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The Mistake of Full Employment

Abstract

This paper describes a way to reason about labor allocation that transcends the concept of full employment. Instead of asking how to get everyone a job who wants one, we can explore how best to allocate people's time and effort to society's advantage.

The benefits of employing people in jobs sometimes outweigh the costs, but not always. Paying people to do one thing necessarily prevents them from doing something else. By assuming that more jobs and higher wages are unequivocally good for society and the economy, we ignore this "opportunity cost" of labor. As a result, we risk over-employing people and wasting their time on comparatively unproductive and unfulfilling activities.

Our culture expects people to earn their living through employment. This expectation locks us into an inefficient job-based labor allocation structure. I argue that giving people a source of money independent from jobs and wages allows us to drop the full-employment paradigm, eliminate make-work, and allocate labor more effectively.

Introduction

We rarely question the economic policy goal of full employment. What could be wrong with allowing everyone to contribute to society through a useful, meaningful, well-paid job? Framed in this way, striving for full employment sounds like a no-brainer.

Full employment of labor is unproblematic and worth striving for so long as it just means allocating people's time and effort toward sustaining human prosperity. But this is not the version of full employment that economists, politicians, and ordinary people usually think about. Instead, we usually associate full employment with people having jobs.

Ensuring that people have jobs is not the same as allocating people's time and effort for our maximum collective benefit. Rather, it matters what kinds of things people are and are not working on. It matters *how* they spend their time. And when we structure our economy for people to earn their money exclusively through jobs, we bias the allocation of time and effort toward paid work.

Maybe we got lucky. Maybe viewing the world through a job-based employment model captures all of the important information needed for our economy to allocate labor effectively. But how can we know? How can we evaluate the fitness of our model? The answer is that we can't without some ideal to compare it to. We need a job-independent way of evaluating the effectiveness of labor allocation.

The Importance of Work

Work is important for what it produces. There will always be useful work for people to do. And we will always have reasons to pay people to spend their time on certain activities. Work—both paid and unpaid—is a necessary, fundamental, and unavoidable fact of life.

Work is also important to the people who do the work. Either it feels subjectively important, or the money it pays *makes* it important. If work weren't important to the worker, it wouldn't get done. We pay people to do work they wouldn't otherwise do.

To the extent that we pay people to work, we predicate people's access to the economy's product on the labor they perform. People who receive more wages can buy more stuff. The promise of the stuff is the reward that motivates the work.

Tying people's income to particular forms of work can be worth doing whenever society benefits from people spending their time in that way.

Allocating Time and Effort

We can try to imagine a world where everybody is self-sufficient, and nobody trades with each other. In this admittedly unrealistic world, there is no money and no labor market. Each person allocates their personal time and effort to the tasks needed to sustain their own survival. Everybody does every kind of work.

In the real world, it is sometimes helpful for people to specialize such that a small number of people perform all of a particular type of work for their community. Whenever specialization is more efficient, self-sufficiency is less efficient. When individual people specialize in particular kinds of work, society as a whole can achieve more benefit from less effort—less labor.

Although specialization saves labor overall, it also forces us to become interdependent. In a specialized economy, everybody depends—at least partly—on the product of other people's work. As a result, each person needs a way to access the things they don't make for themselves. Markets and governments facilitate this access.

If specialization evenly distributed labor savings, then everyone would continue to contribute labor in the same *proportion* as before. Each person would still have something to trade for what they need. But, under what conditions would we actually expect an even distribution of labor savings? Are these conditions realistic? How do jobs fit in? What happens to wages and hours worked?

Defining "Full Employment"

There is a sense in which every person is always fully employed: they each spend 24 hours every day doing *something*. There is also a sense in which nobody is ever fully employed: people would always be happy to receive more money for their time. But none of this tells us how *well* we're allocating people's time and effort.

According to our conventional definition of employment, whether we consider a person unemployed is a function of whether that person wants or has a paid job. People who don't want jobs are not unemployed. If everyone who wanted a job had one, we could then say that the economy is at full employment.

