



## **Is Full Employment Possible under Globalization?**

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# IS FULL EMPLOYMENT POSSIBLE UNDER GLOBALIZATION?

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## **The Sumner Rosen Memorial Lecture**

Columbia University

Expanded and Revised version of lecture delivered on November 16, 2006

*Lecture organized by the National Jobs for All Coalition,  
Columbia University Seminars on “Full Employment, Social Welfare and Equity” and  
“Globalization, Labor and Popular Struggles.”*

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### ***Abstract of Lecture***

*To honor the life work of Professor Sumner Rosen, this lecture examines approaches to promoting full employment at decent jobs within our contemporary era of globalization. The lecture briefly summarizes the theories of unemployment of Marx, Friedman, Keynes and Kalecki. It then addresses the meaning of full employment within the alternative theories and under different historical and country settings. It next considers the issue of the inflation/unemployment trade-off, and the Meidner-Rehn Swedish approach to inflation control under full employment. It concludes by presenting a sketch of something approximating a full employment program for the contemporary U.S. economy, focusing on ending the Iraq war and reallocation public spending toward health care, education, and green growth.*

JEL Codes: E24, E61

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<sup>1</sup> This written version of the lecture has benefited greatly by comments from Gar Alperovitz, Helen Ginsburg, and Tom Weisskopf.

It is a great honor for me to deliver the Sumner Rosen Memorial Lecture. Sumner was the epitome of the engaged scholar. His engagements were widespread and intense. At the same time, they all zeroed in on one thing, which how to build more just and equitable societies. Sumner was particularly committed to initiatives that fought for the well-being of working people and their families—that included the U.S. labor movement, the allied living wage movement in the United States, and, on a more international level, the International Labour Organization. At various points, I interacted with Sumner in all of these initiatives. Each time, I saw first-hand just how effective Sumner could be.

Of course, being an engaged scholar has two parts to it, and Sumner made important contributions as a scholar as well as an activist. In terms of my lecture topic, two initiatives stand out. One is the 2000 book *Commitment to Full Employment: The Economics and Social Policy of William S. Vickrey* that Sumner co-edited with Aaron Warner and Mat Forstater. This book, in turn, was based on a 1998 academic conference at Columbia organized by Sumner and his co-editors in honor of Professor Vickrey, the late Nobel Laureate in Economics.<sup>2</sup>

The second is a special issue of the journal *Economic and Industrial Democracy* titled “The Challenge of Full Employment in the Global Economy.” Sumner co-edited this special issue in 1997 along with Helen Lachs Ginsburg, June Zaccone, Gertrude Schaffner Goldberg, and Sheila Collins. Sumner and his co-editors also wrote an extensive Introduction to this special issue. They were invited to undertake this project by the general editor of the journal, the great Swedish economist Rudolph Meidner, one of the main architects of the Swedish social democratic model. The Meidner model for Sweden included a successful approach to combining a full employment economy with relatively low inflation. In many ways, my lecture tonight amounts to little more than an extension and updating of the contributions by Sumner and his co-authors, which itself built from the work of Vickrey and Meidner. I return to these connections below.

It is no surprise that Sumner should have been so focused on the topic of full employment. In my view, there isn’t an issue that is more worthy of the energies of an engaged scholar like Sumner. We can see this both at the level of individuals and families; and in evaluating the health of an economy as a whole.

When we want to get a sense of the living standard of a person or family, we would almost always begin with a simple question: does somebody in the family have a job and, if so, how much does it pay? Whether you can get a job and if so, whether the job offers decent pay and benefits, a clean and safe environment, and fair treatment for you and your co-workers, matters a lot to almost everyone. Money is the most obvious consideration. But beyond the amount of money you earn, your job is also crucial for

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<sup>2</sup> At the time of his death, only three days after having been awarded the 1996 Nobel Prize in Economics, Vickrey was Co-Chair of the Columbia University Seminar on Full Employment and on the Advisory Board of the National Jobs for All Coalition, co-sponsors of this lecture.

