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HIGHLIGHTS

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Public Employment and Economic Flexibility

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Flexibility is the ability of an economic system to respond to changing conditions—new technologies, new products, changes in supplies of natural resources, changes in consumer demand, and so forth. Flexible economies are able to sustain growth and high levels of employment without inflation, whereas systems that are inflexible in the face of change experience bottlenecks in production, sluggish growth, inflationary pressures, and other negative consequences. Modern capitalist economies gain much of their flexibility from the existence of unemployed resources, including labor, and excess productive capacity. Thus, flexibility, although it is a desirable feature of an economic system, may be attained at high social and economic costs.

Unemployed labor increases system flexibility by providing a pool of workers from which firms can draw during expansions. The reserve pool also serves wage and therefore price stability by weakening the bargaining position of labor. However, though unemployment may bring flexibility, it causes permanent losses in potential output of goods and services, losses of tax revenues, higher government spending on public assistance, crime, physical and mental ill health, deterioration of labor skills and productivity, and more. It condemns many people to poverty and contributes to social instability. In implementing policies to maintain a reserve pool of labor, central banks, national governments, and international organizations betray the ethical and legal commitment to full employment that is embodied in many nations' legislation and in United Nations proclamations supporting the right to work as a fundamental human right.

This policy brief proposes an approach to the promotion of economic flexibility that is based on the strategic utilization of public sector activity rather than on the maintenance of a reserve pool of unemployed labor. An understanding of the role public sector activity can play in promoting economic flexibility leads to a shift in the criteria for evaluating public employment and resource use. A public service employment program benefits the economy and the society as a whole. It is compatible with high employment, high capacity utilization, and growth without the threat of inflation and, at the same time, provides socially useful public services.

The Job Opportunity Program

The public service job opportunity program is based on Hyman P. Minsky's concept of government as employer of last resort (Minsky 1986). The government announces the wage at which it will hire and then hires all who seek employment at that wage. Normal public sector employment remains a separate part of the public sector and is not affected by the job opportunity program. The program will, as a matter of logic, eliminate all involuntary unemployment. There will still be many individuals who remain unemployed (because of disabilities or personal decisions), but any person willing and able to work but unable to find a job in the private sector will have the opportunity to become employed.

Will full employment increase aggregate demand enough to bring about accelerating demand-pull inflation? Alternatively, can aggregate demand increase sufficiently with the additional government deficit spending without generating inflation? The fact that public sector plus private sector spending now provides a level of employment that leaves well over 6 million workers involuntarily unemployed is de facto evidence that aggregate demand is below the level required for full employment. If aggregate demand were higher, the population would be spending more and creating more jobs for the unemployed. This means that the government can safely increase its deficit spending for this program. As long as additional government deficit spending does increase employment, aggregate demand must still be below the full employment level.

The job opportunity program is designed to ensure that the deficit will rise only to the point at which all involuntary employment is eliminated. Once there are no workers willing to accept a program job, spending will not be increased further. Thus the deficit will not become excessive, that is, it will not cause aggregate demand to increase beyond the full employment level. The program does not preclude aggregate demand fine-tuning of the job pool. Changes in taxation and in the composition of government expenditure can be used to increase and decrease the pool's size.

The design of the plan and the ability to fine-tune the job pool should eliminate the fear that a full employment policy must necessarily generate demand-pull inflation. However, it can still be objected that full employment will generate cost-push inflation by placing pressure on wages and thus on costs and prices. Another aspect of the proposal—exogenous wage setting by the government—becomes relevant here.

Since the government is not in business to make a profit, it can base its decisions about products, production methods, and hiring not on cost minimization, but on broader macroeconomic goals or social values.

Government is free to fix the program wage arbitrarily rather than having to pay a market-determined wage. Being fixed, the wage is stable and sets a benchmark price for labor. When the program is implemented, most jobs that pay less than the program wage would experience a one-time increase of wages (or disappear altogether), and employers would have to cover the higher labor cost with some combination of higher product prices, greater labor productivity, and lower realized profits. However, a one-time jump in some product prices is not inflation nor can it be accelerating inflation, as these terms are usually defined by economists.

Contribution of Public Sector Activity to Economic Flexibility

Key to understanding the role of public sector activity in promoting flexibility is understanding the constraints within which private firms operate. In a capitalist economy competitive pressures greatly restrict the discretion a firm has with regard to the products it makes and the methods of production it uses. It must make such decisions on the basis of its estimate of the profitability of alternative actions, and profitability requires the minimization of the firm's costs. A firm has no direct market incentive to concern itself with costs that are a burden on third parties or society at large but not on itself. For example, a particular method of production that creates pollution may be chosen by the firm on the basis of its efficiency, even though it imposes social costs. Since the government is not in business to make a profit, it can base its decisions about products, production methods, and hiring not on cost minimization, but on broader macroeconomic goals or social values.

