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BACK TO FULL EMPLOYMENT

ROBERT POLLIN

EMPLOYMENT CONDITIONS IN THE UNITED STATES today, in the aftermath of the 2008–09 Wall Street collapse and worldwide Great Recession, remain disastrous—worse than at any time since the Depression of the 1930s.

Since Barack Obama entered office in January 2009, the official unemployment rate has averaged more than 9.5 percent, representing some fifteen million people in a labor force of about 154 million. By a broader definition, including people employed for fewer hours than they would like and those discouraged from looking for work, the unemployment rate has been far higher—16.5 percent, on average. Still worse, if we count people who have dropped out of the labor force, unemployment would rise to nearly 20 percent, or 30 million people, roughly twice the combined populations of New York, Los Angeles, and Chicago.

The first major act of the Obama administration was the economic stimulus—the American Recovery and Reinvestment Act—which focused on fighting the recession and mass unemployment. This \$787 billion program of tax cuts and government spending measures aimed to brace the economy's rickety floor and thereby preserve existing jobs as well as generate new ones in both the public and private sectors. The stimulus program did succeed in preventing a full-scale 1930s-style depression. A *Wall Street Journal* survey found that 75 percent of economists agreed that the stimulus succeeded in reducing unemployment. A detailed study by Alan Blinder, a Princeton economist and former Federal Reserve Vice Chair, and Mark Zandi, Chief Economist at Moody's Analytics and an advisor to John McCain's Presidential campaign, found that unemployment would likely have risen to nearly 17 percent in the absence of the stimulus.

But the stimulus has clearly proven inadequate for fully reversing the effects of the Wall Street collapse. Combined with the huge decline in tax revenues tied to the recession, the stimulus spending has also generated federal fiscal deficits of a magnitude the United States hasn't seen since World War II—around \$1.4 trillion in 2009 and 2010, or 10 percent of GDP each year. Bringing the U.S. economy, along with most of the rest of the world, out of the deep ditch into which Wall Street has shoved it will clearly be a long, hard struggle.

New rounds of major job-generating measures are crucial to the task of reversing the recession and driving down unemployment. These measures will involve both government spending and, equally important, financial-market regulations and incentives intended to force credit markets away from hyper-speculative practices and toward productive, high-employment investments. Such proposals fly in the face of the rising mantra in Washington and Europe in favor of fiscal austerity and business deregulation.

COMING OUT OF THE GREAT RECESSION WE NEED FULL EMPLOYMENT, NOT PATCHED-UP NEOLIBERALISM.

But beyond the challenges in advancing such short-term programs, there is a broader and longer-term goal that is not even on the agenda: creating and sustaining a full-employment economy in the United States. Especially at this historical juncture, as we attempt to grope our way out of the Great Recession and onto some kind of new growth trajectory, we need to be clear on the centrality of full employment as a policy goal. That is, we need to think about what exactly we mean by full employment; on why, properly defined, full employment is so fundamental to building a decent society; and on what kind of longer-term policy innovations will be needed both to get the U.S. economy to full employment and, once there, to stay. Success in answering these questions will necessarily engage large numbers of people coming at the issue from a wide range of perspectives. My proposals here are aimed at energizing this broader debate in fresh and constructive directions.

WHY FULL EMPLOYMENT?

THERE ARE GOOD REASONS TO SEEK FULL EMPLOYMENT—good reasons for individuals, families, and the economy as a whole. Equally important, as we will see later, creating a full-employment economy can be joined effectively with another fundamental policy aim: ending our dependence on fossil fuels and creating an economy powered by clean energy.

From the individual's standpoint, whether one can get a job—and if so, whether that job offers decent pay and benefits, a clean and safe environment, and fair treatment for oneself and one's coworkers—matters a lot. Money is the most obvious consideration. But beyond the money, a job is also crucial for establishing a person's sense of security and

self-worth, health and safety, ability to raise a family, and chances to participate in the life of the community.

An abundance of job opportunities is also crucial to an economy's overall health. As employment levels rise, so does total purchasing power in the economy since people have more money in their pockets to spend. This means more buoyant markets, greater business opportunities for both small and large firms, and strong incentives for private businesses to expand their operations. An economy that supports an abundance of decent jobs will also promote individual opportunity and equality because this kind of economy offers everyone the chance to provide for themselves and for their families.

For these reasons, a high-employment economy is also the best tool for fighting poverty. We saw this vividly in the United States in the late 1960s when the Kennedy-Johnson tax cut and Vietnam-related government spending brought unemployment below 4 percent. This high-employment economy brought rising wages across the board, better working conditions, and less job discrimination against women, African Americans, and other historically marginalized populations.

An economy operating at full employment has the capacity to deliver great individual and social benefits. Why then doesn't everybody agree that this should be a fundamental goal of public policy, with debates focused on the narrower question of the most effective means of achieving it?

In fact, after the Great Depression and World War II, creating full-employment conditions was the focus of economic policy throughout the world. The level of commitment to this goal did vary substantially according to country and political parties in power, but it was not until the high-inflation period of the 1970s and subsequent neoliberal revolution—marked most decisively by the elections of Margaret Thatcher as U.K. prime minister in 1979 and Ronald Reagan as U.S. president in 1980—that full employment was supplanted as the centerpiece of economic policy. The new framework was friendlier to Wall Street and global capitalists. Neoliberals advanced macroeconomic policies aimed at maintaining low inflation rather than full employment; reducing the public sector, including welfare-state programs; eliminating or weakening pro-worker labor laws; eliminating barriers to international trade; and deregulating financial markets. Coming out of the Great Recession, our challenge is to create a new, workable full-employment policy, not simply to patch up and restart the failed neoliberal model.

Defining full employment is a more difficult task than one might imagine. This point was pounded into me when I was working in Bolivia in 1990 as part of an economic-advising team led by Keith Griffin of the University of California, Riverside. Griffin's assignment was to develop a program that would address the human devastation wrought by

the “shock therapy” program designed by economist Jeffrey Sachs to end the Bolivian hyperinflation of the 1980s. Sachs’s neoliberal approach consisted of massive cuts in government spending and public-sector layoffs.

Griffin asked me to examine employment policies, so I paid a visit to the economists at the Ministry of Planning. When I suggested that we discuss the country’s unemployment problem, they explained that the country *had no unemployment problem*. I asked about the people begging, shining shoes, or hawking batteries and Chiclets in the street below the window where we stood. The economists responded that those people *were* employed.

In the United States today, as in Bolivia in 1990, full employment has to be understood more precisely. It is not simply a matter of everyone spending their days trying to scratch out a living somehow. A workable definition of full employment should refer to an abundance of *decent* jobs. Defined in this way, a policy of full employment is most certainly a challenge to the prerogatives of capitalists and the logic of neoliberalism. How much of a challenge has been widely debated.

THE CHALLENGE TO CAPITALISM

EVER SINCE KARL MARX PUBLISHED HIS MAGNUM OPUS, *Capital*, in 1867, debates about unemployment have centered on whether it is an inevitable feature of a capitalist economy; whether full employment with decent wages and working conditions is achievable; and, if so, at what cost.

Much depends on how people understand the sources of unemployment. Debates typically identify three types of unemployment: *voluntary* unemployment, when people are out of work because they choose to be; *frictional* unemployment, when people are between jobs, receiving job training, or relocating; and *involuntary* unemployment, when people are making significant but unsuccessful efforts to find work. In principle, unemployment becomes a serious concern only when it is involuntary, but the distinctions between the three categories are not always evident, and the major theorists of unemployment have defined the boundaries in different ways.

Marx concluded that a high level of involuntary unemployment plays a significant role in the operations of a capitalist economy. In the justly famous 25th chapter of Volume I of *Capital*, “The General Law of Capitalist Accumulation,” Marx argued that in a free market–capitalist economy, capitalists gain higher profits because of their relatively strong bargaining position with respect to wages. Workers typically have less power because they have no other means of sustenance if they fail to get hired. Marx stressed that workers’ bargaining power diminishes further when unemployment and underemployment are high because the employed can be readily replaced by the “reserve army” of the unemployed outside the office, mine, or factory gates.

When an economy is growing rapidly enough to deplete the reserve army, workers will utilize their increased bargaining power to raise wages. But profits are correspondingly squeezed and businesses invest less in new projects. Job creation falls, which, in turn, replenishes the reserve army.

There is an unlikely parallel on this issue between Marx and the late conservative economist Milton Friedman. Like Marx, Friedman held that high unemployment results when workers can flex their bargaining muscles. Friedman made this claim by looking at a labor market without unions or pro-worker government regulations such as minimum-wage standards. In that context Friedman found a perfect balance: market competition forces businesses to hire workers at a wage exactly equal to the amount that they are worth. If wages are too low, businesses will not be able to attract qualified employees, and will fail. If wages are too high, businesses will see profits disappear, and will fail. In Friedman’s scheme anyone who chooses not to work at the appropriate wage is *voluntarily* unemployed. As such, for Friedman, the “natural rate” (a term he coined) of *involuntary* unemployment is always effectively zero in a free-market economy.

So, for Friedman, strong labor unions and minimum-wage mandates are themselves the most basic barriers to a full-employment economy. This Friedmanite argument has been the defining theoretical proposition of the neoliberal approach to unemployment. It represents a dramatic reversal of the perspectives that were dominant in the aftermath of the 1930s Depression and into the 1970s.