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

In broader economic and social terms, when an economy operates at a high employment level—i.e. at something approaching full employment—this creates as a matter of course a high level of overall purchasing power in the economy, since people will 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 increase their level of investment. An economy with an abundance of decent jobs will also promote both individual opportunity and equality, because this kind of economy offers everyone the chance to provide for themselves and their families.

It follows that a high-employment economy is also the best single tool for fighting poverty. We saw this vividly in the United States in the late 1960s when as a result of stimulus from both the Kennedy-Johnson tax cut and the build-up of Vietnam related government spending, unemployment fell below four percent in 1966 and remained there until 1970. This high-employment economy brought in its train rising wages across-the-board, better working conditions, and less job discrimination against women, African Americans, and other minorities. Arthur Okun, a member of the Council of Economic Advisers under President Johnson wrote about these years, “Prosperity has been the key to the reduction of the number of people below the statistical poverty line from 40 million in 1961 to 25 million in 1968. It has meant jobs for those formerly at the back of the hiring line...It has made economic security a reality to millions of middle-income families,” (1970, p. 124).

### **Unemployment Theory: Surveying the Battleground**

An economy operating at full employment evidently has the capacity to deliver great individual and social benefits. Why then has full employment been so difficult for capitalist economies to achieve? Or to address the question more narrowly: why have policymakers throughout the world moved away from even attempting to create a full employment economy? Or more narrowly still, why is there so much controversy over merely how one defines a full employment economy?

To begin with, we can define three distinct types of unemployment. *Voluntary* unemployment is when people are out of work because they choose to be. *Frictional* unemployment is when people are between jobs, receiving job training, or relocating. *Involuntary* unemployment is when people are making a significant effort to find work, but have been unsuccessful. In principle, the first two types of unemployment are relatively benign. Unemployment only becomes a serious concern when it is involuntary. But as we will see, the distinctions between the three categories are not always evident. It will be useful to consider these questions further in the context of a very brief history of thought on these questions.<sup>3</sup>

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<sup>3</sup> This section draws from Pollin (1998)

The first great theorist of unemployment was Karl Marx, who addressed the issue at great length in the first volume of *Capital*, especially in his justly famous Chapter 25, “The General Law of Capitalist Accumulation.” One of Marx’s overarching themes was that, in a free market capitalist economy, workers will generally have less power than capitalists in the bargaining process over wages. This is because workers cannot fall back on other means of staying alive if they fail to get hired into a job. Capitalists gain higher profits through having this relatively stronger bargaining position. But Marx also stressed that workers’ bargaining power diminishes further when unemployment and underemployment are high, since that means that employed workers can be more readily replaced by what Marx called “the reserve army” of the unemployed outside the office, mine, or factory gates. It should be clear that members of the reserve army are, by definition, involuntarily unemployed.

Pursuing the implications of this observation, Marx concluded that high involuntary unemployment is functional to the operations of a capitalist economy. By the same token, when a capitalist economy is growing rapidly enough so that the reserve army of unemployed is depleted, workers will then utilize their increased bargaining power to raise wages and shift the distribution of income in their favor. Profits are correspondingly squeezed. As a result, capitalists become less willing to risk spending money on new investment projects. This then leads to a fall in job creation, higher unemployment, and a replenishment of the reserve army. In other words, the reserve army of unemployed is the instrument capitalists use to prevent significant wage increases and thereby maintain profitability.

Another major theorist of unemployment was the late conservative economist Milton Friedman, who originated the term “Natural Rate of Unemployment” in his highly influential Presidential Address to the American Economic Association in 1967. There is an unlikely parallel between the ideas of Marx and Friedman on this issue. This is because Friedman, like Marx, held that high unemployment in capitalist economies occurs when workers have the capacity to flex their bargaining muscles. Friedman’s reasoning is as follows: if we allow for free and competitive markets, businesses will always be forced to hire a worker at a wage exactly equal to the amount of money that this worker is worth to the business. If businesses try to hire workers at a wage lower than what they are worth, the business will not be able to attract qualified employees, and will be outcompeted by businesses that are willing to pay workers a decent wage. By the same token, if businesses pay workers more than they are worth, the businesses will see their profits disappear, and, again, will eventually fold.<sup>4</sup>

