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IS UNEMPLOYMENT WHAT YOU WANT?

1. A New View of Unemployment

As the most visible and important aspect of a stagnant economy, unemployment is a phenomenon that has been the focus of much attention by economists. With the emergence of stagflation--the simultaneous occurrence of unemployment and inflation--many economists have started to reevaluate their concept of the phenomenon of unemployment. This reevaluation has proceeded in an unfortunate direction for working people (and "would-be" working people), for the newly emerging theory views unemployment as the result of largely voluntary behavior on the part of the unemployed.

The term stagflation became popular in the early seventies when the American economy was experiencing that condition for the first time in its history. Surely, that phenomenon has not disappeared today, as a current rate of inflation in the high teens is coupled with a 6.2 per cent--and rising--rate of unemployment. But as the new theory of unemployment began to spread within the economic profession, the term stagflation gradually disappeared from the vocabularies of many economists. This development is fully consistent with the often noted rightward drift of the profession, as more and more economists are speaking of the evils of government interference in the economy and explaining away the problem of unemployment. For no longer is a rate of unemployment hovering about 6 percent viewed as an alarming sign of a stagnant economy. To be sure, there are grumbles about too low a rate of productive capital investment and a lagging rate of productivity growth, but unemployment is now seen as a chosen, and in some sense a natural condition. This view, laid bare, argues that people are presented the option of accepting gainful employment which makes good use of their skills or of choosing to forego such offers of employment to enter (or remain in) the pool of the unemployed until such time as they "wise-up" and accept a job.

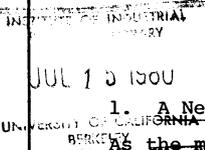
2. What is "Full-Employment"

Undoubtedly some unemployment is consciously chosen, at least for a short period of time. It is this type of unemployment that exists in a "full employment" economy. There will always be some unemployment, at least in short spells, when people change jobs or when they newly enter the labor market. In the 1960s, most economists agreed that the "full employment unemployment rate" was something on the order of three to four percent. And in the wake of the Kennedy-Johnson Tax Cut of 1964, the U.S. economy did approach and sustain about a four percent rate of unemployment. While certain segments of the population still found difficulty in getting decent jobs, due to problems associated with discrimination and unequal opportunity, it is probably fair to say that the U.S. was then undergoing a period of full employment, or as close to it as possible, given the institutional realities of the American economic system.

But the sixties are now gone, and gone with them is full employment. Since its rise to more than nine percent in the recession of 1974-75, the unemployment rate has not dropped below 5.7 percent. In the face of this situation, purveyors of the "new economics" have seen fit to raise their estimate of the natural rate

BERKELEY, CA 94720
(415) 642-0323

UNIVERSITY OF CALIFORNIA, BERKELEY
CENTER FOR LABOR RESEARCH AND EDUCATION
INSTITUTE OF INDUSTRIAL RELATIONS



which the unemployed will choose to set to somewhere between five and seven percent of the labor force, while failing to provide a convincing story as to why that rate should have crept upward from the 1960s.

It is important to realize that even when the unemployment rate is above its "natural" rate, that unemployment which makes it so is now regarded as voluntary, in the sense that the unemployed are supposedly "holding-out" for better wages. Thus the concept of full employment has lost much of its meaning in this scheme, if unemployment is no longer seen as a condition in which people cannot find suitable work. The logical implication of the theory now is that the victims of unemployment have no one to blame but themselves.

3. Believers and Nonbelievers

No doubt a Detroit auto worker or a Salinas rubber worker, as well as many other workers, would find this argument ludicrous, given their current and/or prospective employment situations. And not all economists have accepted this new theory. For example, a recent Brookings Institution study argues (a) that actual labor market experience conflicts with the theory's claims; (b) that only a minor portion of unemployment is actually motivated by the voluntary turnover of people finding other jobs; and (c) that most unemployment is attributable to people undergoing long periods of joblessness, with temporary layoffs accounting for less than 15 percent of unemployment.

Nonetheless, the new theory continues to gain credence in the economics profession and beyond, not surprisingly among those who do not often face the prospect of a personal bout with joblessness. Workers should be wary of its ascendancy, for the theory makes ideologically more palatable any government policy which will lead to--or continue to abide--a high unemployment rate--like the current policy of strict monetary controls and a move toward a balanced budget.

- Sean Flaherty

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