Those once-ascendant conceptions were associated with

A HIGH-EMPLOYMENT ECONOMY IS THE BEST TOOL FOR FIGHTING POVERTY.

the economist John Maynard Keynes. Keynes would have agreed with Friedman that full employment—that is, zero involuntary unemployment—is attainable under capitalism. But Keynes, who developed his argument during the Depression, understood the causes of mass involuntary unemployment in dramatically different terms. He blamed insufficiency in total spending in the economy—private investment, household and government spending, and imbalances of imports and exports—for mass involuntary unemployment. Keynes believed private investment decisions were especially important because they were subject to wide fluctuations at any given time, based on what he called private investors’ “animal spirits.” Animal spirits could fall for a number of reasons, including rising wages, import competition, or the bursting of a stock market bubble. Whatever the immediate cause of declining animal spirits, the impact would be a contraction of private investment. This in turn would produce mass involuntary unemployment.

Keynes believed that well-designed policies could counteract this tendency and thereby create and sustain full employment under capitalism. The Keynesian approach

centered on macroeconomic policy. This included the idea that central governments could use fiscal policy to produce deficits and surpluses, and monetary policy to adjust interest rates and the availability of credit. The effective combination of fiscal and monetary policy would be used to maintain a level of overall demand in the economy that supports full employment.

Keynes's arguments had a powerful impact. The Keynesian toolkit was critical to the full-employment goals of governments in advanced capitalist societies from the end of World War II until the rise of neoliberalism.

During this time Friedmanites on the right naturally challenged the Keynesian approach. But so did leftist critics, most forcefully Michał Kalecki, a Polish socialist economist and contemporary of Keynes. Kalecki argued that Keynes gave us sufficient technical understanding of capitalist economies to devise policies for sustaining full employment as well as business profits. But Kalecki suggested that

GLOBALIZATION NEED NOT TAKE A TOLL ON HIGH-QUALITY DOMESTIC EMPLOYMENT.

the fundamental obstacles to full employment under capitalism were political, not technical: even though businesses could gain from full employment, they would nonetheless oppose it because it would embolden workers excessively, threatening capitalists' control over the workplace, the pace and direction of economic activity, and even a society's political institutions.

These arguments led Kalecki to a striking conclusion: full employment was achievable under capitalism, but the most effective way of doing so while maintaining capitalists' social and political dominance was through fascism. Whether or not Kalecki was correct, he underscored dramatically the social and political challenges tied to building a full-employment economy.

THE CHALLENGE OF INFLATION

THE SWEDES DEVELOPED THE MOST EFFECTIVE ANSWER TO date to Kalecki's challenge—a non-fascist policy that can manage the conflicts that inevitably emerge between workers and capitalists in a full-employment economy. Their success turned on a solution to the most common argument against trying to operate an economy at full employment: the fear of excessive inflation.

In 1958 the British economist A.W. Phillips observed a long-term relationship between unemployment and inflation. Inflation, he found, goes up when unemployment goes down, and vice versa. This relationship has come to be known as the "Phillips Curve." The logic behind the Phillips Curve follows readily from Marx's idea that workers are able to bargain up wages when unemployment is low, causing profits to fall, which in turn means less business investment and a new round of rising unemployment. But Phil-

lips suggested that business profits need not be squeezed at high employment: businesses could pass on higher labor costs to customers through price increases, causing a wage-price spiral, i.e. continuing inflation.

Indeed, it was the failure of the advanced capitalist economies—in North America, Western Europe, and Japan—to contain inflation in the 1970s that allowed the full-employment goal to be eclipsed by Friedman's natural-rate theory. Economic policymakers worldwide became convinced that inflation resulting from low unemployment had become severe and uncontrollable.

But this global march toward Friedmanite economics misread the primary cause of high inflation in the 1970s, which was not low unemployment, but the two oil price shocks: the three-fold jump in 1973–74 and a similar spike in 1979. Nonetheless, those who would build a full-employment economy must address the issue of inflation.

Sweden is one country that did so. Its successful long-term model emerged from the work of the economists Rudolf Meidner and Gösta Rehn. Meidner and Rehn recommended using macroeconomic policy to stimulate overall demand in the economy and thereby expand the number of decent-paying jobs. But they understood that unacceptably high inflation could result if stimulus were the only tool for achieving zero involuntary unemployment. So they also favored limiting such policy interventions and settled for a more modest unemployment target of 3 percent. They believed some slack in the economy would keep upward wage pressure from producing headlong inflation.

Alongside restraints on job-stimulus policies, Meidner and Rehn supported the government's active labor-market interventions to help as many as possible of the remaining unemployed workers into jobs. These interventions included travel and relocation allowances, retraining programs, and other measures targeted at mopping up frictional unemployment.

The policy functioned with the cooperation of working people and their union representatives. Sweden's main unions accepted restrictions on job stimulus and their own wage demands in order to help fight excessive inflation as full employment approached. Sweden thus succeeded at maintaining unemployment at an average rate of 2.1 percent between 1960 and 1989. Inflation averaged a fairly high 6.7 percent, but this period includes the consequences of the 1970s' oil shocks. The shocks no doubt undermined the effectiveness of Sweden's approach, but the model worked for many years because of the unions' restraint in wage bargaining.

This approach could not be transplanted intact into the U.S. economy today, since the current U.S. labor movement is far less powerful than the Swedish movement of the 1960s–1970s. But the lessons from Sweden for American labor are more about general principles than specific his-

torical conditions. The U.S. labor movement should take it upon itself to design a workable full-employment program today, recognizing in that program the importance of inflation control. The unions should be specific as to how they could help achieve and maintain full employment with low inflation, building in relevant methods from the Swedish model. Through such measures, the representatives of U.S. workers could bring significant new voices to the debate over inflation as well as employment, rather than giving free rein over the management of inflation to the Federal Reserve and Wall Street.

Yet even if the Swedish model were modified to American realities, it is not clear that it would work. Despite their success, the Swedes largely abandoned their commitment to a full-employment economy in the early 1990s, shifting their priority much more toward inflation control. Between 1993 and 2006, unemployment rose to an average of 7.6 percent, while inflation fell sharply, to an average of 1.5 percent. Economist Helen Ginsburg and social worker Marguerite Rosenthal attribute the shift to “the growing power of Swedish business, pressures from globalization and the race to join the European Union, with its requirements for low budget deficits and inflation but none for low unemployment.” Meidner himself explained that as Sweden prepared to apply for E.U. membership at “the beginning of the 1990s . . . the Social Democratic government explicitly changed its priorities. The main objective was shifted from full employment to price stability.” The question, then, is whether the model has become unworkable in our contemporary globalized economy.

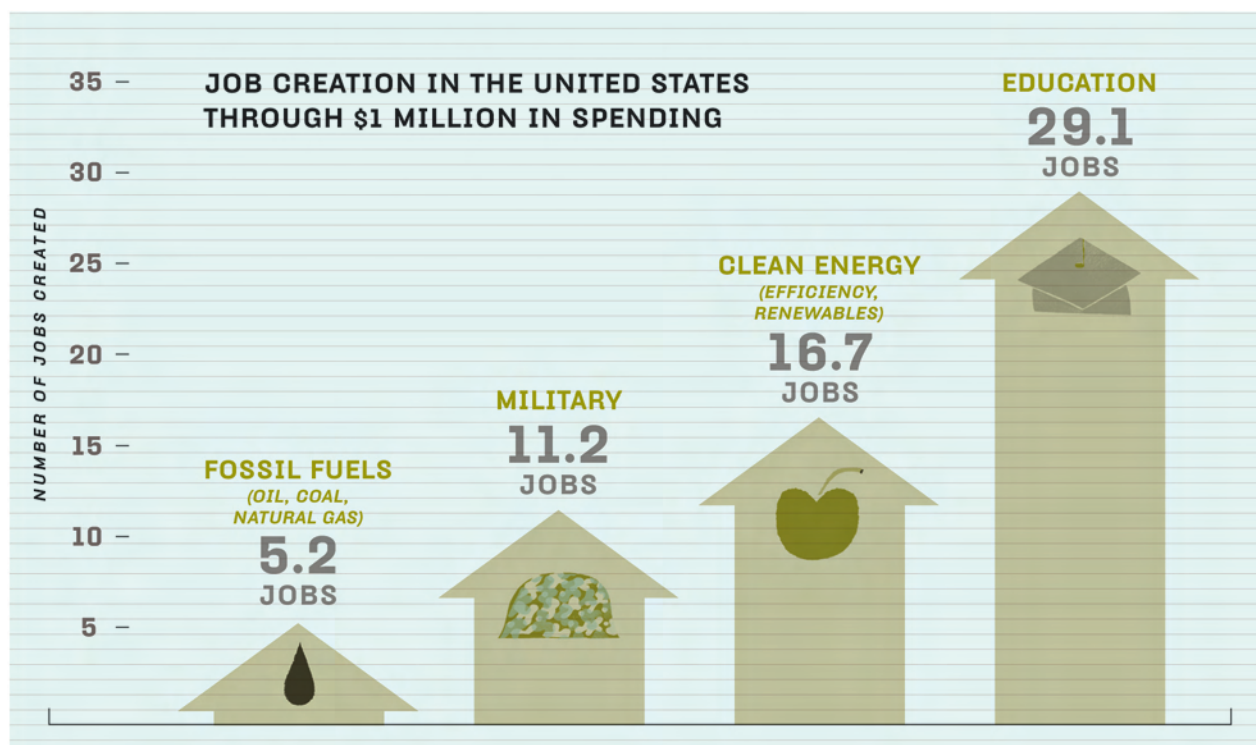
THE CHALLENGE OF GLOBALIZATION

Actually, the issue for the United States (and Sweden) today is not globalization per se, but the neoliberal policy framework that has defined the process of globalization for the past 35 years.