This is how Friedman concludes that free market capitalism will ensure that businesses are offering workers jobs at an appropriate wage. Workers are ‘free to choose’ in Friedman’s framework: to accept a job at this appropriate wage, or not to

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<sup>4</sup> In Friedman’s framework, what a worker is “worth” depends entirely on their productive contribution to their employer’s firm. It bears no necessary connection to whether they are paid something approximating a living wage.

work. If workers freely decide not to work at the wage offered, they are, according to Friedman, *voluntarily* unemployed. In Friedman’s terminology, the “natural rate” of *involuntary* unemployment in a free-market setting is effectively zero (after allowing for such “frictions” as people moving between jobs and acquiring new skills). The natural rate of involuntary unemployment will become positive only when workers refuse to accept this free market-determined wage or when non-market forces, such as labor unions or minimum wage mandates, prevent wage levels from falling to the level that is consistent with business profitability. Here is how Friedman put it in his 1967 American Economic Association Presidential Address:

By using the term "natural" rate of unemployment, I do not mean to suggest that it is immutable and unchangeable. On the contrary, many of the market characteristics that determine its level are man-made and policy-made. In the United States, for example, legal minimum wage rates ... and the strength of labor unions all make the natural rate of unemployment higher than it would otherwise be." (1968, p. 9).

Now we turn to a third great theorist on unemployment, John Maynard Keynes.<sup>5</sup> Contrary to Marx but consistent with Friedman, Keynes held that full employment—that is, no *involuntary* unemployment—was attainable under capitalism. Indeed, Keynes held that unemployment—in particular mass involuntary unemployment, such as during the 1930s Depression, when he was developing his arguments on this issue—was irrational, since it meant wasting the energies and talents of those without work.

For Keynes, mass unemployment resulted because of insufficiency in total spending—or aggregate demand—in the economy, including the total of household, private investment, and government demand, as well as the total amount of export sales less total imports. According to Keynes, by far, the most volatile type of spending in a capitalist economy is private investment. Decisions by businesses to invest depend on their expectations of future profits, what Keynes termed their “animal spirits.” Animal spirits could fall for a number of reasons. As Marx explained, wages could be rising quickly, squeezing profits. Import competition could intensify. A stock market bubble could burst. Whatever the immediate cause of capitalists’ declining animal spirits, when animal spirits do fall, private investment will correspondingly contract. This, in turn, will mean that businesses will also be laying off workers, producing rising involuntary unemployment.

Keynes was convinced that the wise application of well-designed policies could counteract this inherent tendency, and thereby create and sustain full employment capitalism. The Keynesian approach was centered around

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<sup>5</sup> This was the overarching theme of Keynes’s 1936 masterwork, *The General Theory of Employment, Interest, and Money*.

macroeconomic policy—specifically the idea that central governments could manipulate their spending levels between fiscal deficits and surpluses (fiscal policy) and could adjust interest rates and the availability of credit (monetary policy) to maintain a level of overall demand consistent with no involuntary unemployment. Note that this Keynesian path to attaining zero involuntary unemployment is dramatically at odds with the Friedman position that involuntary unemployment can occur only because of obstacles in the labor markets such as labor unions and minimum wage standards.

It was largely due to Keynes’s arguments that, from the end of World War II until the early 1970s, economic policies in the capitalist societies were targeted to achieving full employment. To be sure, the level of commitment to this goal varied substantially according to country and political party, as did the specific policy approaches for maintaining a high level of overall demand. But nevertheless, the idea of running economies at something approximating full employment, and utilizing macroeconomic policy tools to make this happen, was almost universally a front-and-center concern.

