

Full Employment: The First Step Towards Economic Equality

Dr. Jairo Morales-Nieto
Director, INAFCON

Summary

This paper's title seems to be too obvious considering the extensive evidence of a positive statistical correlation between full employment and reduction of income inequality in the sense that increases in employment move income equality in the same direction. Interesting axiom, indeed, but a perspicacious reader could ask, what is then this paper's novelty? The controversial point is that most orthodox economists dislike using government policy means to bring together both concepts of employment and equality in the public discussion. Why does this happen? Answer that question is one of the core subjects of this paper that seeks at uncovering the simplicities and the complexities of a long-standing debate. Another matter of interest in this writing relates to exploring ways to build a new theoretical framework to systemically link both concepts as a proper substantive economic policy matter. Finally, to connect theory with reality, an outline of a kind of strategy game is given to show how to realize full employment and reducing wealth and income inequality in practice without harming the achievement of other crucial economic policy objectives, for instance, price stability and fiscal balance beyond manageable limits. It remains to say that this article puts a high emphasis on normative economics to set up fundamental bases that may lead to undertaking further elaborations in the field of positive economics or fact-based knowledge.

What do Full Employment and Economic Equality Mean?

The concept of full employment has both a pure and an applied connotation. The pure meaning goes back to the classic political economy that defines full employment as the optimal use of all productive resources available to a country (land, capital, labour force, and knowledge) considering the best alternative options (or opportunity costs) for resource allocation as well as the technique and technological development at disposal to the respective country. The applied interpretation of full employment is used in macroeconomics to denote a market equilibrium between the demand and supply of production factors. Equilibrium expresses through a value or price that a concerning factor has in its market. For example, in the specific case of the labour factor, full employment is defined as a situation where the unemployment rate (number of jobless people as a ratio of

the total active labour force) is close or tend to zero. It means an intersection point where there exists a dynamic balance between the curves of demand and supply of jobs at a given equilibrium price (wages). Unemployment appears when the market forces did not function well to bring the economy to full employment, that is when the economy is unable to generate jobs for those who are voluntarily seeking work.¹ Achieving full employment is a combination of short and long-run approaches and anti-cyclical policy adjustments.

In modern welfare economics, the concept of economic equality englobes two inseparable insights, namely, wealth distribution (access to capital assets) and income distribution (access to cash flow). The first insight is an ex-ante concept that says about the properties (movable or immovable, tangible, or intangible) available for a person at birth (as heir to family wealth). The latter insight is an ex-post concept that discloses how societies distribute the economic outcome (national income) among factors of production, households, and individuals at a specific point in time. Forming an inverse corollary, economic inequality refers to a situation where both components are badly distributed showing a person or household with limited access to capital assets and restricted access to cash flow to cover current and future basic needs. Increases in wealth and income inequality reflect a market failure in resource allocation and outcome distribution what necessarily deserves government interventions to comprehensively encompass the two perspectives of economic (in) equality within a common economic policy approach.

Why Full Employment and Income Equality Seemingly are Controversial Economic Policy Objectives?

Full employment became a core economic policy objective, thanks to John Maynard Keynes' macroeconomics revolution disrupted during the first half of the twentieth century. It is a fundamental objective that policymakers seek to maintain political and economic stability, expand labour markets, and boost economic growth. Although Keynes did not devote too much thinking to the long-run relationships between the concepts of (un) employment and (in) equality, Keynesian disciples have done. Their

