Flexible Full Employment: Structural Implications of Discretionary Public Sector Employment

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Full employment is often associated with structural rigidities. An economy running at full employment and high levels of capacity utilization will have difficulty adjusting to structural changes such as capital- and labor-displacing technical innovations, changes in supply of labor or natural resources, and changes in the composition of final demand [see, e.g., Lowe 1976; Pasinetti 1981, 1993]. Such rigidity is rooted in the structural and technological features of modern capitalist economies.

Modern economies are interindustry systems with complex sectoral interdependencies described in input-output analyses. Capital goods are highly specific and in no way necessarily shiftable between different lines of production. Means of production are neither highly divisible nor substitutable. Economic processes take place in historical time; there are no instantaneous adjustments. There is a significant amount of uncertainty regarding the future, and the past is unchangeable. There are time lags, distortions, bottlenecks, and rigidities that reflect the physical and technical nature of the system.

While standard neoclassical models exhibit flexibility because of unrealistic assumptions, such as perfectly mobile, divisible, substitutable, and homogeneous factors of production, perfectly flexible prices, and perfect information, the primary "real-life" features endowing capitalist systems with flexibility are unemployment and excess capacity. Excess capacity permits firms to respond relatively quickly to unexpected increases in demand. But this ability to respond requires not only reserve capacity in terms of plant and equipment, it also requires the ability to hire additional workers or to add hours of work. A "reserve army of labor," including the

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unemployed as well as involuntarily part-time and "flex-time" workers, has historically served the function of providing the economy with a pool of unemployed from which firms can draw during expansions.

Unemployment (and underemployment) and excess capacity are thus important sources of system flexibility in capitalist economies. This flexibility, however, comes at a high social and economic cost. Recent proposals have been made that government act as an employer of last resort, hiring anyone who is ready and willing to work at an appropriate money wage rate [Minsky 1986; Lowe 1988; Mosler 1997-98; Gordon 1997; Wray 1997]. This paper investigates the structural implications of "employing the reserve army" and outlines the advantages of the employer of last resort approach in promoting flexible full employment.

Public sector employment has a number of advantages over other approaches in promoting flexible full employment. These advantages include those that relate to not only labor, but to capital goods and natural resources as well. They relate to both the input side and the output side of public sector activity. Key to understanding the flexibility of public sector activity is to recognize the constraints within which private firms operate. Competitive pressures compel private firms to make decisions based on a narrow set of criteria. Firms must make decisions concerning what activities to engage in and what methods of production to utilize based on their best estimate of the profitability of such a move or decision. Of course, there are a number of issues that come into play here, and we would not want to depict these decisions as simplistic. But in a capitalist economy, competitive pressures greatly restrict the degree of discretion that firms have with regard to the line of production they engage in and the methods of production they utilize in any given line of production.

Public sector activity, however, does not have to be concerned with these types of competitive pressures, since government is not in business to make a profit. Government can choose to engage in a line of production that no private firm would undertake. Likewise, the public sector can choose to utilize a method of production other than that stipulated by narrow "efficiency" criteria, where efficiency is defined as private cost minimization. Government can make its decisions based on other criteria, such as an assessment of broader macroeconomic concerns or social values. By basing its decisions on such alternative criteria, government can positively impact the private sector in a number of ways.

Fundamental to this approach is the distinction between "necessary" (essential or regular) public sector activity and employment and what we call here "discretionary" public sector activity and employment. Of course, what is "necessary" and what is not are matters of social policy and also may change over time, but at any given time there is a set of activities that is considered necessary and that cannot be modified, delayed, or discontinued without harm to the public good. Employees who are engaged in the operation and management of these necessary functions are
necessary or regular (i.e., permanent) public sector employees and are not part of "discretionary" public employment.

Designation of employment or activities as "discretionary" does not mean that they provide no public benefit. It means, in essence, that there is no "emergency" character to them. Thus, these activities can be undertaken when there is available labor from the private sector, and they can be delayed or discontinued when private sector demand for labor rises. Of course, some functions that are in the "discretionary" category may be redesignated as "necessary" under changing circumstances.

