

Employment in a just economy

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Abstract

The political philosopher John Rawls suggested that a just society is one which would be created behind a “veil of ignorance”, without knowing where one would end up in the society’s distribution of talent or other attributes. Today’s labor market does not meet this criterion, because risk averse people would not voluntarily enter it at random, being too concerned about ending up among those excluded, i.e., those without full time jobs which in early 2018 in the U.S. was still 10% of the labor force or some 16 million people. Thus, a just labor market would strive for full employment beyond the implications of the natural rate of unemployment. The latter concept is actually misleading, because most economists and commentators in the media equate it with “full employment” and make-believe that 5% unemployment is full employment which means zero unemployment. Consequently, endemic and large-scale underemployment is accepted as an inevitable attribute of the labor market. This is insidious, because the concept assumes that the institutional structure of the labor market is carved in stone. According to Rawlsian principles the aim should be to bring unemployment down to the minimum feasible rate which in the U.S. is most likely around 1.2% – the rate which obtained in 1944, and which probably represents a feasible lower bound. Instead of the prevailing system, the right to work needs to be recognized as a natural right, because the right to life depends upon it. Several ways are proposed to create an inclusive labor market that distributes the available work in a more equitable way than the current one and envisions a just labor market on Rawlsian principles that risk-averse people would be willing to enter at random.

JEL codes J01, J08, J29, J38, J68

Keywords labor market, justice, full employment, natural rate of unemployment, NAIRU, John Rawls

Introduction

To human beings fairness is an essential aspect of life. So is justice. In fact, they are so important that people are willing to sacrifice a lot to fight for it, not infrequently even their lives. “Universal values of fairness” was a main motivation of recent demonstrations as far removed from one another as Tahrir Square and Zuccotti Park, many of which toppled governments (Stiglitz, 2013, p. xxxviii). Indeed, the nature of justice was a main concern of the first philosophers.¹ In fact, justice or fairness is so central to humans – and not only to humans, as other primates are similarly inclined – that one can infer that it has evolutionary roots (Brosnan and de Waal, 2003; Heinrich, 2000). The probable reason that the concern for justice is so ubiquitous is that cooperation was crucial for survival; violating the rules and expectations of the community would not have been tolerated and those who violated them no doubt would have been ostracized, thereby lowering their probability of reproducing their characteristics. Thus, evolution favored the propagation of those traits that predisposed human beings to value fairness and it became an integral part of human nature. In sum, “justice is a human virtue” (Schmoller et al., 1894, p. 4).

¹ See, for instance, Aristotle’s *Nicomachean Ethics*.

In spite of the widespread prevalence of this disposition, the concept is not an integral part of economics, even if the founder of the discipline, Adam Smith, forcefully stressed its relevance in *The Theory of Moral Sentiments* of 1759, and it is alluded to occasionally, for instance, in the context of reciprocity in which workers may reduce their productivity in response to unfair treatment by their employers (Akerlof and Yellen, 1990; Bewley, 1998; Fehr, and Gächter, 2000; Skott, 2005). Nonetheless, in the main, it remains outside of the mainstream's purview, well behind such concepts as efficiency even though there is no evidence that the latter is more important to us than the former. Moreover, the concept of justice has not been applied to the labor market as a whole, even if the idea of a fair wage does enter into models of wage determination (Blinder and Choi, 1990).²

This modest essay begins to fill this lacuna by using the political philosopher John Rawls' (1971) influential concept of a just society to labor markets and argues that their current organization does not meet the Rawlsian criterion of justice.³ A Rawlsian labor market conflicts with current views of full employment based on theories associated with NAIRU.⁴ We also discuss some institutions that would bring us closer to a just labor market in the spirit of Amartya Sen (2009) who emphasized the importance of our becoming a juster society or a more equal society (Atkinson, 2015, p. 301). These ideas dovetail well with the discussion concerning the problem of rampant inequality insofar as a more equal distribution of work would inevitably lead to a more equal distribution of income (Pikkety, 2014; Temin, 2017; Komlos, 2016).