studies conclude that there is extensive evidence on the positive statistical correlation between both variables because increases in employment have a substantial impact on income equality as measured by the Gini coefficient.² And vice versa, unemployment harms income equality. So, consequently, reducing unemployment is central to diminish to some extent income inequality. It sounds an obvious conclusion, but its recognition as an economic policy matter usually faces enormous constraints mostly barricaded by anti-Keynesian economists that dislike the idea of correlating both objectives. The contradictors sustain a diversity of arguments and beliefs about this. First, they do not see any necessity for connecting employment and equality through any government policy as long as an improvement on both variables is a question of the normal working of the free-market economy fed by voluntary individuals' efforts to seek jobs. Second, in case of government intervention, the critics resolutely anticipate the appearance of significant distortions in the free equilibrium of labour markets and macroeconomic stability when, for example, policymakers set artificial institutional wages, onerous spending in subsidies and money transfers, and excessive inflationary pressure. So far, this has been the dominant economic thinking, obviously, with some variations and flexibilities mostly derived from marginal pro-poor approaches as adopted by the ideologues of the controversial monetary and market-based economic policy reforms known as «Washington Consensus». This policy deal was a prescriptive development agenda agreed by prominent neoliberal economists and politicians,³ who after acid criticism from heterodox economists purposely conceded in a second stage the possibility of making focused government interventions through social grants (income in cash and in-kind) for the benefit of those poor people severely affected by reforms. It was a calculated concession to avert that extreme poverty and unemployment rates exacerbate above tolerable thresholds as delimited by the so-called 'natural rate of unemployment'.⁴ Such an indulgence sounds wise as a palliative measure. Still seems inconsequential judged by the fact that despite cyclical improvements in employment and poverty rates, wealth and income inequality have continuously risen in most reformed economies. This dubious outcome flags the origin of the ongoing virulent polemic between orthodox and heterodox economists. The latter counter-argue that: (i) the market by itself is unable to create fair wealth and income distribution; therefore government intervention is needed to correct extreme pernicious welfare disparities; (ii) depending on the level of the Gini coefficient, drastic wealth and income redistribution reforms will need to reduce welfare gaps; (iii) anti-poverty actions are valid but they do not necessarily improve poor people's standard of living since subsidies and transfers merely cover minimal subsistence needs; and (iv) work and income from jobs are much better than subsidies, so there is no way to avoid making a causal connection between employment and equality. These are some of the arguments that

we like to endorse by developing a normative approach that shows how to transform social adversities into prosperity.

Developing a Fundamental Thesis

Labour force unemployment is one of the primary sources of poverty and economic inequality. It significantly constrains both people's capabilities to create wealth or valuable possessions and people's access to the flow of money to cover pecuniary household and individual subsistence needs. Thus, this paper's core thesis says that pursuing or maintaining a high employment rate as close as possible to full employment is the decisive step towards eliminating poverty and increasing economic equality. Indeed, it is not a unique and sufficient move. Still, is fundamental to impact many things beyond macroeconomic indicators positively, for instance, on human motivation to work, pay taxes, save money, and invest savings upon the condition of having a well-paid and secure job. Moral and political philosophers will claim the value of work in the richness of human lives, building people's capabilities, and providing a sense of dignity to participate in society fully.⁵

Building a New Enhanced Framework for Public Action

Having this fundamental thesis in mind, the main question to answer now is: how to move forward? Conventional heterodox economists may advise turning the eyes to the classic Keynesian theory of government spending (for example, in extensive public works) to create massive employment, boost demand for goods and services, and accelerate economic growth.⁶ That is a good approach indeed as it goes in the right direction to reduce unemployment in the short run. However, it is insufficient to eliminate poverty and improve economic equality in the long run unless a new enhanced framework for public action does build. The essentials for constructing the new enhanced framework rest on four analytical pillars: comprehensive concept definitions, fundamental economic and fiscal assumptions, a cooperative strategy game for full employment, and a cooperative strategy game for economic equality. The description of these pillars is of our concern in the following sections.

Pillar One: Comprehensive concept definitions

We have started this paper by showing a multifaceted set of definitions concerning full employment and economic equality. We can synopsise that as follows:

Full Employment	Pure Meaning: Optimal Resource Allocation	Applied Meaning: Factor Market Equilibrium
Economic Equality	Ex-ante Meaning: Wealth Distribu- tion	Ex-post Meaning: Income Distribu- tion

The recognition of such a taxonomy is a fundamental pillar of the new enhanced framework. It is not an accidental elaboration of concepts and meanings. Its adoption determines the nature and direction of any public policy action that pursues to set a causal relationship between employment and distributive equality. Conventional heterodox economists mostly focus on the applied meaning of full-employment and the ex-post meaning of economic equality. That is by far a partial approach with limited distributional consequences. Our understanding is more comprehensive since it involves the whole set of four insights and accurately reports on their cross-cutting relationships to validate the positive correlation between full employment and economic equality.