This definition suggests two possible ways of achieving full employment:

1. Give a job to everyone who wants one.
2. Ensure that people without jobs have no desire for jobs.

When we choose to provide jobs rather than alleviate the need for wages, we force people to work for their money. Of course, forcing people to work is not always a bad thing. Hiring people into jobs can be worthwhile whenever society benefits from the product of that labor. But how can we know when that is?

What Is a Job?

There are many ways to characterize how people spend their time. For example, people can pay (or be paid) any amount of money to spend any amount of their time on any number of different kinds of activities while exerting any level of effort. But "job" is a label that draws a binary distinction between labor time and non-labor time.

What counts as a job is determined by arbitrary cut-off points for wage levels, hours worked, or effort exerted. The job concept allows us to sort people into two categories: those whose time is allocated according to an arbitrary minimum standard of employment and those whose time is not. We can then construct our economic models and statistics—as well as our laws and regulations—in terms of an observable discrete quantum of employment.

By structuring people's time allocation in terms of jobs, we can precisely determine whether individual people are "employed" and how much time they spend "working." You either have a job, or you don't. You're either at work, or you're not.

But productivity is a continuum, not a binary condition. A job-based labor allocation paradigm forces us to create explicit rules about what kinds of activities can and can't count as employment. The term "job," instead of just helping us describe how the economy *does* work, also gives us a prescription for how the economy *should* work, and imposes a constraint on how the economy *can* work.

Social and Monetary Incentives

The more money people receive outside of a job, the less incentive they have to earn money through a job. Conversely, the more people *need* money, the less "unpaid" work they do. If society needs people to "work" more, we can reduce the level of comfort enjoyed by the jobless and vice versa.

Incentives influence how people spend their time, but not all incentives are monetary. Evolution has hardwired certain incentives into human biology, such as the incentives to eat, breathe, sleep, have sex, etc. Social learning has wired other incentives into human culture, such as those associated with morality, justice, rights, and even work ethic.

When biology and social rewards are insufficient motivators, we must pay people to do the work. Wages, as a source of money, are inherently coercive. They change people's behavior. The less access people have to non-wage money sources, the more wage-based coercion they must endure.

Despite cultural norms around the importance of having a job, people don't naturally desire jobs. That's why we have to pay people to work in the first place. Instead, people want the *compensation* that jobs provide. Wages are compensation for something that would ordinarily be undesirable.

Meaning and Purpose

When work feels intrinsically meaningful to us, we are better workers. Belief in the intrinsic value of hard work helps us survive in a society that predicates our survival on having a job. Our survival *depends* on us accepting norms around paid work and internalizing them into our own psychology. The need for a job feels innate. It's *supposed* to.

Ideally, we should want to ensure that people feel a sense of meaning, purpose, and dignity in their lives. This can feel impossible to do in a job-oriented culture without giving everyone a way to "contribute" through paid employment. But culture is adaptable. As our economy changes, our culture can change to match. What we don't want is for our cultural beliefs to stand in the way of social prosperity.

> *I think that there is far too much work done in the world, that immense harm is caused by the belief that work is virtuous, and that what needs to be preached in modern industrial countries is quite different from what always has been preached.*
> — Bertrand Russell, *In Praise of Idleness*, 1932

Technological Advancement

As with specialization, technology allows us to produce more economic output with less input—including labor. We might, therefore, expect technology only ever to make us better off. But, again, there is no reason to expect the labor savings to be evenly distributed. And because we structure our economy to force people to receive their money through wages, less wage income also means less money for people to spend.

In a world where people need the money from wages, technological progress can't save labor without reducing people's incomes. Rather than harmlessly freeing our society from unnecessary work, technology threatens to take away people's precious jobs. People fear an economy that no longer "needs" their labor contribution.

In response to this threat, policymakers attempt to ensure that people can "earn" their living through jobs by neutralizing the labor-saving effects of technological advancement.