In the U.S. labor market, neoliberal policy has exposed working people to the credible threat of increased competition from workers in poor countries. Effectively, the reserve army of labor for jobs done by U.S. workers has expanded even though Americans consume—and will continue to consume—trillions of dollars of domestically manufactured products. The U.S. economy remains a nearly \$15 trillion operation, employing 140 million people. But U.S. workers *could* increasingly be supplanted by workers in poor countries willing to accept much lower wages. Employers can tell workers, “If you won’t accept a pay cut, we’ll move.” Or, “If you want a union, fine. We’ll start buying what you make from China.”

The drop in average wages since 1973 suggests the seriousness of this problem. In 2009 the average non-supervisory worker in the United States earned \$18.62 an hour (in 2009 dollars)—7 percent below the 1972 peak of \$20.20 per hour (also in 2009 dollars). But this is only half the story. While wages fell, average labor productivity in the United States rose by 105 percent. In exchange for being twice as productive as they were in 1972, American workers took a 7 percent pay cut.

Unless our policy environment changes dramatically, these threat effects will become more pronounced. This point was brought home in a 2006 *Foreign Affairs* article



by Blinder, the Princeton economist. Blinder argues that 20–30 percent of U.S. jobs (up to 40 million jobs) can be performed by workers in poor countries. He includes all manufacturing jobs as well as what he calls “impersonal service” jobs, which can be performed over the Internet—the work of, among others, back-office accountants, lawyers, engineers, architects, and laboratory technicians, as well as their support staff. This doesn’t mean that anything like 40 million jobs will actually be outsourced. The point is that the employers of these 40 million workers gain leverage over wages and working conditions from credible threats to outsource.

But while outsourcing is a critical challenge, globalization need not take a toll on high-quality domestic employment. Despite intense pressures from globalization in the late 1990s, unemployment in the United States fell below 4 percent for the first time since 1969. The long-term decline in wages then temporarily reversed itself. Workers attained

EDUCATION AND CLEAN-ENERGY INVESTMENTS ARE THE MOST EFFECTIVE SOURCES OF JOB CREATION.

better health and pension benefits. The poverty rate declined. The patterns we observed in the 1960s quickly began to reassert themselves.

The experience of the late 1990s doesn’t provide a usable model for full employment since the economic growth that drove employment was based on an unsustainable stock-market bubble much like the housing bubble that we’re still recovering from. But it does suggest some important lessons.

One notable feature of the 1990s experience is that the United States reached near-full employment while the share of immigrant workers in the labor force was roughly equal to today’s. This puts lie to the increasingly vocal perspective that the current jobs crisis is a result of immigrants taking jobs that should be filled by native workers and suggests that immigration would not be a barrier to full employment.

Another misconception about unemployment is that it is increased by the trade deficit—the value of imports minus exports. The current U.S. trade deficit is similar to that of the late 1990s. Yet now, one popular, bipartisan job-creation strategy calls for increasing exports of U.S. goods and services while importing less. This would lower the value of the U.S. dollar relative to the euro, yen, British pound, and yuan, making U.S. exports cheaper on foreign markets and foreign imports more expensive in the United States. Of course, other countries are equally interested in creating more jobs at home by increasing exports and lowering imports and are prepared to retaliate against U.S. actions to lower the value of the dollar. The most likely effect of such efforts is a series of currency skirmishes between countries whose workers would see little benefit.

The lesson is clear: we can approach full employment

with rising wages even after allowing for current levels of global integration, immigration, and trade deficits. The problem, then, is not globalization itself but the absence of a full-employment agenda designed to address the challenges of globalization.

CREATING JOBS: EDUCATION AND CLEAN ENERGY

WHAT KIND OF FULL-EMPLOYMENT POLICY COULD WORK IN our globalized age?

At its foundation, such a policy would channel more public and private investment in the United States toward those industries that efficiently generate an abundance of good domestic jobs. Using data I developed with colleagues at the Political Economy Research Institute (working directly from the industrial surveys and input-output tables of the U.S. Department of Commerce) we can ascertain the job-creating effects of spending in various sectors of

the U.S. economy. Consider four possible areas of investment: education, the military, clean energy, and fossil-fuel energy. By a significant margin, education is the most effective source of job creation among these alternatives—roughly 29 jobs per \$1 million in spending. Clean-energy investments are second, with about seventeen jobs per \$1 million of spending. The U.S. military creates about twelve jobs, while spending within the fossil-fuel sector creates about five jobs per \$1 million.

These figures combine three categories of job creation: direct, indirect, and induced. Direct jobs are those created by an activity itself, such as building a wind turbine, hiring school teachers, opening a military base in Afghanistan, or transporting oil from the Persian Gulf to Houston. Indirect jobs are those generated by businesses providing equipment to support the direct activities, such as steel manufacturers supplying a wind turbine manufacturer, or a paper company providing office supplies to a school, military base, or an oil company’s corporate headquarters. An induced job is generated when people who are newly hired—either through direct or indirect job creation—spend the money they have begun to earn. This is frequently termed the “multiplier effect” of direct and indirect job creation. Small businesses, in particular, benefit from such multiplier effects thanks to the market opportunities that direct and indirect job creation can generate—think of a lunch counter at a wind-energy work site.

Two main factors account for the differences in job creation across sectors. The first is relative labor intensity, i.e., how much of the investment is expended on hiring as opposed to plant. For example, a clean energy–investment program utilizes far more of its overall budget on hiring than on acquiring machines, supplies, property (either on- or offshore), and energy itself. The second factor is relative domestic content per overall spending. The clean-

energy sector relies much more than the fossil-fuel sector on economic activities taking place within the United States—such as retrofitting homes or upgrading the electrical system—and less on imports. While average wages in both education and clean energy are 10–20 percent lower than those in the military and fossil-fuel sectors, the absolute numbers of jobs created in education and clean energy are so much higher than in the other sectors that these investments produce far more high-paying as well as low-paying jobs.

What would happen if we transfer 25 percent of total spending in the military (\$690 billion) and fossil-fuel (\$635 billion) sectors—that is, about \$330 billion per year—in equal shares to education and clean energy?

Before assessing the effect that this shift in spending priorities would have on employment, we should also recognize its crucial and complementary political and environmental benefits. Reducing the Pentagon's budget by 25 percent would return military funding to its pre-Iraq and Afghanistan levels, which is consistent with the Obama administration's stated commitment to ending those wars while otherwise maintaining the military at roughly the level that prevailed at the end of the Clinton presidency.

Meanwhile, cutting spending on fossil fuels and transferring it to clean energy furthers the imperative of controlling carbon-dioxide emissions to fight global climate change. If we are going to meet the widely recognized minimum reduction target necessary to stabilize average global temperatures at acceptable levels—80 percent below our 2000 level by 2050—we will need to reduce fossil-fuel spending by far more than the \$165 billion per year proposed here.

Finally, transferring that same amount each year into spending on education could, for example, drop the average classroom size nationwide from 23 to nineteen students, increase the average financial-aid award for college students by \$1,500, and enable substantial improvements in school buildings. There are many appropriate combinations of these and other priorities.

Returning to employment effects, by redirecting \$330 billion annually from the military and fossil-fuel sectors to education and clean energy, we would create about 4.8 million more jobs assuming no change in total spending. The job expansion would be across all sectors and activities: there would be new opportunities for highly paid engineers, researchers, lawyers, and business consultants as well as for elementary school teachers, carpenters, bus drivers, cleaning staff at hotels, and lunch-counter workers at wind-energy construction sites.

With 4.8 million new jobs, the present unemployment rate would decrease by about one-third, from 9.6 to 6.5 percent. This kind of large-scale shift in spending will not occur rapidly enough to affect unemployment right now,

but it would change the overall employment picture over the next few years. For example, assume that through some combination of normal recovery and interventions from the Obama administration and the Fed the unemployment rate would fall over the next two years to 7 percent. If a shift in spending created 4.8 million additional jobs, that 7 percent unemployment rate would fall to about 3.9 percent. Remember that when unemployment dropped below 4 percent in the 1960s and 1990s, workers also saw major gains in bargaining power and rising real wages. Poverty also fell significantly in both periods.

THE POLITICAL CHALLENGE

WE CANNOT ASSUME THAT EVERYTHING ELSE ABOUT THE U.S. labor market would stay the same after 4.8 million new jobs were created through this kind of policy initiative. There would no doubt be skill shortages in some areas and labor gluts in other areas. There would also be a rise in inflationary pressures. These pressures would have to be managed creatively, with labor representatives playing a leading role.

More broadly, setting full employment as the centerpiece of economic policy would entail a fundamental break from the Friedmanite/neoliberal model. The Great Recession is the disastrous, if logical, culmination of the neoliberal project. Putting an end to neoliberalism will require nothing less than an epoch-defining reallocation of political power away from the interests of big business and Wall Street and toward the middle class, working people, and the poor,

FULL EMPLOYMENT IS A MORAL IMPERATIVE FOR CREATING A DECENT SOCIETY.

while mounting a strong defense of the environment. Businesses will still be able to earn healthy profits in a full-employment, low-carbon U.S. economy.

Much else must be in place in order to achieve these aims. Pressingly, we need a financial-regulatory regime that channels private funding toward productive, employment-generating activities—not the Wall Street Casino. But rather than addressing every social and political force prevailing on issues of employment, it is enough to focus on two fundamental points: full employment remains a moral imperative for creating a decent society, and full employment is attainable in the United States today. And here I mean full employment that looks something like Sweden's in the 1960s and 1970s, not fascist or Bolivian full employment.