Pillar Two: fundamental economic and fiscal assumptions

Given the fact that we are somewhat suggesting a paradigm shift, several fundamental assumptions are needed to solidify the foundations of the new enhanced framework as depicted below.

Fundamental Assumptions
<ul style="list-style-type: none"> • It recognizes the importance of government commitment to regulate the business cycles in the short and long-runs, reduce unemployment, and eliminate barriers that legitimize inequalities.
<ul style="list-style-type: none"> • It preferably calls for taxation to finance government employment and equality-oriented spending rather than draws on public debt. That is basically to legitimize real redistribution effects and solidify a positive citizen's tax compliance attitude.
<ul style="list-style-type: none"> • It admits the plausibility of carrying out redistributive reforms and other fiscal policies that have necessarily to touch ownership of production factors (for example, land and cadastral reforms). That is to increase equality, productivity, and efficiency.
<ul style="list-style-type: none"> • It strongly encourages the adoption of optimization models (for example, linear programming and other mathematical tools) for public budgeting and spending. The model's objective-functions aim to maximize funding allocation, increase transparency, and impact the quality of government planning and decision-making.
<ul style="list-style-type: none"> • It is necessary to combine micro and macroeconomic approaches by addressing employment and distribution-oriented policies. Both approaches are complementary rather than indifferent.
<ul style="list-style-type: none"> • It emphasizes the importance of experimenting before influencing policy design and adoption, which should mostly happen at a local and sectoral level involving real actors or game players empowered as policymakers.
<ul style="list-style-type: none"> • It must seriously avoid creating trade-offs in the long run between employment and equality and other fundamental economic policy objectives, for instance, price stability (low inflation) and a balanced budget (low fiscal deficit) beyond reasonable and manageable limits.

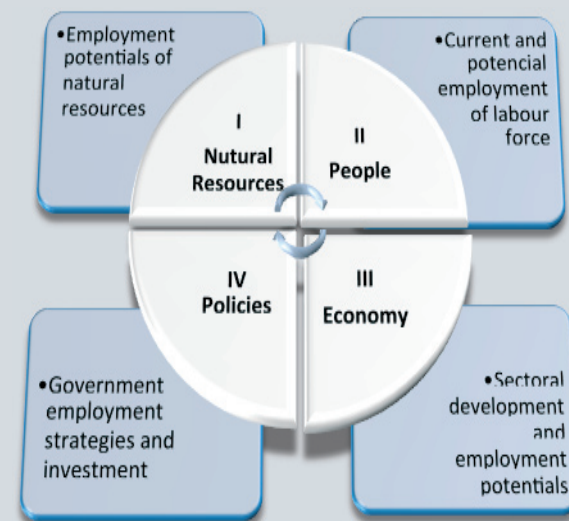
As seen above, the set of assumptions configure three building blocks. One block embraces government revenues (taxation and

redistribution reforms). Another block comprises government spending (optimization models). Finally, a third block refers to fiscal restrictions to protect monetary and budget balance objectives and predominantly investors and entrepreneurs' confidence.⁷

Pillar Three: A cooperative strategy game for full employment

The central reasoning behind this pillar advocates to explore and ultimately discover the real potential of an economy to procure full employment looking at both insights: the optimal use of all productive resources available and the equilibrium of all factor markets. To simplify reality, it proposes to undertake a type of experimental «cooperative strategy game»⁸ at a local level to procure full employment. The game involves empowered players representing government powers, economic forces, and civil society who work together in a selected geographical jurisdiction to solve employment constraints, strategize responses, and learn lessons to extrapolate in a global context. The analysis consists of an exhaustive examination of four key driving forces and their potential roles in boosting full employment. The driving forces under consideration are natural resources, people, economy, and public policies. Let us briefly explain the tasks to undertake following the settings of the graphic below quadrant by quadrant.