The final major thinker on unemployment that I want to mention is Michal Kalecki, who was a contemporary of Keynes, and who tried to synthesize the perspectives of Marx along with Keynes. Kalecki reasoned as follows<sup>6</sup>: Due to Keynes, we now have a sufficient understanding of capitalist economies such that we can devise workable policies to sustain full employment. Moreover, contrary to Marx, Kalecki held that full employment can be beneficial to profits, because the economy will be operating with buoyant markets at a high level of overall demand for products. Business profits could well be squeezed by high wage demands in a full employment economy, but they could compensate through a higher volume of sales combined with smaller, but still positive, profit margins.

But despite the fact that businesses could benefit from full employment in this way, Kalecki reasoned that they still won’t support full employment as a goal because it would embolden workers excessively. Full employment could threaten the 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: that full employment was sustainable under capitalism, but only if the challenges to capitalists’ social and political hegemony could be contained. From this perspective, Kalecki held that fascism could be an effective framework for operating full employment capitalism, since the job of a fascist government would also be to maintain the capitalists control over workers, no matter whether the workers had jobs or not.

### **What Does Full Employment Really Mean?**

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<sup>6</sup> See especially Kalecki’s famous 1945 essay, “The Political Aspects of Full Employment.”

Kalecki’s arguments raise a basic question: is full employment—i.e. absence of involuntary unemployment—always and everywhere a desirable goal, no matter what it takes to achieve it? Kalecki example about full employment under fascism makes strikingly clear that we can’t be concerned only with the absence of involuntary unemployment. We also need to consider the quality of jobs people are able to obtain. This point was conveyed to me vividly when I was working in Bolivia in 1990 as part of an economic advising team led by Professor Keith Griffin of University of California Riverside. Griffin and his team were brought to Bolivia primarily to develop a program that would address the human devastation wrought by the "shock therapy" program designed by Jeffrey Sachs to end the Bolivian hyperinflation of the 1980s.

Prof. Griffin asked me to examine employment policies. I began by paying a visit to the economists at the Ministry of Planning. When I requested that we discuss the country’s employment problems, they explained, to my surprise, that the country *had no employment problems*. When I suggested we consider the situation of the people begging, shining shoes, or hawking batteries and Chiclets in the street just below the window where we stood, their response was that these people *were* employed. And of course they were, in that they were actively engaged in trying to scratch out a living. It was clear that I had to specify the problem at hand far more precisely. Similarly, in the U.S. today, we have to be much more specific as to what workers should be getting in a fair economy: jobs, of course, but also living wages, benefits, reasonable job security, and a healthy work environment.

Here is precisely where the work of Sumner Rosen and his colleagues, as well as the contributions of William Vickrey and Rudolph Meidner, become crucial. As I read Vickrey, Meidner, and Rosen, their definition of “full employment” refers to a situation in which there is an abundance of *decent* jobs, and that this situation is also consistent with—and indeed supportive of—an expansion of workers rights and industrial democracy. The Vickrey/Meidner/Rosen version of full employment doesn’t look at all like the experiences of fascist Germany or post-shock therapy Bolivia. Rather, it most closely resembles the Swedish version of full employment, what my professor the late Bob Heilbroner used to call “slightly imaginary Sweden.”

I don’t think Vickrey, Meidner, and Rosen were ever naïve about what the slightly imaginary Swedish version of full employment really entails. I think they understood that full employment at decent jobs is most certainly a challenge to the prerogatives of capitalists and the logic of free-market capitalism. Indeed, this is a major reason for pursuing this version of a full-employment economy. At the same time, I think they understood that under a Swedish model of full employment, the economy could still operate with high levels of private property, private ownership of business, and a competitive labor market.

### **Controlling Inflation: An Insurmountable Obstacle?**



Can a Swedish-type model contain inflation? The idea that there is an inflation/unemployment trade-off—i.e. inflation goes up when unemployment goes down and vice versa—was first explicitly advanced in 1958 by a British economist A.W. Phillips, describing what has come to be known as the “Phillips Curve.” But the basic argument follows readily from Marx’s ‘reserve army’ framework. That is, when workers are able to bargain up wages in a low unemployment economy, it doesn’t necessarily follow that business profits will be squeezed. It is also possible that businesses can pass on their higher labor costs to their customers through price increases. An inflationary wage-price spiral would then ensue.