Labor

The benefits of discretionary public sector employment in promoting flexibility with regard to labor have received greatest emphasis in other literature on the subject [see, e.g., Minsky 1986, 308-13]. Discretionary public sector workers are seen as continuing to function in some respects as a "reserve army," but an army that is employed at a living wage. Thus, the discretionary public sector workers continue to be available to the private sector if the demand for labor should increase. Firms need only bid the public sector workers away by offering them a mark-up over the basic public sector wage, or better benefits, or an opportunity at career advancement, or any other incentive to move into the private sector.

As the private sector demand for labor increases, the discretionary public sector pool will presumably shrink, and as the private sector demand for labor falls, the discretionary public sector pool will presumably rise. The mechanism thus works something like a reserve army, but with workers moving between private sector and discretionary public sector employment, rather than between employment and unemployment. We thus have full employment without overly tight labor markets.

By "employing the reserve army," workers who would have been otherwise unemployed can have the opportunity to maintain and enhance their skill and knowledge levels, thus providing benefits to the individual workers and the economy as a whole. Increasing skills may lead to higher functional flexibility in the economy, while discretionary public sector employment provides numerical flexibility without relying on unemployment.

Labor market rigidities result from full employment. With guaranteed public sector employment, an element of labor market flexibility is retained without unemployment. Thus, firms can maintain numerical flexibility and so add shifts or add workers to production lines, extending elasticity of supply in the firm and thus to the industry and system as a whole.
Schemes that promote increases in labor employment by stimulating private sector activity will also result in higher degrees of capacity utilization in those industries that experience a higher demand for their product and those industries that provide their inputs. Thus, there is a danger of structural rigidities resulting from higher capacity utilization rates. Such structural rigidities can be the source of bottlenecks and inflationary pressures.

Whether the result of higher private sector activity or increased public sector activity, increased demand for capital goods can result in such rigidities. Government has a greater discretion in choosing which activities to engage in and which methods of production to utilize. Of course, this is for "discretionary" public sector activity. Again, this does not mean that such activity may not be beneficial to the public, but that public sector activity deemed to be "essential" is not subject to the same flexibility.

In choosing what productive activities to engage in, government can consider the general trends in the composition of economic activity and make the decision not to engage in activities that utilize those types of capital equipment that are already in high demand or are in short supply. If the public sector were to engage in activities that utilized such equipment, then this could lead to increased rigidity in the same way as higher levels of private sector activity. Since public sector decisions are not driven by competitive pressures, government can simply engage in those activities that utilize equipment for which there is sufficient supply or where the elasticity of supply is known to be higher. In this way, higher levels of labor employment are possible with more flexibility than would be the case if the same level of employment were achieved through stimulating demand in the private sector, or by increasing public sector activity without regard for these issues.

There is also the possibility that for some types of capital equipment in short supply at higher levels of economic activity, government could choose to help avoid heightened rigidity by increasing productive capacity in that line of production through public sector production. This could entail direct production of the goods in short supply or the production of the goods required to produce those goods.

It is quite possible for public sector workers to engage in activities that use little or no capital equipment whatsoever, should that be perceived as beneficial in avoiding structural rigidities while promoting full employment. There is a whole spectrum of near pure services that are beneficial to the economy and society but utilize almost no capital equipment [see, e.g., Lowe 1988, 106-109]. Much environmental clean up and protection can be conducted with minimal capital equipment, as can a whole host of other public services. Additional "helping hands" in schools, on playgrounds, in communities, in hospitals, in subway stations, etc., can provide beneficial services without resulting in increased utilization of capital equipment.
Natural Resources

A similar argument as was made for capital goods can be made for natural resources. Bottlenecks and rigidities can result from pressures on the supply of natural resources, especially nonrenewable natural resources. Government can choose to engage in those activities that do not utilize exhaustible resources or that use them less intensively. Again, this is for "discretionary" activities; obviously, for "essential" government services, there is not the same latitude. For discretionary public sector activity, however, there are plenty of socially and economically beneficial services that do not require the use—or the intensive use—of exhaustible natural resources. Thus, bottlenecks due to increased demand for scarce natural resources do not have to result from higher levels of employment.