Just labor market

Rawls argues that a just society should be our ultimate goal: "Justice is the first virtue of social institutions, as truth is of systems of thought.... Laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust" (1971, p. 3). His litmus test of a just society is whether one would be willing to enter it at random without knowing anything either about one's own characteristics or where one would end up in the society's social order. After all, if one is unwilling to take the chance of entering the society at random, it would not be moral to wish it on others, as the Kantian (1785) principle of universal imperative also implies. In fact, most risk averse people would be unwilling to enter most labor markets today if they did not know their gender, race or where they will end up in the society's distribution of talents, skills, inherited wealth, IQ, looks, and other attributes valued in the market. In other words, if they had no information on their endowments and "original position" it would be too risky to enter it.

Thus, today's labor markets are not just according to Rawlsian principles as people would not be willing to enter them at random. People would be too apprehensive about ending up among the excluded, i.e., those without full time jobs, which in the U.S. in January 2018 was still 10% of the labor force, or some 16 million adults.⁵ This is substantial but it does not even

² The Rawlsian conception of justice has also surfaced in the discussion of basic income (Van der Veen, 1998; Van Parijs, 1991; Van der Veen and Groot, 2000).

³ For exceptions see the lectures by Frank Thompson, "A Model of Rawls' Theory of Intergenerational Justice," and by Larry Udell, "Rawls for Radicals," at the ICAPE conference January 4, 2018 in Philadelphia.

⁴ "In an important sense, the US economy is now at full employment" (Feldstein, 2015).

⁵ The official underemployment rate (U6) is 8.2%, but this leaves out those who would like to work but have not searched for work recently because their prospects are minimal. Federal Reserve Bank of St.

include an additional – roughly 5 million – prime-age adults who dropped out of the labor force presumably mostly on account of being frustrated with their chances of succeeding in finding employment.⁶ And the burden of underemployment is much greater among minorities: among African-Americans it was still 13.4% in January 2018.⁷

What would a just labor market look like? Rawls argues that one would have to design it behind a “veil of ignorance”, i.e., without knowing anything about one’s endowments or initial position.⁸ Otherwise our current standing in the society is likely to sway our judgment. If one would be willing to enter it at random then it is moral to make its rules universally binding on others as well.

Full employment

If people could construct a labor market from scratch under the above specified conditions, it would be undoubtedly such that full employment would prevail. The reason is that ex-ante (in the original position) only through employment can one be sure to be able to sustain life. The selfish survival instinct behind the veil of ignorance then leads inexorably to an organization of a labor market in which there is a constitutional right to employment for all, because then even the unlucky would be certain to be able to satisfy at least their basic needs.

Instead of accepting a certain amount of underemployment as natural, a Rawlsian would acknowledge that there is a natural right to life.⁹ Exclusion from work threatens one’s very existence since work is necessary for survival, the right to life practically implies that we need to be guaranteed the right to work. Pope Leo XIII argued similarly in his famous encyclical, *Rerum Novarum*.¹⁰ Moreover, the United Nation’s Universal Declaration of Human Rights states that, “Everyone has the right to work... and to protection against unemployment” (United Nations, 1948). The spirit of this pronouncement appears in many other international documents including in the French constitution: “Each person has the duty to work and the right to employment.”¹¹

Louis, Economic Research, <https://research.stlouisfed.org/fred2/series/U6RATE> accessed March 4, 2018.

⁶ Calculated as 3% of adults. The number of adults not of retirement age is around 200 million. U.S. Census, “Age and Sex Composition: 2010,” *Census Briefs* May, 2011, <https://www.census.gov/prod/cen2010/briefs/c2010br-03.pdf> accessed April 20, 2016; Federal Reserve Bank of St. Louis, Economic Research, <https://research.stlouisfed.org/fred2/series/LNS11300060> accessed April 29, 2016.

⁷ This is the U6 rate. The true underemployment rates is no doubt a few percentage points higher. Economic Policy Institute, “Underemployment,” http://www.epi.org/data/#!/?subject=underemp&r=* accessed March 3, 2018.

⁸ This concept bears some similarity to Adam Smith’s use of an an “impartial spectator”, an omniscient ideal being, in *The Theory of Moral Sentiments* (1759) and in general to the philosophical concept of an “ideal observer”.