The failure of the OECD economies to contain inflation in the 1970s is what led to the demise of full employment as a policy goal over this period, as policymakers became convinced that the inflation increases resulting from low unemployment had become severe and uncontrollable. This was the situation that led to the ascendancy of Friedman’s “natural rate of unemployment” theory. It also led to an even more extreme position, the “New Classical” view that any effort by governments to reduce unemployment by stimulating overall demand in the economy will always, everywhere and immediately lead only to persistent and rising inflation, with no gains at all in reducing unemployment. The New Classics held, in other words, that the Phillips-curve type trade off between inflation and unemployment was only an illusion. This is because, if workers are able to bid up wages beyond the point that they make useful contributions to the profits of their employers, the employers, without delay, will pass along these excessive cost increases to consumers through higher prices. Any government policy intervention to try to reduce unemployment through increasing demand will yield only negative unintended consequences—producing only the harm of higher inflation without any counterbalancing good of lower unemployment.

Even if one rejects this extreme New Classical position, it is still necessary to address the issue of inflation control if one is serious about building a full-employment economy. As William Vickrey said in his 1992 Presidential Address before the American Economic Association, “To get anywhere near a satisfactory level of unemployment, some method of dealing with inflation will have to be devised, (1993, p. 7).” Vickrey himself considered a range of possible approaches.

In particular, he favored a flexible system of price controls. According to his proposal, all business firms would have the right to raise prices at a given rate established by government policymakers. Firms could also raise prices beyond the fixed rate. But to do so, they would have to purchase from other firms these other firms’ rights, or warrants, to themselves raise prices. For example, assume all firms were free to raise prices by three percent in a given year. Each firm therefore holds a warrant to raise prices by three percent. But these are tradable warrants. If one firm wished to raise its prices by six percent, they could purchase the warrants of another firm. This way, the first firm could raise their prices by six percent, while the second firm, which had sold its warrant, would be required to not raise their prices at all. Assuming the two firms were

roughly equal in size, the net effect for the two firms would be an overall price increase of three percent.

This and related ideas by Vickrey are certainly worth exploring further. But more promising, in my view, comes out of the work of Meidner in Sweden, in particular because this model has demonstrated its effectiveness in practice. Meidner, along with the co-developer of the approach Gösta Rehn, did support macroeconomic policies to stimulate overall demand in the economy and thereby expand the number of decent-paying jobs. But they also favored limiting such policy interventions, to the point where, through these measures alone, the economy still maintained a positive unemployment rate of about three percent. Meidner and Rehn opposed macroeconomic demand expansion measures that, on their own, aimed to bring the economy all the way to zero unemployment, since they held that unacceptably high inflation could indeed result if full employment was achieved through such stimulus measures alone. In other words, Meidner and Rehn supported maintaining some slack in the economy to keep upward wage pressure from producing headlong inflation.<sup>7</sup>

At the same time, alongside this commitment to maintaining restraints on job stimulus policies, they also supported active labor market interventions by the government aimed at getting as many as possible of the remaining unemployed workers into jobs. These labor market interventions included both travel and relocation allowances to help workers physically get to new jobs, retraining programs to increase workers’ qualifications, and a variety of other measures. Through this overall approach—combining restrained macroeconomic demand stimulus measures with active labor market interventions—Meidner and Rehn argued that the economy could achieve something close to full employment at decent wages while still maintaining control over inflation.

A major feature of this Swedish policy as it developed in practice was that it operated with the cooperation of working people and their union representatives. Specifically, the main unions in the country were willing to accept some restrictions both on macroeconomic stimulus policies and on their own wage bargaining demands to fight against excessive inflationary pressures as full employment was approached. Because of this position by the unions, Sweden succeeded at maintaining unemployment at an average rate of 2.1 percent over 1960-89, the heyday of this approach. Inflation averaged a fairly high 6.7 percent, but this period includes the effects of the 1970s oil price shocks, when inflation and unemployment rose together due the oil shock, not as a result of a tight labor market. Considering the period overall, the unions’ restraint was therefore a sign of their strength, not a sign of weakness.