The same cannot be said for higher levels of employment that come from increased private sector activity. Whether the result of subsidizing wages or of stimulating private sector demand though fiscal and monetary policy, it cannot be claimed that such higher levels of activity will not result in a higher or more intensive use of natural resources and that such higher levels of utilization will not result in inflationary pressures and structural rigidities. Government can choose not to use particular resources; with the private sector, there is no guarantee.

While the supply of exhaustible natural resources cannot be increased through public sector production in the same way that capital goods might, government does have some ability to further alleviate production bottlenecks through its decisions concerning the composition of discretionary public sector activity. Public sector activity may be devoted to developing renewable substitutes for exhaustible natural resources. Public sector activity may also be devoted to increased recycling efforts that can take pressure off of natural resource supply.

Government also may choose to engage in activities that do not pollute or that pollute less. In this way, pressures on the local and global assimilative capacities of the environment can be relieved or avoided. The assimilative capacity may also be thought of as a natural resource, and thus while higher levels of private sector activity may increase utilization to an extent that results in a variety of undesirable environmental consequences, public sector activity can be geared toward activities that do not tax the assimilative capacity of the environment. And just as in the case of natural resources, the public sector can engage in activities that actually enhance the assimilative capacity, e.g., reforestation.

Methods of Production

It is not only through choosing from among alternative projects that government can promote more flexible full employment, but also by choosing from among alternative methods of production. Whereas private firms are compelled by competitive
pressures to choose the profit-maximizing method of production, government is not constrained by those same pressures. Thus, for any given activity, choice of technique can be based not on private cost minimization criteria, but on criteria regarding the impact on the system as a whole.

More labor intensive methods may be utilized, even where more capital intensive methods are available, and might be chosen under different conditions. The key is to utilize those methods that will promote employment without creating rigidity, while perhaps even promoting the flexibility of the system.

The same principle holds for natural resources as well. Alternative technical means may be utilized to ease pressures on natural resources or the assimilative capacity of the environment. While such technologies or production techniques may not be "optimal" for a private firm, because the government is not constrained by the same pressures of profitability, public sector activity has the possibility of being technically organized according to how the choice of technique impacts the system as a whole.

**Geographic Location**

It is well known that there are significant regional and local differences in unemployment rates. While firms in the private sector are constrained by competitive pressures in their decisions concerning where to locate, the same is not true of public sector activity.

Of course, there are still constraints to choice location for some public sector activities, but not nearly as much as for the private sector. And while there are certain types of activities that cannot be located just anywhere, there are a large number of activities that have little or no spatial restrictions. This locational flexibility is extended by decreased costs of transportation and expansion and extension of information complexes.

Locational flexibility means that public employment need not cause disruptive dislocation for workers. Workers do not have to migrate to employment opportunities. Rather, employment opportunities can be located where there are unemployed. One factor in facilitating this approach would be to have discretionary public employment programs administered locally.

**Conclusion**

Full employment and even high employment and capacity utilization rates are associated with structural rigidities related to a number of undesirable consequences. For this reason, central banks, national governments, and international organizations have resisted policies that would promote full employment. What has been almost
entirely overlooked, however, is the ways in which the selective use of discretionary public employment might promote higher levels of employment without the loss of system flexibility.

A primary reason for overlooking the advantages of public employment has been due to the tendency to evaluate public sector activity by the same criteria that private sector activity is evaluated. But public sector activity serves a different purpose than private sector activity and so should be evaluated according to different criteria. The public sector is not constrained by the same competitive pressures as the private sector, and therefore it has a greater degree of latitude in choosing what activities to engage in, what methods of production to utilize, and where to locate its activities. These characteristics of public sector activity may be utilized to promote higher levels of employment without resulting in rigidities of the production system normally associated with high or full employment. In addition, these same features may also enable these higher levels of employment without undesirable environmental impacts or geographic dislocation of workers.

References