⁹ The Declaration of Independence also asserts the unalienable Right to “Life”; http://www.archives.gov/exhibits/charters/declaration_transcript.html accessed May 13, 2016.

¹⁰ “The preservation of life is the bound duty of one and all, and to be wanting therein is a crime. It necessarily follows that each one has a natural right to procure what is required in order to live, and the poor can procure that in no other way than by what they can earn through their work” (Leo XIII, 1891, Paragraph 44).

¹¹ From the Preamble to the French Constitution of 1946 which is still in force today. http://www.conseil-constitutionnel.fr/conseil-constitutionnel/root/bank_mm/anglais/cst3.pdf accessed May 13, 2016. See also the work of the International Labour Organization whose stated goal is “to achieve full and productive employment and decent work for all...” (Muqtada 2010, p. iii). These values were already announced in the ILO’s Constitution including the Declaration of Philadelphia of 1944 (ILO, 2008). A recent UNDP

However, a Rawlsian full employment would differ substantially from today's common usage of the term insofar as full employment nowadays is commonly equated with the natural rate of unemployment (Friedman, 1968, p. 8; 1977, p. 458) or with the NAIRU (the non-accelerating inflation rate of unemployment) (Phelps, 1968, 1969; Stiglitz 1997). For instance, at the January 2016 meeting of the American Economic Association in San Francisco, Martin Feldstein declared that "We are essentially at full employment with the overall unemployment rate at 5%" (Feldstein. 2016a).¹² His pronouncement is not unusual, rather such slight-of-hand is standard practice: Ben Bernanke made similar statements prior to the financial crisis.¹³

The misleading nature of the concept is magnified through the media which absorbs economists' usage and misinforms the public by repeating continually that 5% unemployment is "traditional full employment" (*Washington Post*, 2014).¹⁴ Note, however, that the term "full employment" is usually qualified in mysterious ways either by putting it into quotation marks or by referring to it as "traditional" or "essentially in full employment". The implications of these qualifiers must elude the average reader. As a consequence, endemic un- and under-employment – which in the U.S. amounts to more than 16 million people – becomes widely accepted as an inevitable characteristic of the labor market and defined away. Thereby 5% unemployment becomes an acceptable equilibrium value and must be tolerated since nothing can be done about it. It is just the way the economy works, and hence we must put up with it. This is insidious inasmuch as the practice encourages policy makers to be complacent about the plight of a substantial segment of the population. Moreover, in the mind of the public full employment means that everyone who would like to work has a job and it is not at all clear that the economists' usage differs markedly. That is why Noble laureate William Vickrey referred to the natural rate of unemployment as "one of the most vicious euphemisms ever coined" (1992, p. 341).

What is meant, of course, is that using *conventional* monetary and fiscal policy we are unlikely to be able to attain *real* full employment¹⁵ (Federal Reserve Bank of St. Louis, 2014; Gordon, 1997). However, these estimates of the natural rate are not very accurate,¹⁶ and the Fed arbitrarily increases it in times of high unemployment and lowers it when times improve. It has been as high as 6.2% and as low as 4.7%. Inexplicably, as of early 2018, the official unemployment rate (4.2%) has been below the supposed natural rate since March 2017 by as much as 0.5%. And yet, accelerating inflation was nowhere in sight. How can unemployment

report asserts that "Universalism... also applies to labour markets—ensuring that everyone has access to decent opportunities for paid employment" (2014, p. 92).

¹² <https://www.aeaweb.org/webcasts/2016/Economy.php> accessed April 19, 2016. Repeated in the media (Feldstein 2016b)

¹³ He said in 2005 that "House prices will slow, maybe stabilize, might slow consumption spending a bit; I don't think it's going to drive the economy too far from its full employment path though." At a time when he spoke of full employment there were 7.6 million people officially unemployed, 5 million wanted a job but were too discouraged to search and 4 million were working part time although they wanted full time work. "Ben Bernanke Was Wrong," YouTube video, posted by "Marcus C. Macellus," July 22, 2009. <https://www.youtube.com/watch?v=9QpD64GUoXw> accessed August 30, 2014.