It also should be recognized that the Swedes themselves largely abandoned their commitment to a full employment economy beginning in the early 1990, shifting their

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<sup>7</sup> See the fascinating interview with Meidner (1998) in which he reflects on the successes and failures of the Swedish model.

primary focus toward inflation control. Thus, between 1993-2006, unemployment rose to an average of 7.6 percent, while inflation fell sharply, to an average of 1.5 percent. has averaged 7.6 percent. Ginsburg and Rosenthal explain this as resulting from “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,” (2006, p. 1).<sup>8</sup> This most recent Swedish experience thus raises the question as to whether the model has become unworkable in our contemporary globalized economy.

### **Has Globalization Made This Approach Unworkable?**

The issue, for Sweden, and more generally, is not globalization per se, but rather the neoliberal policy framework that has defined the process of globalization for 30 years. In general terms, globalization only means that the economies of countries throughout the world are becoming increasingly integrated. Dramatic declines in transportation and communications costs have been crucial to this process, as was the opening of formerly Communist countries to the global capitalist market.

But neoliberalism has specific features, including macroeconomic policies focused on controlling inflation rather than promoting employment; lowering barriers to international trade; opening up new investment outlets for multinational corporations and financial speculators; and an erosion of public policies and institutions designed to protect working people and the poor from the vicissitudes of the free market.

In the United States, this neoliberal policy framework has exposed working people to increased competition from workers in poor countries—it has meant, effectively, an expansion of the reserve army of labor for the jobs that are being done by U.S. workers. This occurs even though, of course, not all products on U.S. markets are imported from poor countries, nor are U.S. firms moving their operations offshore. The domestic U.S. economy remains a \$13 trillion operation, employing 152 million people. But U.S. workers nevertheless face an increasingly *credible threat* that they can be supplanted by workers in poor countries willing to accept much lower wages. Employers can tell workers during wage bargaining: “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.” This by itself erodes workers’ bargaining power.<sup>9</sup>

Just how serious this problem has been is reflected in the pattern of average wages since 1973. As of 2005, the average non-supervisory worker in the U.S. earned \$16.35 an hour (in 2005 dollars). This figure is eight percent below the 1973 peak figure of

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<sup>8</sup> As Meidner himself wrote, “In the beginning of the 1990s—or to be exact in the government’s budget proposal in January 1991—the Social Democratic government explicitly changed its priorities. The main objective was shifted from full employment to price stability and the government announced its intention to apply for EU membership. The new non-socialist government which came into office in October 1991 allowed unemployment to rise steeply from 2-3 percent to more than 8 percent,” (1997, p. 93).

<sup>9</sup> Fuller presentations on these themes are in Pollin (2003) Chs. 1-3 and Pollin (2007).

\$17.66 per hour. But this is only half the story. The other half is that average labor productivity in the U.S. rose by 85 percent over this 33-year period of declining wages. That is, the total basket of goods and services that average U.S. workers produced in 2005 is 85 percent larger than what they could manage in 1973. The workers’ reward for producing 85 percent more goods and services in 2005 than 1973 is an eight percent pay cut.

Unless something dramatically changes in our policy environment, these threat effects are likely to only deepen over time. This point was brought home recently by an unlikely source, an article in the March/April 2006 issue of *Foreign Affairs* magazine—the longtime premier organ of the country’s foreign policy elite. The article, “Fear of Outsourcing,” was by Professor Alan Blinder of Princeton’s economics department. Blinder’s establishment credentials are impeccable. He is a former member of President Clinton’s Council of Economic Advisors and a former Vice-Chair of the Federal Reserve Board under Alan Greenspan.

Blinder suggests that something like 42 – 56 million jobs that are in today’s U.S. labor market are capable of being performed by workers in poor countries. This is roughly one-third of all jobs in the U.S. today. He is including all manufacturing jobs as well as what he calls “impersonal service” jobs. These are services that can be delivered over the Internet, including back office accountants, lawyers, engineers, architects, and laboratory technicians as well as their support staff. What he calls “personal service” jobs—ones that are not vulnerable to outsourcing—include taxi drivers, janitors, nurses, high-school teachers, psychiatrists, and lobbyists.