Make-Work

In an economy that requires people to earn their money through jobs, the only way to ensure that people have money is to get them jobs. But employers are not, out of the kindness of their hearts, going to hire workers when it is not profitable to do so. The solution is for the government to use economic policy to make it more profitable for firms to hire workers. This hides the make-work behind market incentives.

Ideally, we'd want to maximize what we're getting *out* of the economy rather than what we're putting *into* it. By forcing everyone to earn a living through a job, we waste resources, including people's time. We keep people needlessly busy.

What's counterintuitive, and perhaps ironic, is that this unproductive make-work actually does contribute to economic output. This is because wages give people money to buy stuff, which helps prevent a demand shortfall.

Money Distribution

Our society tends to treat labor allocation and money distribution as the same problem. We assume that bringing the economy to full employment—in terms of simplistically defined jobs—optimizes for both. The reality is that it optimizes for neither. The status quo is that we force people to work as an excuse to pay them. We are handing out money by handing out jobs.

Rather than using the labor market to push money to consumers, we can let it allocate labor more efficiently. This means keeping wages low enough to prevent undesired coercion. It means that people receive wages only when we want the incentive. Instead of artificially inflating those wages, we can hand people the rest of their money directly.

Direct cash eliminates make-work.

Useful Work

There exists plenty of useful work, both paid and unpaid. The full range of potential human activity cannot be neatly divided into the binary categories of "useful" and "useless." Some ways of spending time are more productive, rewarding, or fulfilling than others. And none of this is easy to measure.

But there are things we can know. For example, we can understand that in an efficient labor market, people are only employed for the product of their labor. And the only purpose of wages is to provide an incentive for people to perform that labor. Thus, if we ever find ourselves employing people or paying wages for any other reason, we will know that the labor market is less efficient than it could be. We can always improve labor allocation by eliminating make-work.

Merely "employing" our resources fails to ensure that we get the most out of those resources. This is as true for labor as it is for any other resource. As we seek to derive the most benefit from people's time and effort, we must remember that paid work is not always more useful work.

People, Not Workers

People are not necessarily always workers employed at jobs. But people *are* necessarily always people. If we optimize our economy for the benefit of workers, then that forces people to *become* workers—and for a reason other than the product of their labor.

Our culture over-values work and workers. Whenever we prioritize workers over people, we are treating people as inputs to the economic machine rather than as the natural beneficiaries of the economy's product. But why should we care about workers in particular rather than people more generally?

Workers and non-workers alike benefit from better labor allocation. But optimal labor allocation is not the same thing as full employment, conventionally defined.

Conclusion

During the Great Depression, John Maynard Keynes diagnosed "involuntary unemployment" as the root of our economy's ills. Since then, the macroeconomic policy goal of "full employment" has rarely been questioned. Instead, economists assume that, as long as nothing impedes labor productivity, full employment allows the economy to operate at its full potential.

But full-employment policy undermines the very assumption on which it depends. Make-work impedes the labor productivity it is meant to take advantage of. When policymakers aim for full employment—even if they believe otherwise—they are not allocating people's time and effort for social benefit. Instead, they are ensuring that people have jobs, a type of paid work with arbitrarily defined parameters.

Of course, compared to a stalled economy, a well-functioning economy naturally employs more labor as an input to the production process. But was the problem during the Great Depression that people didn't have enough jobs? Or was it that people didn't have the money to buy what the economy was capable of producing for them?

People need things that—in our culture—only a job can provide. So, when activists ask for higher wages and better employee benefits, they're expressing a need for people to have better access to money and other services. They frame their demands in terms of jobs because they don't see an alternative.

Job-independent benefits, including direct cash and universal health care, give us an alternative to make-work. They allow the labor market to pay wages only as an incentive. Instead of wasting people's time, we can pay for work only when we want the product of their labor.

Can we ever truly know whether people's time and effort are being allocated optimally? Perhaps not. But we *can* know that creating jobs and boosting wages for the benefit of the worker is never optimal. We can know that full employment is a mistake.