¹⁴ According to *The Wall Street Journal*, "The U.S. economy is at last on the cusp of full employment... The U.S. will be in a state of full employment within the first half of 2016 according to 56% of the economists surveyed" (Zumbrun, 2015). Two years later the same *Journal* wrote: "Full Employment is finally here, or at least not far away. That's according to the vast majority of economists surveyed" (Leubsdorf, 2018). Here is another formulation of full employment citing St. Louis Federal Reserve President James Bullard: "the labor market is 'at or possibly well beyond reasonable conceptions of full employment'" (Jackson, 2016).

¹⁵ The natural rate of unemployment is not a constant. The Federal Reserve raises it slightly when unemployment is high and decreases it when unemployment is low.

¹⁶ The 95% confidence interval was estimated on the late-20th-century data to have a spread of 3 percentage points (Staiger et al., 1997, p. 34).

be less than the level of full employment? That invalidates the concept of NAIRU, or the official data, or both.

Thus, the tacit assumption of the NAIRU conceptual apparatus is that the institutional structure of the labor market is held unchanged (Colander, 1998; Naude and Nagler, 2015). But Rawls would suggest that *ceteris paribus* need not be maintained and we should use other means to move toward a just labor market with *real* full employment. One way to proceed is to consider full employment as the lowest level of unemployment attainable according to the historical record. In the U.S. that was 1.2% recorded in 1944¹⁷ (Carter et al., 2006). Presumably, that level of unemployment was not related to insufficient demand for labor but must have depended on the physical or mental health of those few remaining unemployed. Of course, that was a time of war, but the experience does demonstrate clearly the capacity of the economy to create job opportunities and bring unemployment down to negligible levels given the right set of circumstances.

A Rawlsian labor market

From a Rawlsian perspective the current organization of the labor market ought not be considered just because the opportunity to work – like wealth and income – is unevenly distributed across the labor force. In early 2018 in the U.S. about 79% of the labor force works full time, 17% works part time, and 4.2% are officially unemployed. Yet, the official statistics overlooks the hidden unemployment of an additional 9 million people, so the real unemployment rate is closer to 10%.¹⁸

Part of the problem lies in the organization of the labor market: the custom is that adjustments in the fluctuations in demand for labor generally occur mostly by reducing the number employed so that their labor time falls abruptly from 40 hours a week to 20 or zero. Hence, one is either given the opportunity to work roughly 40 hours per week or one is not allowed to work at all even though part-time work is also a possibility. Would anyone “behind a veil of ignorance” design such a rigid system from scratch, a system with so much uncertainty and instability – with working times ranging from 0 to 70 hours per week even in normal times. It would be more reasonable to have the adjustment occur in the number of hours worked so that instead of dismissing workers, the available work would be divided more evenly among those wanting to work. Hence, an institutional framework that would enable work to be distributed more evenly would be a reasonable solution to this quandary.¹⁹

Thus, in a Rawlsian framework one would not be satisfied with achieving a level of unemployment consistent with NAIRU. Instead, the Rawlsian aim would be to restructure the labor market in such a way that it would generate enough jobs to reduce unemployment to the target rate of 1.2%. One way would be to reduce the number of hours worked in a

¹⁷ This was the case, even though the labor force expanded by 10% during the war. Unemployment was also as low in 1918.

¹⁸ The real unemployed includes 5 million part-time workers who would like to work full time (who are counted as half unemployed) and 6.6 million people who are not officially in the labor force but would like to work if the opportunity. The labor force in this calculation is augmented by the 6.6 million people who have not looked for a job recently but would like to work.

¹⁹ Some tentative steps in this direction were taken in the 2012 “Job Creation Act”. Such a program works in Germany where total employment has not decreased at all during the Meltdown (Krugman, 2010). The reduction of the workweek in France from 39 to 35 hrs in large firms in the year 2000 is estimated to have reduced unemployment rate by 1.6% by 2002 (Du, Yin and Zhang, 2013).

standard work week by roughly 10%, the underemployment rate. This would mean a reduction of roughly an hour a day from 8 to 7 hours similarly to what happened when the 10-hour day was reduced to 8 hours in the 1930s. Such a work-sharing system would be a more equitable shock absorber of a decline in the demand for labor than the current system (Baker, 2011).