Whether full employment is ever achieved in the United States is a matter of political will. Is there the political will, in the United States, to fight for something as basic as the right to a decent job? This is the gigantic political question before us, as we struggle our way out of the Great Recession. **BR**



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FULL EMPLOYMENT is already a statutory objective of the U.S. government. I know—I helped to write the law.

In 1976, as a young staffer for the House Banking Committee, I was tasked to a working group led by Congressman Augustus F. Hawkins; Leon Keyserling, the second Chair of the Council of Economic Advisers; and other liberal stalwarts. Together, we drafted what in 1978 became the Humphrey-Hawkins Full Employment and Balanced Growth Act.

My responsibility was to craft obscure provisions amending the Federal Reserve Act in an effort to ensure that the central bank would play ball. Eventually the goals of “full employment,” “balanced growth,” and “reasonable price stability” were written into the preamble of the law—oddly some now call them the “dual mandate”—and the central bank was ordered to report semiannually to Congress on progress toward these objectives. It has been doing so ever since.

In fact the Federal Reserve Act amendments were the only part of Humphrey-Hawkins that worked out. The Senate cut the planning heart from the bill. The press was hostile. Enactment changed nothing at the Carter White House. I skipped the great luncheon called to celebrate

the bill’s passage and turned to writing my first published article, entitled “Why We Have No Full Employment Policy.” Into the early 1980s I organized the Humphrey-Hawkins hearings, at which Federal Reserve Chairman Paul Volcker would defend the savage monetarism that had ripped open America’s industrial core and driven unemployment to 11 percent. A sense of irony came in handy.

The Humphrey-Hawkins hearings did help to establish—in law, the Federal Reserve, and the minds of the public—that under the Constitution the Federal Reserve must account to Congress. In the hands of more capable members, Congress has sometimes used the hearings effectively. There is wide agreement that accountability has improved monetary policy, protecting the Fed from the reactionary dogmatism prevalent in Europe. The Fed also now values the hearings as opportunities to communicate with the public—something it rarely did before. A few deeply gullible mainstream economists even credited this process with bringing on the “Great Moderation” in economic outcomes—but that was before the crisis, of course.

None of this amounts to a full-employment policy—not even close. No part of the government acted as though the mandates mattered. The interim goals of Humphrey-Hawkins—4 percent unemployment and 3 percent inflation—were not achieved for twenty years. They were achieved, though, and a useful effect of that achievement was to refute the nonsense notion—until then barely challenged—that runaway inflation would necessarily result from full employment. But the success was transient, like the information-technology bubble that produced it.

This history shows that you cannot make elite policymakers do what they do not wish to do, simply by ordering them to do it. You can write the law. You can specify the tools that should

be used. You cannot make policymakers use them if they don’t want to. And if you ever do get the result you want, it will likely be via a route you did not choose—a bubble, for instance—and with costs that you did not wish to pay. Truly changed policy requires changed policymakers.

The early postwar sensibility—expressed in the 1946 Employment Act—favored “maximum employment, production and purchasing power.” The goal was to prevent a return to the Depression. The United States was a great manufacturing economy, and the law took advantage of this—the factories should be used and the workers employed, full speed ahead.

Now, with 15 million unemployed, Robert Pollin calls for a new emphasis on full employment. But how do we

WE NEED STABLE INSTITUTIONAL FUNDING, PLANNING, AND EXECUTION OVER TIME—AN INFRASTRUCTURE BANK.

reach it in our present world? A revival of New Deal shovel projects would be foolish—these days that sort of work is done mostly with machines. A general expansion of demand would create jobs, many of them in China. A new bubble (in what?) would be unsustainable. And we have issues of energy and climate that weren’t there in 1945.

Thus strategy going forward should emphasize concrete acts consistent with full employment and other necessary goals. Why not rebuild the country to meet our energy needs and cope with climate change? Putting these in a stimulus bill doesn’t work: when the political winds turn, the projects get canceled. We need stable institutional funding, planning, and execution over time—just the sort of thing delivered best by an infrastructure bank.

An aging population needs high-quality care. We should create competent and flexible agencies to meet those needs. Higher Social Security

benefits would also help, covering some of the vast losses inflicted by the crisis. We could use a neighborhood preservation corps to maintain or demolish abandoned housing and reduce blight. Other local public services—schools, firefighting, police, parks, libraries—should be supported through revenue sharing for the duration of the fiscal crisis.

Finally, let's recognize that millions of workers hit hardest—especially older workers—will never find decent work at any plausible pace of new job creation. Unless something is done, they will grow old filing unemployment-insurance claims and holding transient and mediocre jobs, while new work goes to younger, cheaper, healthier, and more docile people. It's a futile, ugly waste of their lives.

So how about a temporary early-retirement package—something like full Social Security and Medicare benefits at the early-retirement age of 62, for the next three years? If people retire, joblessness goes down. And the newly retired become sources of demand for labor rather than weak and frustrated competitors for jobs. It's not the solution for all time, but among all the proposals I've heard, it's the only one that, if done right, would work quickly on a large scale.

In short: full employment, let's do it—but in ways and for reasons that fit today's world.



ANDREW P. MORRISS & ROGER E. MEINERS

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THANKS TO assorted special interests and inept government officials, we have now witnessed the worst economic crisis since the Great Depression. Yet Robert Pollin avers that

other special interests and officials can revive the economy if they'll make the right choices about where to invest billions of dollars borrowed from future generations. We're skeptical. Here are three reasons why.

First, while some details of the causes and consequences of the economic crisis are still emerging, we know that part of the problem arose from the excessively easy credit policies followed by the world's central banks, particularly the Federal Reserve, after 2001. Another cause was the politically driven misbehavior of the giant government-sponsored enterprises Fannie Mae and Freddie Mac. And we know the immunity from liability that the government provided to credit-rating agencies, together with inept regulation of them, destroyed the functioning of market signals of credit-worthiness.

If you still doubt the inability of government regulators to handle complex financial matters, look no further than the Securities and Exchange Commission (SEC). The SEC failed to recognize the fraud committed by Bernard Madoff even as Harry Markopolos, a private citizen, repeatedly blew the whistle. This is only one example of the government's terrible record with respect to economic management.

The "failure of the neoliberal project" is a catchy slogan, but it ignores the fact that policies advocated by Pollin suffer from the same structural problems as those that caused the crisis to begin with.

Second, Pollin's plan is a repackaging of the failed policies of the Nixon-Ford-Carter decade of inflation and unemployment. During those years, the federal government intervened massively in pursuit of full employment. The Federal Reserve was instructed to make full employment a policy goal equal in importance to controlling inflation. It didn't work. Unemploy-

ment fell only when Federal Reserve Chairman Paul Volcker's tight-money policies broke inflation and President Reagan's tax cutting and deregulatory efforts encouraged entrepreneurs to create jobs.

The Nixon-Ford-Carter failures included not only the same kind of economic policies that Pollin promotes, but also the same sort of en-



JOB CREATION IS LESS DIFFICULT THAN POLLIN WOULD HAVE US BELIEVE.

ergy plans. During the 1970s the federal government launched expensive green-energy schemes. These included multi-billion-dollar research and development programs that Pollin's predecessors claimed would free us from foreign oil by producing gasoline from coal, "free" electricity from solar and wind energy, and energy-conservation to cut consumption.

Rather than leading to a clean-energy future, the programs squandered billions of dollars. Rather than progress toward a cleaner environment, efforts to combine environmental and job-creation goals led to the appalling special-interest deal-making of the 1977 Clean Air Act Amendments, documented in Bruce Ackerman and William Hassler's landmark *Clean Coal / Dirty Air* (1981). The Amendments shifted electricity production away from less-polluting low-sulfur coal by favoring dirty high-sulfur coal in pursuit of employment goals in places such as West Virginia. Such special interest-driven energy policy is repeated today with corn-based ethanol, now recognized as an environmentally

destructive, expensive failure that has driven up food costs for the world's poor. The green-energy record is a series of failed technologies and special-interest pork.

Perhaps the bureaucrats and politicians who direct today's programs are wiser than their predecessors and will avoid the mistakes and special-interest giveaways of the past. But let's see some evidence of this before we gamble our children's environmental and energy futures on claims of good intentions and superior knowledge. The recent stimulus program has failed: the money did not produce jobs or growth. Stanford economist John Taylor, drawing on his own research, testified before Congress that government spending in the stimulus package was uncorrelated with improved economic growth. Allocation of the stimulus money was dictated by politics rather than economic sense. Should we anticipate otherwise in the case of green-energy investment?

Third, even if we could solve the special-interest pork problems, avoid repeating the failures of the 1970s, solve the regulatory-competence issues illustrated by the SEC's failures, prevent the Federal Reserve inflating a new bubble, correct the incentive problems of the credit-rating industry, and somehow fix Fannie and Freddie, we'd still be left with a major problem. The green-energy programs Pollin proposes will destroy jobs, not create them. Solar, wind, ethanol, and the rest of the green pantheon are all more expensive sources of energy than are fossil fuels, large hydroelectric installations, and nuclear power. That's why Iowa corn farmers and corporate interests such as Archer Daniels Midland need subsidies to manufacture ethanol. Energy costs make up about half the cost of producing food, medicines, and consumer goods. What Pollin is proposing is to increase the cost of virtually everything American workers buy by borrowing money from their children and handing that money over to special interests drawn to politics like flies to honey.

