably decline. If this happened, then total revenues in other industries would increase disproportionately, compared to the increase in their labor costs (since increased consumer income would have to be spent on something). A structural change would occur in the economy involving a reallocation of productive resources from lower-wage to higher-wage industries.

Would this be desirable or undesirable? Consider the population groups most likely to be harmed by rising prices and declining employment in low-wage industries. They include low-wage workers, consumers of low-wage goods and services, and employers of low-wage labor. Because workers laid off from declining industries would be able to take EAP-funded jobs, they would retain the benefit of the upward trend in wages. On the other hand, consumers of the products of low-wage labor would experience a slight decline in their real income. Finally, employers of low-wage labor would experience possibly substantial decreases in their sales or profits.

If, for example, the wages of migrant farmworkers increased, the price of agricultural products would go up slightly, and the real income of consumers of agricultural products would go down slightly. They would probably respond by buying fewer agricultural products. If they did, some farm workers would lose their jobs. Given the availability of EAP-funded jobs paying market wages, the laid-off farmworkers would be guaranteed continued employment at the higher wages that started the process. The increased expenditures of the farmworker population (attributable to their higher wages, whether or not they were all still working in their old jobs) would increase sales and employment in some other industries.

When the process was complete, the low-wage agricultural sector would be slightly smaller, some other sectors of the economy would be slightly larger, consumers who were not farmworkers would have experienced a slight decline in real income, with the benefits of the redistribution of income going to the farmworkers. Such a result seems supportable on equitable grounds. The only party that might experience significant economic harm would be employers of low-wage labor. If compensation is thought to be needed for such persons, it could be provided.

### *Macroeconomic Efficiency*

Most discussions of economic efficiency focus on microeconomic performance. The unstated assumption is that because commodity  $x$  is more efficiently produced, the economy is more efficient. This is not necessarily true. The overall efficiency of the economy depends only partly on the average productivity of employed workers. It is also affected by the pro-

portion of the laborforce that is employed. Put simply, a firm will become more efficient if, all other things remaining equal, it reduces the amount of labor it uses to produce a given output; but the efficiency of the laborforce taken as a whole will not increase in that instance unless redundant workers are provided alternative employment.

This is one of the reasons why centrally planned economies are often able to achieve high rates of economic growth despite the much-publicized inefficiencies of their individual enterprises. By keeping their entire laborforce productively employed, such economies offset losses attributable to firm-level inefficiencies. Clearly, their economies would be more efficient if they combined firm-level efficiency with full employment, but the same is true of capitalist economies.

An EAP jobs program provides an institutional means for achieving this goal. By substituting productive employment for transfer payments, an EAP jobs program would cause aggregate real income to increase. More goods and services would be produced, while the size of the laborforce (counting both employed and unemployed workers) remained constant. The efficiency of the laborforce taken as a whole would therefore increase. This would be true whether or not the productivity of EAP jobholders equaled that of persons employed in regular labor market jobs, since some production is greater than no production.

In national income accounts, GNP would increase to the extent that EAP jobs program expenditures replaced gratuitous income maintenance benefits. This would show up in the accounts as an increase in government purchases of goods and services, accompanied by a corresponding decrease in government transfer payments. The changes would be real, however, not nominal. More goods and services would be produced in the economy. Society's real income would increase.

#### INFLATIONARY EFFECTS

It is widely believed that the achievement of genuine full employment would be inflationary. This is why so many economists have tried to redefine the concept of full employment to mean the level of employment necessary to keep inflation in check. It is therefore to be expected that most people would regard it as a foregone conclusion that an EAP jobs program would be inflationary.

In fact, such a result is not as certain as it seems. There is no reason to doubt that under the existing policy regime substantial inflationary pressures would be unleashed by the achievement of full employment. What is less clear is whether the cause of that inflationary tendency is properly attributable to full employment itself or to the high level of expenditures necessary to achieve it spontaneously. Stated differently, there would be

much less reason to fear the inflationary effects of full employment if it were not necessary to expand aggregate expenditures to achieve it.

If my earlier analysis of the financing of an EAP jobs program is correct, then the fiscal stimulus provided by the program would be negligible. Over the course of the business cycle, government spending for EAP jobs would be almost entirely offset by a combination of reductions in spending for other programs and of increased tax revenues from the earnings of program participants. If the program's residual funding deficit were financed by increased taxes or by user fees for the services it provided, then it should have no long-term fiscal impact at all. Moreover, the countercyclical timing of program expenditures might even cause it to have an antiinflationary effect. Program expenditures would exceed tax revenues only in periods of depressed demand, while at the peak of the business cycle program expenditures would be less than the tax receipts dedicated to its support.

Thus, for the achievement of full employment through the mechanism of an EAP jobs program to be inflationary, it would have to be because of the program's effect on wage levels. That is, upward pressure on wage levels attributable to the program would have to lead to a general rise in prices. It is not clear, though, how robust a wage-price spiral could be in the absence of any net fiscal or monetary stimulus. The inflation associated with wage-price spirals may appear to be self-generating, but without some fiscal or monetary accommodation it could not be sustained for very long.