Other arrangements that would have ameliorating effects include profit sharing wages in which case wages would increase in good times and decrease in recessions so that workers would not have to be fired, keeping the share of total wages in revenue unchanged (Weitzman, 1984). Encouraging cooperatives would also be useful inasmuch as such firms are more likely to adjust pay to fluctuations in demand rather than the number employed (Craig and Pencavel, 1992; Pencavel, 2002; Rosen et al., 1986). One could also mandate that the government become the employer of last resort, in a similar manner to the government's role as lender of last resort (Colander, 1981). That way the government would provide stability to the labor market similarly to the backstop it already provides to the financial system (Wray, 1997; Colander, 2009, p. 747ff).

A new institution – comparable to the Federal Reserve's role in finance – could provide similar stability to the labor market. "If governments can take on the role of lender of last resort, then we should be willing to see government as the employer of last resort" (Atkinson, 2008). Atkinson calls for "The government... to offer guaranteed public employment at the minimum wage to those who seek it" (2015, p. 303). Paul Krugman supports Atkinson's idea and calls it an "old fashioned idea, but probably a very good one" (The Graduate Center, 2015, @22:42 minutes). Robert Solow concurs: these are "very very useful ideas" (The Graduate Center, 2015, @24:18 minutes). After all, it would create to an inclusive economy in which no one is deprived of the opportunity to work and no one is excluded and stigmatized²⁰ (Stiglitz et al, 2015; Junankar, 2011). As Stiglitz put it: "The rules can and should be rewritten, in ways that promote... employment and reduce exclusion" (2016). After all, during the New Deal the Work Progress Administration hired as many as 7% of the labor force, which in today's terms would amount to some 10 million people (Margo, 1993, p. 43). That alone would put a considerable dent in the underemployment rate.

Such a system would increase the quality of life, because it would reduce the psychological burden of unemployment, increase leisure time, and reduce envy by reducing conspicuous consumption. In addition, it would be a much fairer method of distributing the pain associated with a diminution in the demand for labor than the prevailing rigid system.

Rawlsian wages

Equating wage to marginal product does not meet Rawls' criteria of justice insofar as much of it is a rent, i.e., return to attributes of the employee that are part of a random allocation. The employee did not do anything for his/her genetic endowment so that any return to characteristics that are in perfectly inelastic supply such as looks, talent, physical size, IQ ought not accrue to the employee and should be taxed at a progressive rate. Rawlsian disposable income should be entirely a function of effort that includes schooling and other

²⁰ Moreover, in the age of the information technology revolution it ought to be possible to match vacancies to willing workers instantaneously, thereby eliminating frictional unemployment completely.

investments in human capital. After all, just rewards ought not be based on the luck of a random initial allocation.

Conclusion

As the Nobel Prize winning economist Paul Krugman recently put it,

“I am, and I think lots of us, are to some degree Rawlsians; that is, we think that at some level you ought to think about society in terms of what would you want if you didn’t know who you would be behind a veil of ignorance. And you do not have to be a rigorous Rawlsian to feel that it is right, it’s appropriate, to care more about diminishing misery at the bottom than increasing comfort at the top... that is a good thing from the point of view of some notion of justice” (Graduate Center, 2015, @4:00 minutes).

The labor market, as currently constituted, fails the fairness test according to Rawlsian principles. His litmus test of a just society is whether we would create it behind a veil of ignorance, i.e., prior to knowing our personal characteristics and how the market will value them. Insofar as a goodly share of the rewards to labor today depend fundamentally on the luck of birth such as the genetic lottery or the family of birth, Rawls asserts that risk averse creatures as we are, would not dare to enter today’s labor market at random. Hence, it is not a just institution. We ought not to wish on others that which we would not dare to do ourselves.