Creating well-paying jobs is less difficult than Pollin would have us believe. The United States has done it time and again, as it transformed from an isolated, agricultural backwater in 1800 to the world's leading economy. Secure property rights and relatively low taxes unleash entrepreneurs and inventors to create wealth and jobs. Sensible, stable tax policy would both encourage employers to hire and consumers to spend much more than will politicized pork-barrel spending. If more rapid innovation in energy production is necessary, then we should rely on prizes for performance, which have successfully sparked innovation in everything from navigation to space flight.

Let's learn from our mistakes, not repeat the policy debacles of yesterday. We don't need to go back to the failed Nixon-Ford-Carter energy and economic policies. We need to nurture an economy in which entrepreneurs are able to compete to create new technologies, jobs, and wealth, without political interference.



LANE KENWORTHY

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I SHARE Robert Pollin's view that the United States should strive for full employment—by which I mean, following his lead, an unemployment rate below 4 percent.

Can we do it? Pollin points to two historical precedents as grounds for

optimism. The first is Sweden from 1960 to 1989. Sweden succeeded in keeping unemployment below 4 percent throughout those three decades by coupling employment-oriented monetary and fiscal policy with wage restraint. But Sweden's central bank at that time was subordinate to the government. Ours, the Federal Reserve, is independent. Since the late 1970s, independent central banks such as the Fed have almost always prioritized low inflation, rendering low unemployment difficult to achieve. If the Fed isn't onboard, even a workable plan for full employment supported by the American public and elected officials probably won't be enough.

What about Pollin's second precedent, the United States in the late 1990s? During those years the Fed, under Alan Greenspan, did keep interest rates low enough for the unemployment rate to drop below 4 percent. But Greenspan held rates low despite opposition from other Fed board members, who were concerned about potential inflationary consequences—particularly given the Internet-driven stock market bubble. Greenspan took this stance in part because his belief in the self-correcting nature of markets led him to worry less than others about the bubble. In light of the painful consequences of the 2000s real estate bubble, I doubt we'll see the Fed take that approach again for some time.

Even if sub-4 percent unemployment is possible, do we need it? Here a cross-national perspective is instructive. The following charts show indicators of Pollin's desired outcomes—decent pay, low poverty, good working conditions—in twenty rich democratic nations. Each outcome is plotted against the number of years from 1979 to 2007 in which each country had sub-4 percent unemployment.

These charts tell us that while full employment may contribute to good outcomes, it isn't a necessary condition. In each case some countries have done well despite seldom or never reaching sub-4 percent unemployment.

ment during the measurement period. In certain instances this is a function of strong unions or “production regimes” (think German manufacturing) that are unlikely to be relevant in the American context. In others, though, successful outcomes have owed much to government action.

This is good news because Americans have more influence on the policy choices of the government than on those of the Fed. Whether or not we return to full employment, we can reach important economic and social goals.

Yet I fear this conclusion is too optimistic. I’m confident that the United States could achieve satisfactory economic growth, a reasonably high employment rate, decent wages, poverty reduction, good working conditions, and less discrimination even in the absence of full employment. I’m less

convinced that the country can manage sustained wage growth for those in the *bottom half* of the distribution.

The post–World War II experiences of the rich democracies suggest three routes to rising working- and middle-class wages. One is an environment in which firms face only moderate competition in product markets and limited pressure from shareholders, allowing them to pass on a significant share of growth to their employees. This characterized the period from the late 1940s through the mid-1970s, but it’s now long gone. The second is strong unions. I see little hope of that in America’s future. The third is full employment.

Is there an alternative? One possibility is to use the Earned Income Tax Credit to subsidize wages. Congress could extend it higher in the income

distribution (currently it phases out at about \$45,000), reduce its connection to children (currently it’s minuscule for households with no kids), and index it to average wages (it’s now indexed to inflation).

I would prefer the full-employment path that Pollin envisions, in which wage growth comes from firms rather than from taxpayers. But we ought to have a backup plan.



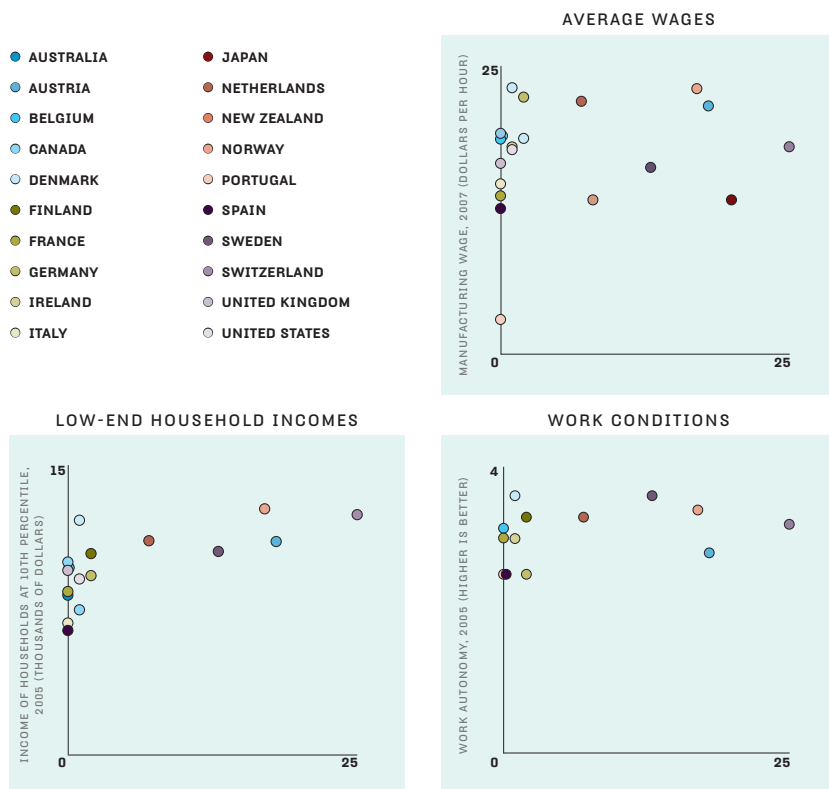
JAYATI GHOSH

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GOOD OUTCOMES DON'T REQUIRE FULL EMPLOYMENT.

THE NUMBER OF YEARS BETWEEN 1979 AND 2007 IN WHICH TWENTY RICH, DEMOCRATIC COUNTRIES EXPERIENCED SUB-4 PERCENT UNEMPLOYMENT (HORIZONTAL AXIS OF EACH CHART) DOESN'T NECESSARILY CORRELATE WITH POSITIVE SOCIAL INDICATORS.



ROBERT POLLIN has identified the central challenge of economic policy today: how to sustain high employment levels and jobs with decent wages and conditions. This argument is relevant not only for the U.S. economy, but also for much of the developing world, including its “successful” countries in which large increases in GDP have not translated into high-quality employment.

Over the past two decades, most developing countries have relied on an economic strategy focused almost exclusively on exports to rich markets. This strategy delivered rapid growth in a few countries, such as China, but failed to do so in most others. Furthermore, countries that rely on exports for growth need to prioritize competitiveness in global markets, which means low wages and a currency kept cheap relative to the dollar, euro, yen, and

SOURCES: EUROFUND'S FOURTH EUROPEAN WORKING CONDITIONS SURVEY, LUXEMBOURG INCOME STUDY, OECD, U.S. BUREAU OF LABOR STATISTICS. DOLLAR AMOUNTS ARE IN 2007 U.S. DOLLARS.

British pound. This is why, even in the economies that showed great success as exporters, levels of consumption by the overwhelming majority of working people have largely remained stagnant.

The export strategy also generated fewer jobs than projected. The demand for efficient production drove large investments in capital and less in workers. As a result, in developing countries that are exporting manufac-

FULL EMPLOYMENT MAY BE EVEN MORE NEEDED AND POSSIBLE IN DEVELOPING COUNTRIES.

tured goods, labor productivity in the export sectors has risen quickly, but job growth has not kept pace.

Even in China, total industrial employment decreased by more than 8 million workers between 1997 and 2002. Since 2004 it has since stagnated at 230 million, even though industrial production has more than doubled. In other export-oriented developing countries, manufacturing employment has remained stagnant or fallen slightly. There has not been a movement of jobs from North to South; rather, international competition has generated greater and greater use of labor-saving techniques that have caused manufacturing jobs everywhere to disappear.

The export model also had adverse effects on residents of developing countries working in small-scale agriculture and related traditional activities such as small industry and petty trade. In many countries, including India, a prolonged and widespread agrarian crisis has persisted regardless of global trade prices. Farmers have had to cope with constantly rising costs of fertilizer, seeds, pesticides, and other inputs, along with volatile markets for their products. They have also faced reduced access to credit, as the export model shifted subsidies away from small-scale producers in favor of exporters.

Nor has the export model generated discernable gains for perhaps the larg-

est part of the workforce in most developing countries: informal workers, such as agricultural day laborers, urban street vendors, or home-based textile workers. Women are disproportionately represented in such jobs, which pay poverty-level wages or worse.

So the export strategy generated greater inequality within the exporting countries. It also sowed the seeds of its own destruction by generating downward pressures on the prices these exports could fetch on global markets. The export model cannot be pursued much longer, especially in large developing countries.

The global economy has reached the point where rebalancing must begin, as developing countries grow increasingly on the basis of their own expanding markets. The other side of this global rebalancing is that the large trade deficit in the United States will correspondingly diminish.

This process of global economic rebalancing was initiated by the financial crisis and is now likely to accelerate through the fragile and unstable recovery. It makes sense, then, as Pollin argues, to shift the U.S. economy toward a domestic wage-led growth model.