Critical Paths Toward Full Employment



Quadrant I: It is about an analysis related to the situation of the renewable and non-renewable natural resources available to the selected territory or jurisdiction (soils, subsoils, forests, waters, rains, winds, fish, fauna, and biodiversity), looking at their abundance and scarcity. The game players must map and evaluate the state of use (sub use, balance, or overuse) of all productive resources and determine the level of labour absorption (current and potential) based on an optimal and sustainable use without harming the reproductive capacity of the ecosystems. A detailed analysis of the physical infrastructure and other location factors is entirely

significant to determine the accessibility and the economic value of natural resources.

Quadrant II: It is about a demographic analysis of the economically active population by age, gender, spatial location, and sectoral distribution observing their structure and future trends. It is vital to determine unemployment rates by age and gender and the type of unemployment (structural, frictional, seasonal, technological, etc.) which is dominant in the respective jurisdiction. The study comprises evaluating the labour markets by sectors, wages, and institutional benefits for the workforce (social security and apprenticeship opportunities). Overlapping results of the demographic analysis with Quadrant I's findings is central to determine the absorption capacity of the labour force from the side of natural resources and ecosystems.

Quadrant III: It is about to study and understand the business dynamics in the selected territory or jurisdiction. How many businesses (formal and informal) exist by sectors and geographical locations and how much people work in those businesses and activities are central questions to guide the analysis. Based on the information obtained in Quadrants I and II, the next step is to determine the expansion potentials of existing businesses and identify new business opportunities considering economic sectors that show highest rates of economic growth in the present and the future. The study of the public sector economy and its employment capacity is of interest to identify work opportunities.

Quadrant IV: It is about to review and estimate employment opportunities as offered by the government to the concerned jurisdiction by observing development plans and public spending (at national, sectoral, and regional levels) including the international opportunities derived from the agreements of free trade signed by the country with third countries or economic regions worldwide. The study of domestic and foreign private investment dynamics is a relevant piece of information from micro and macroeconomic standpoints considering impacts on land use, capital, and labour markets.

A smart combination of outcomes derived from each quadrant shall allow the game players to disclose the puzzle's final image and strategize actions to achieve a situation of full employment in the selected jurisdiction.

Pillar Four: A cooperative strategy game for economic equality

Undoubtedly, this is the most provocative dimension of the new enhanced framework for policy action. For most conventional economists and policymakers, it is like to enter the mysterious Twilight Zone (remembering the popular American TV series of the early 1960s) about which there is a little knowledge, lack of experience, and fear of exploring an unknown world. These worries may be understandable but having in front the great challenge of fighting against extreme dangerous inequalities that character-

ized most market societies worldwide as discussed in my previous essays,⁹ there is no choice different from taking the risk. The erection of this pillar would be possible thanks to the outcomes of the forgoing Pillar III concerning a cooperative strategy game for full employment. Those outcomes are not others than discovering and identifying potential jobs, investment options, and business and trade opportunities for a local economy. In fiscal views, such outstanding results simply mean having more taxpayers as a primary source of government revenues, thus everyone would contribute to the essential objective of overall welfare distribution. Well now to start this strategy game, let us outline the expected outcomes by erecting this pillar. The table below offers a brief synopsis of some of the core public choices to consider in the way of getting a fairer and much more equality wealth and income distribution.