Is Blinder right? I think he is broadly accurate in estimating the number of jobs that are vulnerable to outsourcing. This doesn’t mean that anything like 50 million jobs will actually be outsourced. The crucial point for wage bargaining is rather that the employers of these 50 million workers will gain increased leverage over their workers, because their power to make credible threats to outsource will grow.

The basic challenge then is to design full employment policies that can also counteract these pressures from neoliberal globalization. It is useful here to recall the experience in the U.S. in the late 1990s, when unemployment fell below four percent for the first time since 1966-69. As unemployment continued to fall in this period, the long-term decline in wages did then also reverse itself for a time. And workers also attained better health and pension benefits. The poverty rate declined. In other words, once the unemployment rate fell below four percent, the same patterns we observed in the 1960s—of improving wages, benefits and working conditions—quickly began to reassert themselves. This was true, even in the face of the very real pressures from globalization that are pushing in the other direction.

The problem with the late 1990s experience was that the rapid economic growth that forced unemployment so low was driven by an overheated speculative stock market. This overheated stock market led to a massive increase in wealthy people borrowing

money to increase both their consumption and investment. This large-scale injection of new spending into the U.S. economy in turn produced something approaching full employment. But it did so in a way that was clearly unsustainable. When the stock market bubble collapsed in 2001 (before September 11), recession followed. The rise in average real wages ended soon thereafter.

But the lesson here is clear. The key to sustained full employment, even in the face of globalization, is to achieve comparable levels of demand injections into the domestic economy through controlled public policy as opposed uncontrolled excesses of the financial markets. The most effective and egalitarian way to do this is through public investments targeted carefully at location-specific high employment investments. Let me give one general example of what I mean, thinking about spending funds on vital public needs rather than our disastrous military adventure in Iraq.

For the fiscal year 2007, the U.S. spent \$138 billion on the war in Iraq. How would our employment situation change if, instead of funding the Iraq war, we instead used the funds to address some of the country’s most pressing social and economic needs—namely, eliminating the worst forms of poverty, providing universal health insurance, dramatically improving our public educational system, and equally dramatically improving the quality of our environment. In addition, we could generate another \$60 billion in annual revenue by simply repealing the Bush tax cuts for everyone earning over \$200,000. In short, reversing Bush on Iraq and tax cuts for the rich would, by themselves, generate \$200 billion that could be redirected toward a program for jobs, health care, education, and green growth.<sup>10</sup>

Weapons manufacturers would obviously be hurt by this type of transfer of funds, while, for example, construction firms that build schools would benefit. Focusing on employment effects, jobs would dry up in industries associated with the military, while they will rise in industries associated with education, health care, and a clean environment.

According to preliminary calculations that I have done with Heidi Garrett-Peltier, the net employment effects of shifting \$200 billion from Iraq and tax cuts for the rich to the peaceful purposes I have mentioned will be positive and large—that is, after accounting both for the employment losses in military-related activities as well as the employment gains resulting from a package focused on education, health care, poverty reduction and a clean environment. The reasons are straightforward. First, the amount of labor needed for activities such as education, health care and a clean environment is significantly larger than that needed for military spending; and second, virtually all of the new jobs generated through peaceful investments will be within the U.S., as opposed to Iraq or other countries tied to our military adventures. Based on data from the United States input-output model, a reasonable approximation is that this \$200 billion transfer of funds will produce a net increase of around 1 million jobs within the United States.

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<sup>10</sup> The following discussion draws on Pollin and Garrett-Peltier (2007).

At the same time, it wouldn't necessarily follow that the average pay level would rise through the shift in spending from the military to meeting domestic social needs. Specifically, the average amount of total compensation for all jobs associated with military spending—including, among others, auto and electrical mechanics, weapons designers and their support staff, as well as privates, bomber pilots, generals and Halliburton executives—is about \$66,000 today. The comparable figure for education is higher, at \$74,000, but is lower for health care, at \$57,000, and construction, at \$48,000. In other words, part of the way that more jobs get created by shifting spending out of the military and into health care and energy conservation is by spreading out a given amount of money among a larger number of lower-paid workers.