But can a wage-led growth model be successfully advanced in developing countries? In those with relatively strong institutions that can affect the labor market—including collective bargaining, effective minimum-wage legislation, and the like—it might. For the majority of developing countries, however, such institutions are poorly developed and have little impact on informally employed workers. Still, the wage-led model is feasible and desirable if the focus of policy shifts toward inclusive growth and job creation. This means directing resources to the sectors in which the poor work, areas in which they live, and goods that they consume.

Public employment schemes can play a direct and positive role in such efforts. For example, in India

the Mahatma Gandhi National Rural Employment Guarantee Act of 2006 is designed to ensure 100 days of employment to every rural household in local public works planned and monitored by local bodies. In the recent crisis, this program became an important buffer against economic shocks and reduced distress migration. The Act has the potential to increase not only the living standards of rural workers, but also demand for local goods and services. Meanwhile rural infrastructure and land productivity will improve.

In addition to such schemes, India and countries in similar situations should focus more on the public delivery of essential goods and services including decent, affordable housing, transportation, food, education, and health care. These are usually seen as welfare measures, but they also can support a growth strategy, as shown by all of the successful Asian industrializers. In addition to enhancing living conditions, these programs allow residents to retain income to spend on other goods, thereby expanding the domestic market. And this in turn means that the economy has to rely less on exports as the basic engine of growth.

Whatever growth is achieved must be ecologically sustainable. That requires creating incentives for more ecologically sound forms of consumption and production.

Pollin's proposal—that, even in the context of a globalized world economy, the United States should pursue a full-employment economy with decent working conditions—may be even more appropriate for developing countries. That such a plan may even be possible also suggests that the current atmosphere of animosity between workers in developed and developing countries is both unnecessary and counterproductive. A change of economic perspective is mainly what is needed as we work toward a better world for all.



EILEEN APPELBAUM

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ROBERT POLLIN makes a compelling case for the centrality of full employment to the creation of a decent society, to the ability of individuals and families to live with dignity rather than despair, and to the overall health of an economy in which consumer spending is key to sustained growth. His capsule history of economic thinking on the causes of unemployment and the tradeoff between employment and inflation—from Marx to Milton Friedman to Gösta Rehn—is informative, and his main policy recommendations are difficult to argue with: increase employment in the United States by shifting \$330 billion in annual spending from the military and fossil-fuel sectors to public and private investments in education and clean energy for a net gain of 4.8 million jobs.

I do have one quarrel with the analysis. Pollin observes the low unemployment achieved by the U.S. economy in the late 1990s despite globalization and accepts this as evidence that the United States doesn't have to address its trade deficit to achieve full employment. But this was possible only in a bubble scenario. With a high trade deficit, either the public or private sector (the latter, in the 1990s example) must incur debt in order to maintain high employment. Reducing the trade deficit is essential to sustain-

ing full employment without a repeat of bubble boom and bust.

Pollin's central argument, however, is sound, though it might benefit from further elaboration. I take as my starting point his definition of full employment—with which I am in full agreement—as not simply workers scratching out a living somehow but as an abundance of jobs with decent wages and working conditions. This definition of full employment raises two issues that need to be confronted: first, the implications of employers' increased power over workers vis-à-vis wage setting, and second, the implicit willingness of policymakers to count as employment care-work jobs that pay poverty wages. Without this fiction, achieving full employment is a far more difficult proposition. If full employment means jobs for all at decent wages, then we need to be concerned about both re-employing the millions of men who lost jobs in manufacturing and construction *and* about wages and job quality in the rapidly expanding care-work sectors in which millions of women labor.

On the wage front, the decline in unionization means that older ideas of wages as the result of a grand bargain (or great struggle) over the division of productivity gains are no longer relevant. Unions are not the countervailing force they were in the quarter century from 1948 to 1973, able to compel employers—through direct negotiations and the “union threat effect” at non-union companies—to agree to a reasonable division of a growing economic pie.

From the point of view of today's employers, the notion of wages as a means of securing a decent standard of living for Americans is so last century. At a meeting of the Philadelphia chapter of the National Association of Business Economists, I asked the owner of a medium-sized business whether his employees' wages were rising along with increases in pro-

ductivity. “I make it. I take it,” he answered. Like most employers—and any manager who has taken a course in human-resource management—he believed that the wage functions to provide workers with an incentive to show up for work and do what managers expect. His workers show up for work—proof that he is paying them fairly.

This represents a corruption of what economists call “efficiency wage” theory. The theory holds that when companies pay employees more than they can earn elsewhere, workers respond with extra effort and greater productivity. Whether they realize it or not, employers use this concept as a cudgel. A manager at Motorola explained that his company pays workers at the 70th percentile of wages for their occupation. That way, workers know that if they don't perform and lose their jobs, there is a 70 percent chance their next job will pay less. In other words, wages are de-linked from productivity and only increase if wages rise generally. But with in-

ASKED IF EMPLOYEES' WAGES RISE WITH PRODUCTIVITY, A MID-SIZE BUSINESS OWNER ANSWERED, 'I MAKE IT. I TAKE IT.'

novative companies playing a lagging rather than a leading role in wage setting, prospects for a general rise in wages are dim.

In the large and growing care-work sector, the increased ability of employers to dictate wages intersects with traditional views of the day-to-day care of the most vulnerable members of society. Aid to the young, the old, the disabled, the frail, and the sick is seen as work that requires only the intrinsic abilities of the women who do it. Workers typically receive minimal on-the-job training, and median pay is in the bottom quartile of the income distribution: just over \$21,000 a year in 2008 for workers with full-

time hours. More than 4 percent of Americans employed in 2008 were home-health workers, personal- and home-care aides, nursing aides and orderlies, medical assistants, child-care workers, and teaching assistants. That is slightly more than the share of all mathematical-, computer-, biological-, physical-, and social-science, and legal jobs. The Bureau of Labor Statistics projects that 10 percent of total U.S. job growth by 2018 will come from the care sector. Wage increases such as those experienced in the late 1990s—due not only to full employment but to increases in the minimum wage in 1996 and 1997—would raise median wages in these care-work jobs to just above the poverty line.

As Pollin remarks, the changes required to get to full employment at decent wages “will require nothing less than an epoch-defining reallocation of political power away from the interests of big business and Wall Street.” What constellation of social forces can accomplish this transformation is unclear. That it is essential for creating a decent society, however, could not be more certain.



MICHAEL J. PIORE

David W. Skinner Professor of Political Economy at MIT



THIS IS a particularly bleak moment for those who share a progressive vision of American society. A just economic and social order seems

increasingly remote. Citizens are less and less able to realize their personal aspirations, let alone their true potential as human beings. As individuals and as a nation, we are beset by continual economic anxiety.

It is also a moment of great disappointment. After eight years of a conservative Republican administration that rejected any social vision—and almost 30 years of policy guided by a neoliberal philosophy of the market as template for all social and economic activity, and of human motivation understood as narrow individual self-interest—we elected a president whose campaign rhetoric seemed to articulate a progressive vision and whose policy program pointed to ways of achieving it. But in office President Obama has failed to provide the leadership that his campaign promised. Indeed the gap between the rhetoric of the campaign and his conduct in office leads one to wonder whether he actually shares that vision at all, or has any faith in the possibility of realizing it through public policy. Thus it is particularly important at this moment to reassert such a vision, linked to a program of action. Robert Pollin’s proposal is a welcome contribution to this effort.

Pollin’s focus on employment is critical. Unemployment’s impact extends well beyond the nearly 10 percent of the population counted as out of work and is probably the chief motor of anxiety in society as a whole.

Nonetheless, one has to wonder whether unemployment is the right target—and full employment the right goal—on which to center a progressive agenda.

Will an understanding of its causes and cures teach the right lessons about public policy?

Until the current crisis, unemployment had not been the major problem. In the 1990s, and again in the last decade, the economy was able to reach and sustain levels of unemployment relatively low by historical standards.

The problem was not the quantity but the quality of the employment opportunities—in particular the deterioration of working conditions at the bottom of the labor market, the increasing inequality of income, and the stagnation of wages in spite of productivity gains.

There is, moreover, no consensus even among progressives about why the economy is not returning to full employment in the recovery. High unemployment appears connected to the crisis, but it’s not clear how. The first of two common explanations suggests that it is a hangover of the crisis itself. Historically, every financial crisis of the magnitude the United States experienced in 2007 and 2008 seems to

IS FULL EMPLOYMENT THE RIGHT GOAL FOR A PROGRESSIVE AGENDA?

have produced in its wake persistently depressed conditions in the productive economy. Under these circumstances, government spending to make up for the deficit in demand is a crude policy. As a substitute for diagnosing the underlying causes of limited recovery and designing a set of policies to address them, it is basically a confession of ignorance.

The alternative explanation is that structural factors prevent a return to full employment: bottlenecks in the labor market, or, more plausibly, long-term trends in trade and technology that were obscured by the booms but are now playing themselves out. In this view, job opportunities, which would otherwise be created in the recovery, are instead going abroad or, in effect, being replaced by capital investment. Little evidence supports this interpretation, but the argument is reasonable. Here, too, the government-led job creation that Pollin proposes is not a substitute for understanding the effects of trade and technology or for policies that moderate their impact, if they are indeed unemployment’s root causes.

The major lesson of the crisis is not, I think, to be found through an exploration of the causes and possible cures of unemployment. It lies rather in the limits of the framework of neoliberal economics in which policy has been formulated over the course of the last 30 years and that apparently dominates the policy considerations of even the current administration. From this point of view, it is a mistake to focus on unemployed *labor*. There is widespread unemployment of all productive resources—labor, to be sure, but also of physical capital, the housing stock, and finance.