Hence, Rawls would consider a just labor market one that is at full-employment and not the one in widespread usage today based on theories associated with NAIRU or the natural rate of unemployment. As Stiglitz suggests these concepts merely provide policymakers

“reasons not to attempt to address unemployment.... These ideas provided intellectual comfort to central bankers who didn’t want to do anything about unemployment. But there were strong grounds for skepticism about these ideas... The underlying hypothesis that there is a stable relationship between the unemployment level and the rate of *acceleration* of inflation has not withstood the test of time...The use of the term ‘natural’ unemployment rate suggests that it is ‘natural’ and natural things are good, or at least unavoidable. Yet there is nothing natural about the high level of unemployment we see today. And these ideas are being used by those that don’t want government to take steps to do anything about it” (2013, pp. 328-329).

In addition, Rawlsians would introduce different shock absorbers into the labor market instead of the rigid system of today. It would be much more reasonable to distribute the burden of shortfall of available work more equitably than concentrating it among some 20 million people in the U.S, as the labor market functions today. If one were designing a labor market from scratch, one would surely construct one that lowered the uncertainty associated with being unemployed. Working less would also increase leisure time available to improve the quality of life for the employed population.

Similar to the wartime experience, effective demand could be increased perhaps not as Paul Krugman suggested – tongue in cheek – by declaring an impending alien invasion (Krugman, 2011), but by improving education, eradicating slums, repairing decaying infrastructure and investing in new ones, reducing pollution, and investing in renewable energy. There is no shortage of productive investments. These projects could create enough jobs to achieve full employment for many years to come (Brenner and Brenner-Golomb, 2000; Vickrey, 1992; Warner, et al., 2000).

Admittedly this essay is incomplete in the sense that there are multiple other inequities in the labor market. Full employment would not by itself solve the problem of discrimination and privilege in employment systems (who gets what job and who is treated well) and current legal recourse has been insufficient to prevent various types of discrimination (which have to some degree been naturalised by economic theory under the euphemism of endowments).²¹ So, fairer also extends to resolving problems in these terms. However, full employment institutions are likely a step in the right direction to achieve other kinds of fairness for work.

“Work is a necessity, part of the meaning of life on this earth, a path to growth, human development and personal fulfilment” (Francis, 2015, paragraph 128). A fairer distribution of work would be important not only to provide the means to making a living but also because underemployment has destabilizing social and political effects²² (ILO, 2008; Pius XI, 1931). Underemployment generates negative externalities such as an increase in criminality and an increase in stress and anxiety about losing one’s job. Work is important also from a psychological perspective: underemployment is degrading and makes one feel unwanted (Muqtada, 2010; Junankar, 2011; UNDP, 2014). The underemployed do not consider themselves useful members of society and suffer from diminished self-esteem. Their skill depreciates during extended spells of unemployment so that it becomes more difficult for them to find a job. In other words, underemployment increases social misery. For instance, the underemployed are twice as likely to be sad or depressed than the employed and 50% more likely to be angry (Marlar, 2010). They are also more likely to be struggling financially (54%) in contrast to 38% of the employed (Manchin, 2012). This is hardly a negligible matter, especially since endemic real unemployment is likely to be with us for the foreseeable future (Summers, 2014a; 2014b; Brynjolfsson and McAfee, 2012) unless we begin to think creatively about Rawlsian approaches to full employment.

Thus, the concept of the natural rate of unemployment “is an idea that is past its sell-by-date” (Farmer, 2013; Galbraith, 1997). “It is essential that ‘we continue to prioritize the goal of access to steady employment for everyone’” (Francis, 2015, paragraph 127). This is particularly important at the current level of inequality as Atkinson asserts: “the present levels of economic inequality are intrinsically inconsistent with the conception of a good society.” A good society or a just society? Either way, it should be clear that we have a long road ahead of us to rethink our economic theories, concepts, and associated policies.

²¹ William Darity Jr., and Patrick Mason, “Evidence on Discrimination in Employment: Codes of Color, Codes of Gender,” *Journal of Economic Perspectives* 12, (1998) 2: 63-90.

²² As the Nobel Prize winning economist Robert Solow put it: “Extreme Inequality is bad for the democratic political process” (Graduate Center, 2015, @3:06 minutes). He also calls it “repulsive” and “immoral.” Even conservative ex-Federal Reserve Chairmen Alan Greenspan expressed the opinion that “if you have an increasing sense that the rewards of capitalism are being distributed unjustly, the system will not stand” (Alan Greenspan 2007, @2:36 minutes).

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