Another idea that is fundamental to understanding the role of the public service employment program is the distinction between "normal" (essential or regular) and "discretionary" public sector activity and employment. At any given time there are public sector activities that are considered essential and that cannot be modified, delayed, or discontinued without harm to the public good. Such normal activity and normal public sector employment are unaffected by the job opportunity program. The program involves the discretionary activities that may be undertaken when labor is available and that can be delayed or discontinued when private sector demand for labor rises. Designation of activities as "discretionary" does not mean that they provide no public benefit; it means that they provide things society could use or benefit from but can do without, at least for the time being.

The following sections outline the manner in which the job opportunity employment approach can promote flexibility with regard to labor, capital goods, natural resources and environmental protection, methods of production, and geographical location of economic activity.

Labor

The benefits of public employment in promoting flexibility with regard to labor have been perhaps the most discussed (Minsky 1986; Mosler 1997-98; Wray 1999). The discretionary public sector workers, even while they are employed at a living wage, serve the same function as a reserve pool of the unemployed; they remain available to the private sector if the demand for labor should increase. Firms need only bid them away from the public sector by offering them a mark-up over the job opportunity wage, benefits, an opportunity for career advancement, or any other incentive to move into the private sector.

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As private sector demand for labor rises, the discretionary public sector pool will shrink, and as private sector demand for labor falls, the discretionary public sector pool will increase. The mechanism works something like the pool of unemployed, but workers move between private and public sector employment rather than between employment and unemployment. Firms remain flexible, adding shifts or workers to production lines. The responsiveness of labor supply increases in firms, industries, and the system as a whole. Workers who otherwise would have been unemployed maintain and enhance their skill and knowledge—a benefit to the individual workers and the economy.

Capital Goods

Some schemes propose to increase employment by stimulating private sector activity. The higher capacity utilization resulting from greater activity (in either the private or the public sector) can produce bottlenecks—a source of structural rigidities and inflationary pressures—if the supply of capital goods becomes short. However, government has greater latitude in its choice of products and production methods in its discretionary public sector activity than it has in its regular public sector activity and than the private sector has.

Government can consider general trends in the composition of economic activity to determine which types of capital equipment are in high demand or short supply. Since public sector decisions are not driven by competitive pressures, it can decide not to engage in activities that use such equipment (doing so would lead to bottlenecks in the same way higher levels of private sector activity do), and it can choose to engage in activities that utilize equipment for which there is sufficient supply or the responsiveness of supply is known to be high. It can help avoid bottlenecks by selecting activities that increase production of capital goods in short supply. It can also select activities that use little or no capital equipment (services such as environmental clean-up and additional "helping hands" in schools and hospitals). In these ways, higher levels of employment of labor are possible with more flexibility than would be the case if the same level of employment were achieved through stimulating demand in the private sector.

Natural Resources and Environmental Protection

Similar arguments can be made with regard to natural resources and environmental protection. Bottlenecks and rigidities that result from pressures on the supply of natural resources can be reduced or avoided with a public sector employment program. Government can choose to engage in socially and economically beneficial activities that limit the use of or do not use non-renewable resources. (Again, this is in discretionary activities; obviously, in essential government services, there is not the same latitude.) The same cannot be said for employment approaches based on increasing private sector activity, whether through wage subsidies or the stimulation of private sector demand through fiscal and monetary policy. Government can choose not to use; with the private sector there is no guarantee.

Although the supply of exhaustible natural resources cannot be increased through public sector production in the same way that the supply of capital goods can be, government does have some means to relieve the pressure on the supply. Public sector activity can be devoted to developing renewable substitutes for exhaustible natural resources and increasing recycling efforts.

While higher levels of private sector activity may increase pollution, public sector activity can be geared toward projects and production methods that do not tax the assimilative capacity of the environment. And, just as in the case of natural resources, the public sector can engage in activities that enhance assimilative capacity, such as reforestation.

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Methods of Production
Whereas private firms are compelled by competitive pressures to choose the method of production that will maximize profits, government is not so constrained. For any given activity, choice of technique can be based not on cost minimization but on impact on the system as a whole. For example, more labor-intensive methods may be chosen even where more capital-intensive methods are available and might be chosen under different conditions, and alternative technical means may be utilized to ease pressures on natural resources or the assimilative capacity of the environment.

Geographical Location
Firms are constrained by competitive pressures in their decisions concerning where to locate, but the same is not true of government. Of course, some activities cannot be located just anywhere, but many have no locational restrictions, and decreased costs of transportation and the expansion of information complexes have reduced such restrictions for others.

There are significant regional and local differences in unemployment rates. Locational flexibility means that public employment need not cause disruptive dislocation for workers. Rather, employment opportunities can be located where there are unemployed. The local administration of discretionary public employment programs would facilitate this approach.

Conclusion

High employment and high capacity utilization rates are associated with structural rigidities that have a number of undesirable consequences. For this reason, central banks, national governments, and international organizations have resisted policies that would promote full employment. What has been almost entirely overlooked, however, is the way in which public sector activity can promote higher levels of employment and avoid those undesirable consequences. The job opportunity approach recognizes and capitalizes on the manner in which public sector employment can create truly full employment, enhance system flexibility, reduce the social and economic costs of unemployment, and promote socially beneficial public works without structural rigidity or inflation.

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