Standard economics is a science that defines itself in terms of problems posed by scarce resources in the face of unlimited desires. To say that a high proportion of productive resources are unemployed is to say that they are essentially free. This fact justifies deficit spending—the government is not diverting resources from other uses, it is absorbing resources that otherwise would not be used at all.

But while direct government intervention is called for today, we will eventually return to full or near-full employment and, with it, the economics of scarcity. Social and economic welfare will then be once again dependent upon the functioning of the private economy. If we do not use the failures of standard economics, which the crisis has revealed, to develop a broader understanding of that economy—one that recognizes a wider range of human motivation and forms of social organization aside from the market—we will remain prisoners of the neoliberal framework and the policies it produces. However important the job-creation agenda is at the moment, it can only be a start toward a new approach to social and economic policy.



REIHAN SALAM

Policy Advisor at e21



ROBERT POLLIN is right to see full employment as a desirable goal. But I am unconvinced by much that he says about how to achieve it.

First, Pollin notes, “unemployment would likely have risen to nearly 17 percent in the absence of the stimulus.” But according to the best current estimates, the fiscal stimulus proved far less effective, and for reasons that are instructive for employment policy.

The 2009 stimulus bill included a variety of temporary tax provisions aimed at low-to-moderate income households—Making Work Pay, the expanded Earned Income Tax Credit and Child Tax Credit, among others. The idea was that less affluent Americans were more likely to spend the proceeds than more affluent Americans, who were likely to save. But economists Matthew Shapiro, Claudia Sahm, and Joel Slemrod estimate that only 13 percent of households increased their spending in response to the temporary tax cuts (25 percent of households increased spending in response to the temporary tax cut of 2008). Shapiro, Sahm, and Slemrod found that more pessimistic households—ones that anticipated a decline in future income of 10 percent or more—were more likely to save the additional income than households

that had a more sanguine view of their economic prospects. So it seems that in the case of temporary tax cuts, at least, less affluent households are as attuned to their future prospects as more affluent households.

If these observations are generally applicable, they have striking implications for public policy. Stimulus plans that rely on deficit spending can be expected to lead to a heavier tax burden on future workers. But that expected burden will presumably lead low-income families to save, not spend, and that will dampen the prospects for a sustainable jobs recovery.

Second, it is worth thinking about what exactly we mean by full employment. It could be that different groups choose different combinations of household and market labor, and that some groups are more inclined to take part in the informal labor market. This last point strikes me as most salient in the American case.

Long before the Great Recession, the male labor-force participation rate was in sharp decline. Between 1979 and 2009, it had fallen by an extraordinary five percentage points, with the decline concentrated among less-skilled workers. Pollin might characterize this as a consequence of the “neoliberal revolution,” but that terminology is at best imprecise.

There are other reasons why men have been dropping out of work. One of them is mass incarceration. In *Re-*

WE NEED A MORE INCLUSIVE LABOR MARKET, NOT A GOVERNMENT JOBS PROGRAM.

connecting Disadvantaged Young Men, policy experts Peter Edelman, Harry J. Holzer, and Paul Offner outline the labor-market challenges faced by less-skilled men, particularly ex-offenders. Prison has badly damaged the employment prospects of millions of young Americans. Indeed, I’d suggest that the explosion in the prison population



has proven a far more powerful driver of the decline in male labor-force participation than the decline in marginal tax rates, the deregulation of trucking, airlines, and telecommunications, and other elements of neoliberalism. One could creatively attribute rising incarceration rates to rising wage dispersion. The trouble is that we've seen rising wage dispersion across virtually all of the advanced market democracies, yet the United States is unique in the scale of its incarceration crisis, which has its origins in the Rockefeller drug laws and other measures that preceded the neoliberal revolution.

Moreover, state agencies have grown more effective at garnishing the wages of non-custodial parents, usually fathers. So consider the choice faced by a young man who is an ex-offender: if he takes part in the formal labor market, he faces a punishingly high effective tax rate and intense labor market discrimination. If he instead enters the informal labor market, he faces great uncertainty but is able to draw on familiar social networks while retaining earnings and avoiding interaction with a state that he may not trust.

To address these problems, we need to create a more inclusive labor market by lowering barriers to entry. We might, for example, adopt the economist Edmund Phelps's proposal for wage subsidies, rather than imposing onerous mandates on employers. New mandates will exacerbate the problem of labor-market exclusivity. (And note that while wages have been fairly stagnant for many U.S. workers, *compensation*, particularly in the form of health benefits, has been increasing roughly in line with productivity gains.)

Productivity gains have been uneven across sectors and across firms. Within a sector, firms differ dramatically in output per worker, in part due to variation in organizational strategies. As Erik Brynjolfsson and Adam Saunders argue in *Wired for Innovation*, the 2000s saw the rise of "digital organizations," which use incentive

systems and decentralized decision-making to drive productivity gains. Inevitably, these incentive systems contribute to wage dispersion, as workaholics separate themselves from the pack. Digital organizations tend to be homogeneous in terms of skill levels. While public-sector productivity in the United States lags far behind levels achieved in Singapore, Sweden, Canada, Australia, and other advanced market democracies, our digital organizations flourish.

Crude, economy-wide productivity measures fail to capture the fact that many sectors of the U.S. economy are productivity laggards. But many workers in these lagging sectors have nevertheless enjoyed healthy compensation gains thanks to their political power. This may be a function of the American left's increasing focus on the interests of relatively privileged public-sector workers as opposed to those of workers on the margins of the economic mainstream.

The truly difficult question is how more workers and more firms can achieve the productivity gains we've seen in digital organizations. It seems that, as the economist Dirk Pilat observed in 2004, a key driver of productivity gains is "a process of search and experimentation, where some firms succeed and grow and others fail and disappear." A more heavily regulated labor market, in which political prerogatives play a more prominent role, will move us in a very different direction. But that seems to be the policy direction that Pollin prefers.

The danger of moving in that direction is that, again, we will create a more exclusive labor market, not unlike labor markets in Brazil and South Africa, where cosseted formal sectors enjoy a wide array of privileges while a large and growing number of workers are left to the vagaries of the informal market. That is not Pollin's goal. But his preferred policies will, I believe, do more to protect labor-market privileges than to create the more open and inclusive labor market that we need.



RUY TEIXEIRA

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ROBERT POLLIN convincingly demonstrates that full employment has huge social benefits and can plausibly be attained and maintained by sound policymaking. And he rightly ends his essay with a question: is there the political will to focus on this goal?

It seems there is not, and for several reasons. Start with public opinion. The goal of full employment is not the problem—Americans like the idea of jobs, and lots of them. But support for the means to get there is weak.

Any sustainable full-employment program would necessarily involve high levels of public investment. Keynes stressed government's role in such a project, and Pollin makes federal policy central to his proposal. But big public investment means big government spending, and there you start to lose voters.

The problem is not that the public is opposed to the *idea* of more government spending. In fact, voters typically favor such spending, particularly in the two areas Pollin emphasizes: education and clean energy. Rather, people are skeptical as to whether additional funds committed to these areas would be well spent. Today's public assumes that waste, inefficiency, and ineffectiveness are built into the federal government's way of doing things.

According to a recent poll I helped to conduct for the Center for American Progress and its “Doing What Works” government-reform project, 66 percent of the public believes federal programs and agencies waste “a lot” of taxpayer’s money, and 64 percent have little or no confidence that the government in Washington will actually solve a problem once it decides to do so. There are many similar examples of this lack of faith. Results from recent surveys tend to be particularly negative.

In addition to public ambivalence, there is the problem of political leadership. Without sturdy popular support, political leaders cannot easily embrace the public investment necessary to achieve and sustain full employment, much less the increased taxes likely needed to pay for it.

Moreover, many center-left political leaders do not believe that a Keynesian, public-investment program is necessary. They trust that businesses and the market can achieve something like full employment and sustain it with less government intervention than a Keynesian program would require. While the market fundamentalism of the last several decades, including its macroeconomic expression as New Classical economics, has been considerably discredited, it has not yet been replaced by a coherent alternative that could motivate the public investment we need.

We are caught in a decidedly incoherent middle ground, which grudgingly acknowledges a role for government but accepts as its guiding principle deference to business and the market. How else to explain the strange resurgence of what Keynes called the “Treasury view”—the idea that cutting budget deficits in the midst of a sputtering recovery will lead to healthy growth through the restoration of business confidence?

This bizarre, empirically bankrupt concept is alive and well in U.S. politics today. It certainly has more influence than a robust Keynesian commitment to full employment. And not just

among Republican lawmakers. Many Democrats appear to subscribe to this view, especially Blue Dog House members and conservative Senate Democrats. The Simpson-Bowles deficit commission’s plan is a testament to the Treasury view. The mainstream media, of course, including the editorial pages of our most distinguished papers, are awash in magical thinking about the economic benefits of rapid deficit reduction.

For many politicians and pundits, the Treasury view is supported by a profound misreading of the 2010 election results and of public opinion: only immediate action to cut spending and reduce the deficit will show the public that they “get it.” Deficit-hawk Democrats fear that the independent voters who defeated their party’s candidates in 2010 will turn them out of office in 2012.

This view is catastrophically wrong, and if Obama actually follows it, his chances of being reelected will plummet. Discontented voters were primarily driven by the state of the economy and the government’s perceived failure to improve it. This is particularly true of independents, who are true swing voters, not disguised partisans of one party or the other. These mostly white, working-class voters are inclined to punish whichever party is in power during lean times. Enhanced concern about the budget deficit and government spending flow from wider economic frustrations. In these voters’ eyes, deficits and spending are symptoms of the underlying failure of government to improve the economy. But the latter is the fundamental problem, not the former.