This is not true with education, where more jobs get created per dollar of spending because less money is spent on equipment, buildings and raw materials such as energy, even while the average pay is also higher than the military. But even with health care and construction, a large majority of jobs pay above \$32,000 per year, which is a reasonable threshold for a minimally decent basic needs income standard. Meanwhile, the proportion of jobs in health care and energy conservation paying below \$20,000—a level below any reasonable definition of a living wage standard in the U.S.—is not significantly larger than in the military-related industries. And of course, both health care and energy conservation are high public policy priorities.

The story is somewhat different with the \$60 billion that would come from rescinding the Bush tax cuts for the rich, since the industries associated with servicing the consumption needs of the rich—including hotel and restaurant workers, accountants and their support staff, and housekeepers—are obviously different than those needed by the military, or for expanding education, health care or energy conservation. In fact, the total number of jobs created for a given amount of spending for private consumption is higher than for the military, but lower than for education, health care or energy conservation. And the average compensation for workers in this area, at \$46,800 is lower than all the other sectors. Thus, lowering taxes on the rich—besides showering rewards on the already overprivileged—is also the weakest possible means of promoting decent jobs.

How significant would be an employment expansion of this magnitude? There were, as of February 2008, 7.4 million people officially unemployed within the U.S. labor force of 153 million, producing an official unemployment rate of 4.8 percent. If we can assume that all else would remain equal in the U.S. labor market after the \$200 billion transfer of funds had occurred, the net injection of 1 million jobs would therefore reduce the total number of unemployed people to 6.4 million, a reduction of 14 percent. This would reduce the unemployment rate to 4.2 percent. This is an unemployment rate nearly as low as the late 1960s and late 1990s, when the high demand for workers did lead to rising wages and better working conditions.

Of course, we cannot assume that everything about the U.S. labor market would stay the same after 1 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. This will have to be managed carefully. Learning from the Meidner-Rehn model could only help here, even while recognizing that the Swedish experience cannot be transplanted intact into the United States economy (or, for that matter, anyplace else.)<sup>11</sup> But at least as an illustrative exercise, we can see that large-scale job creation within the United States is possible through concerted policy interventions—and all of this could be achieved as an outgrowth of ending the disaster in Iraq and Bush’s tax giveaways to the rich.

My conclusion therefore is that, even in the face of globalization, full employment in the United States is still attainable, and I mean here something that would look like slightly imaginary Swedish full employment, not fascist or Bolivian full employment. The point would be to replace neoliberal globalization with an alternative model—one that still allows the process of global integration to proceed, but to do so within the context of what is good for people and not just corporate profits. In the end, the issue comes down to a matter of political will. Is there the political will, in the United States and elsewhere, to fight for something as simple and basic as the right to a decent job? By way of an answer, I think it is only appropriate to allow Sumner Rosen and his co-authors to offer a final reflection:

Many technical tools are already available to attain full employment and, with a will to do so, others can be discovered. When US elites wanted to send a human being to the moon or to develop high-tech weapons—both of dubious benefit—major research efforts were made; when medical scientists lack a cure for an epidemic disease, research funds are provided. But when faced with unemployment, some economists, governments and the corporate interests they often reflect proclaim it cannot be cured or that it does not exist or it is “natural,” (1997, p. 34).

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<sup>11</sup> As I mentioned above, the success of the Swedish model depended on having a strong labor movement, which isn’t presently the case in the United States. But perhaps one factor that could contribute to building a stronger U.S. labor movement would be the recognition of how this kind of institutional presence within the U.S. economy could contribute to full employment. More generally, after accounting a wide range of possible historical and institutional differences, I would hold that lessons from the Meidner-Rehn model on pursuing full employment with controllable inflation can apply quite broadly. For example, I have examined this issue in some depth in presenting “employment-targeted” economic programs in South Africa (2007) and Kenya (2008).

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