Critical Choices Towards Income Equality

Definitions	Reforms/Policies	Examples
Wealth Distribution (Capital assets)	Access to property	Land Reform Property Loans
	Capital Share	Access to business ownership
	Shareholding	Dividend share
	Reform on Inheritance of wealth	Inheritance taxes
Income Distribution (Cash flow)	Progressive Taxation	Income Taxes Corporate taxes Property taxes
	Institutional Wages	Minimum Real Wage
	Social grants to vulnerable individuals and households	Education, Healthcare, Nutrition, Housing, Child Support, Vocational Training
	Pension Funds	Retirement income for life
	Unemployment Benefits	Unemployment Insurance
	Universal Basic Income (UBI)	Basic living stipend on a regular basis

Wealth distribution concerns the question of how to ensure people's access to capital assets. There are multiple ways to ensure that as described in the table without harming but rather strengthening the roots and essence of any modern democratic market society by making property and ownership accessible to all citizens. Income distribution refers to cash flow sources helping individuals and households cover the monetary living expenses regardless of social classes but offering more opportunities for the poor (Rawlsian approach) and middle working class. The opportunities embrace subsidies in kind through a wide range of social grants to

empower poor people to stop themselves from being poor forever. That is the real aim of social grants beyond any paternalistic misconception of the spirit of government action. Getting consensus among all game players is crucial for the success of the cooperative strategy game. That is not a prescriptive list of things to do. It is a catalogue of societal options and choices to be discussed to establish democratic economic policy in exchange for the orthodox neoclassic thinking on economics and politics.

Concluding Remarks

That was a normative essay. It has put a strong emphasis on employment generation as the primary source of wealth and income equality. It is not a fortuity choice. It rests on a positive statistical correlation between the two referred variables that states that if employment increases, distributive equality increases. These are not autonomous outcomes away from government intervention. That can happen because of it under some conditionalities established within what we have called «a new enhanced framework for policy action». It concerns the erection of a conceptual building supported by four pillars that can provide: (i) a more comprehensive definition of the subjects under study (employment and equality); (ii) a catalogue of assumptions for smart government intervention; (iii) a guide for full employment generation; and (iv) a guide for overall welfare distribution. Before policy design and adoption at a global level, it encourages going firstly to experimenting at a local level with real actors empowered as policymakers to change unequal development conditions. It is about to play a sort of strategy game whose principal outcome is to optimize the correlation between employment and equality through structural reforms and policies without harming the achievement of other core economic policy objectives. Such an approach openly contravenes basic precepts of standard economics. As known, orthodox economists detest government intervention to generate massive employment and even worse linking employment with distribution theories beyond marginal pro-poor considerations. But there is no other way to make fair and equitable market societies.

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Footnotes

1. In Keynesian language, this represents a situation known as «insufficient effective demand», that is when the equilibrium between the aggregate demand and aggregate supply is below an optimal level in terms of production, employment, and income.

2. The Gini Coefficient is a measure of income (in) equality in society. There exists an extensive literature that reports on the statistical correlation between employment and equality. In the bibliography is listed a selection of some pertinent essays from different international authors.

3. The Washington Consensus was reached by the Bretton Woods Institutions (BM and IMF) and the US Treasury in 1989. It comprises two generations of reforms and economic policy prescriptions for macroeconomic stabilization, finance and market liberalization including institutional changes and poverty alleviation measures. The whole package of reforms was initially thought to be adopted by Latin-American countries, but its application extended overtime to the rest of the developing world.

4. The natural rate of unemployment is a minimum level of unemployment in a market economy, whose existence -it assumes- does not affect the macroeconomic equilibrium as expressed in terms of the inflation rate, and the level of real wages.

5. See, UNDP Human Development Report 2015. Also, the Encyclical Letter *Laborem Excersens* (on Human Work) from John Paul II (1981).

6. That can happen because of the positive effects of the so-called Keynesian multiplier which states that during a recession or economic slowdown an increase in government spending and private consumption raises the total National Income by more than the spending increase.

7. The set of assumptions somehow involves the whole public finance theory, which makes it exceedingly difficult in a short essay to provide extensive explanations on the theoretical foundations of everyone. In the classical works of Richard and Peggy Musgrave «Public Finance in Theory and Practice», and in the textbooks dedicated to «Sector Public Economics», one can find outstanding references to each topic concerning the nature of public earning and expenditure in market economies.

8. Remembering von Neumann-Morgenstern's «Cooperative Game Theory».

9. See the series of essays that I am writing on (in) equality for the AfricaGrowth Agenda.