Post-election polls show that the public’s true concern lies not with deficits, but with the weakness of the economy. In a CBS/*New York Times* poll, a miniscule 4 percent of respondents thought Congress should concentrate first on the deficit/debt problem, while 56 percent thought jobs

and the economy should come first. In a Gallup poll, 9 percent thought the budget deficit was the most important problem facing the country, compared to 64 percent who selected jobs, unemployment, and the economy as the key problem.

So Obama is unlikely to get much

64 PERCENT OF AMERICANS HAVE LITTLE OR NO CONFIDENCE IN THE GOVERNMENT’S ABILITY TO SOLVE ANY PROBLEM.

love from the voters if progress is made on the deficit in the upcoming period, but economic improvement remains marginal. Conversely, if the economy improves, voters won’t care about the size of the deficit.

What should progressives do? Certainly, they must argue against any and all versions of the Treasury view and assert the necessity of a public-investment path to full employment. Yes, there is underlying public skepticism about government and government spending, but that skepticism will not be alleviated by deficit-reduction moves that are of low political salience and likely will slow economic recovery.

The best way to address negative public views of government, therefore, is to get the economy moving again and onto a path toward full employment. Pollin’s essay provides a number of useful suggestions for doing so. None of them will be easy to implement, but given the alternative—the politics of austerity and high unemployment—it is critical that we try.



ROBERT POLLIN REPLIES

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CREATING AN economy with an abundance of decent employment opportunities—a “full-employment” economy, as I have used the term—is a matter of basic ethics. Without full employment, the fundamental notion of equal rights for everyone—the core idea emanating from the Enlightenment and elaborated upon in both the liberal and socialist traditions—faces insurmountable obstacles in practical implementation.

Figuring out how to create and sustain a full-employment economy inevitably requires serious engagement with, among other things, technical issues in economic theory and policy, high-brow political theory, and ground-level political fighting. Ruy Teixeira’s excellent comment provides a clear sense of the combustible brew of political challenges facing us, especially now, with employment conditions worse than at any time in the past 70 years. It is therefore no surprise that the eight respondents have delivered a wide array of arguments. I will focus on five of the major themes they raise.

SHORT- AND LONG-RUN POLICIES

THE COMMENTS BY MICHAEL PIORE and Reihan Salam suggest that I should clarify the interrelationship between employment-generating policies for

the short run, such as how to design an effective second-round stimulus program, and my primary concerns in this essay, which are longer-run strategies for sustaining full employment over time. My long-run full-employment proposals focus on changing the economy’s structure. This begins with significantly expanding investments in clean energy and education, and commensurately reducing spending on fossil-fuel energy and the military.

But we can begin to pursue this long-term agenda right now, and in a manner that addresses short-term needs. For example, making investments today in raising the energy efficiency of our existing building stock is the fastest way to re-employ the two million construction workers who have lost their jobs since 2008. The federal government also needs to continue closing the huge budget gaps faced by state and local governments due to the recession, in order to prevent, among other things, massive layoffs of teachers, school-bus drivers, and cafeteria workers. Precisely because clean energy and education investments are so central to expanding individual opportunity and protecting the environment, a stimulus program heavily weighted toward these priorities will be money effectively spent, in both the short and long runs.

JOB QUANTITY AND QUALITY

SOME OF THE COMMENTS ADDRESS THE connection between the quantity and quality of jobs under full employment. In my view, many pieces are needed to raise the overall quality of employment opportunities, including a national minimum wage set at the highest possible level without threatening to raise unemployment, which is probably around twelve dollars an hour. A twelve-dollar minimum wage would substantially improve conditions for, among others, the care-sector workers that Eileen Appelbaum highlights in her valuable discussion.

However, the most effective means of raising job-quality standards in the

United States is sustained full employment itself. Under full employment, workers’ bargaining power will rise. This was exactly Marx’s point 160 years ago in his chapter on the reserve army of labor, and this was equally the lesson of the late 1990s, when wages rose sharply in the United States, especially for those at the lower-end of the pay scale, as unemployment fell below 4 percent.

In a full-employment economy, unions also gain increased leverage as representatives of workers’ interests. Business owners typically employ, as needed, lawyers, accountants, public-relations firms, security guards, and scab laborers to enhance their bargaining strength, in addition to the leverage created by the reserve army outside the office or factory door. Working people deserve some effective countervailing representation. Thus, unlike Lane Kenworthy, I do not see full employment or strong unions as alternative routes for achieving rising working- and middle-class wages. Rather, the two are complementary. This is especially true since, as the Swedish example shows, strong unions can play a central role in managing inflationary pressures in an economy committed to full employment.

FULL EMPLOYMENT AND THE WELFARE STATE

KENWORTHY PRESENTS A USEFUL series of graphs showing that twenty relatively rich countries frequently deliver decent work conditions and living standards to low-income people without maintaining a full-employment economy. Following from these results, Kenworthy proposes expanding the Earned Income Tax Credit (EITC)—the U.S. government program that provides supplemental income for low-wage workers and their families—as a “back up” alternative to full employment.

I agree that making the EITC more generous is a highly desirable goal. But the benefits of an expanded EITC vary dramatically depending on the proportion of low-income workers who have full-time or nearly full-time jobs. This

was made clear in recent research by my coworkers Jeannette Wicks-Lim and Jeff Thompson at the Political Economy Research Institute. They measured the benefits to low-income families of a greatly expanded EITC along with a \$12.30 minimum wage under the actual employment levels from 2005–2007. They then examined how much the benefits to families would increase if all low-wage workers with part-time jobs were raised to full-time. They show that raising all low-wage workers to full-time, combined with the EITC expansion and minimum wage increase, raises nearly four times more families above a basic-budget income line than the expansion of the EITC and rise in minimum wage implemented under actual labor market conditions. In short, an expanded EITC and similar measures should be seen as supplements to full employment, not as substitutes.

GLOBALIZATION AND TRADE

EILEEN APPELBAUM CHALLENGES MY contention that the United States can achieve full employment without having to reduce its trade deficit much below the current level of about 4 percent of GDP. Aside from the fact that in the late 1990s U.S. unemployment fell below 4 percent while operating with a trade deficit equivalent to the current level, there is a more general issue at play. That is, most other countries, especially developing countries, benefit more from selling products in U.S. markets than the U.S. economy is harmed by running trade deficits at current levels. The U.S. dollar remains the world's most desirable currency, which enables the United States, uniquely, to continue importing more than it exports without having to undertake serious adjustments to close that gap. The United States should pursue industrial policies to promote innovation and growth in manufacturing, especially around clean energy and related environmental projects. But this does not mean it should be committed to expanding domestic job opportunities by reducing

opportunities in, for example, Vietnam, Kenya, and Guatemala.

That said, Jayati Ghosh contributes an important dimension to this debate, by showing why developing economies, including successful exporters such as China and India, should shift their growth strategies away from relying on exporting to rich countries. Ghosh argues that developing countries should instead raise wages and improve working conditions among the still-overwhelming majority of poor people within their borders. This will lead to growing domestic markets in the developing world, enabling working people there to buy the products they themselves produce.

While Ghosh's wage-led growth model for developing countries is compelling, it will not be implemented overnight. In the meantime, developing countries will continue to rely substantially on selling their products in U.S. markets. But this need not pose major difficulties within the United States precisely because we are capable of achieving full employment while maintaining a trade deficit at roughly the current level. I therefore agree with Ghosh that "the current atmosphere of animosity between workers in developed and developing countries is both unnecessary and counterproductive."

GOVERNMENTS CAN SUCCEED, AND MARKETS DO FAIL

ANDREW MORRISS AND ROBERT MEINERS provide a healthy reminder that governments at all levels in the United States are frequently incompetent or corrupt in managing the economy. But their arguments are so one-sided as to weaken the credibility of the valid concerns they raise.

In fact, government initiatives are frequently successful, sometimes emphatically so. Government programs in the United States have produced, among other things, a large number of outstanding public universities and a Social Security system that has

succeeded in dramatically reducing poverty among the aged and disabled. Research by the late Vernon Ruttan, a leading authority on the economics of technological change, shows how the public sector has played "an important role in the research and technology development for almost every industry in which the United States was,

WE CAN BEGIN TO PURSUE THE LONG-TERM AGENDA RIGHT NOW, AND IN A MANNER THAT ADDRESSES SHORT-TERM NEEDS.

in the late twentieth century, globally competitive." Ruttan points to the aerospace, computer, and Internet industries as three epoch-defining cases. And just as surely as government action has frequently been effective, markets do regularly fail. The classic book *Manias, Panics, and Crashes* by the late Charles Kindleberger makes clear that, throughout the history of capitalism, unregulated financial markets have persistently produced instability and crises.

Morris and Meiners assert, "Creating well-paying jobs is less difficult than Pollin would have us believe." But they offer no explanation for the now nearly 40-year trend in which average wages in the United States have stagnated while average labor productivity has doubled. They also denounce the government's efforts under Presidents Nixon, Ford, and Carter to promote full employment. However, during 1976–79, under Ford and Carter, job creation coming out of the 1974–75 recession grew at a 4 percent average annual rate. Such employment growth is unmatched in the post–World War II era. If we could achieve a 4 percent rate of employment growth now, the official unemployment rate would be under 5 percent in time for the 2012 election. Surely there are some positive lessons we might extract from that experience, the last time the federal government prioritized full employment. **BR**