Any wage-price spiral generated by an EAP jobs program would be driven solely by the program's effect on the relative bargaining power of employers and workers, and not conjointly by expansive fiscal or monetary policies. In other words, an EAP-induced wage-price spiral would amount to nothing more than a fight over income shares set off by the program's redistributive tendencies. Once market adjustments to the new distribution of income had worked their way through the economy, there would be no further inflationary pressure unless further redistributions of income in favor of low-wage labor occurred, or unless an effort were made to defeat the real effects of the redistribution by adopting inflationary fiscal or monetary policies.

To understand this better, it is worth considering the actual mechanism whereby an EAP jobs program might initiate a wage-price spiral. As noted earlier, such a program would tend to increase the real income of low-wage earners while reducing the net income of low-wage employers. To the degree that the latter were able to pass along their increased labor costs in the form of higher prices, they would recoup part of their loss by shifting it to the consuming public generally. A similar scenario would unfold if an EAP jobs program led to rising wages in other than the low-

wage sector of the economy. Some inflation would occur, but there is no reason that it should continue once the redistributive effects of an EAP jobs program had run their course. For a wage-price spiral to continue indefinitely would mean that the fight for income shares among workers, employers, and consumers had not died down.

This does not mean that the short-term inflationary pressures unleashed by the establishment of an EAP jobs program would necessarily be minor. As the history of oil price increases in the 1970s illustrates, struggles over income shares fought out through market mechanisms can have a major impact on the economy. On the other hand, the existence of an EAP jobs program would make it easier to use other policy weapons to fight any inflation the economy did experience. This is because the program would tend to unburden fiscal and monetary policy from the need to focus simultaneous attention on the problems of unemployment and inflation.

It has become commonplace for economists to observe that they know how to reduce either the rate of inflation or the rate of unemployment, but they have trouble doing both at the same time. With adequate support for the unemployed being provided by an EAP jobs program, they wouldn't have to try to do both at the same time. The traditional tools of macroeconomic policy could be deployed more singlemindedly to combat inflation, whatever its cause, while the costs of the antiinflation effort—in the form of lost jobs—would be shared by the entire population through increased EAP expenditures, rather than being laid disproportionately on the shoulders of the unemployed.

Also, since any prolonged EAP-induced inflation would reflect an ongoing battle over income shares, a strong case can be made for supplementing antiinflationary macroeconomic policy, when necessary, with some form of active incomes policy. After all, antipoverty measures are themselves a form of incomes policy, and if we really are serious about altering the market-induced distribution of income to ensure that everyone has the right to a modest subsistence, then we have already decided to interfere in market processes.

Incomes policies attempt to influence wages and prices directly by bringing moral, political, or legal pressures to bear on economic behavior, or by altering the institutional framework in which market mechanisms work. Antiinflationary interventions have traditionally taken a variety of forms, ranging from the publication of guidelines to the establishment of legal controls. The government can also use its taxing power to reward or deter certain kinds of wage- and price-setting behavior, or it can intervene as a mediator or as a direct participant in wage and price bargaining in the private sector.<sup>11</sup>

For such policies to be successfully deployed to combat inflation, a

high degree of popular support is needed. Where the goals that necessitate the policies are widely supported, as was the case with wage and price controls during the Second World War, they can work. When no such support exists, as was the case with wage and price controls in the early 1970s, incomes policies are not likely to survive public resentment. Thus, whether an incomes policy could be used successfully as a supplement to macroeconomic policy in fighting the inflationary tendencies of an EAP jobs program would depend primarily on political rather than technical considerations.

Finally, in weighing the importance of the inflationary effect of an EAP jobs program, it is important to cast an equally appraising eye on existing policies. By placing primary reliance on fiscal and monetary policy to fight both inflation and unemployment, we are currently trapped between the proverbial rock and a hard place. We can't achieve both goals at once. Since the immediately perceived effects of inflation are felt by a larger proportion of the population than are those associated with unemployment, and because they are felt by groups with more political influence than that exercised by the unemployed, a strong tendency exists to accept high rates of unemployment as the price of keeping inflation in check.

This strategy is undoubtedly effective, but it is hard to justify on equitable grounds, and if my analysis is correct, it is equally hard to justify on grounds of the public's actual self-interest. It amounts to the imposition of an extremely harsh economic sanction on a minority of the population for the sake of preserving the perceived economic welfare of the majority. But given the cost to society of unemployment itself, the bargain is a very expensive one, even for the majority.

If there were no alternative means of overcoming inflationary tendencies in a market economy, such a policy regime might be defensible, but if alternative means are available to fight inflation without sacrificing the goal of full employment, then it becomes far more difficult to justify our willingness to sacrifice the unemployed and to live with the costs of unemployment in order to achieve price stability.

In other words, existing policies no less than the alternatives I have suggested involve difficult choices regarding antiinflation policy. An EAP jobs program would pose problems in this area, but it is by no means certain that they would be more serious than those we currently face as a result of our stop-and-go efforts to fight both inflation and unemployment with macroeconomic weapons that clearly have trouble doing both jobs at once. Rather than being its Achilles' heel, the effect of an EAP jobs program on our ability to control inflation may be an advantage of the policy.