Misleading Unemployment Numbers And The Neoliberal Ruse Of “Labor Flexibility”

Prof.dr. Robert Pollin

Poverty is deepening and the standard of living is declining in the US, even as the national unemployment rate has hit historically low levels. Meanwhile, wages remain stagnant and inequality is worsening with every passing year. What explains this anomalous state of the US economy, and what can be done about it? In this exclusive interview with Truthout, economist *Robert Pollin*, co-director of the Political Economy Research Institute at the University of Massachusetts at Amherst, analyzes the perverse and extreme nature of the neoliberal economic landscape in the US.

C.J. Polychroniou: Bob, the official US unemployment rate was at 3.8 percent in May 2018, which is the lowest rate since 2000. Is this an indication of the underlying strength of the economy under the policies of the Trump administration, as some pundits seem to be suggesting?

Robert Pollin: After the bursting of the Wall Street speculative bubble at the end of 2007, the US and global economy collapsed into the Great Recession, with national income (GDP) falling by 4 percent by the end of 2009. The US economy has been in a “recovery” since the end of 2009 — meaning that national income has been rising steadily for nine years. But the recovery has been extremely weak by historical standards. The US economy has grown at an average of 2.1 percent between 2009 and the present. This compares with a 3.4 percent average growth rate from the end of World War II until just before the Wall Street collapse. There is no evidence that the overall growth of the US economy has improved since Trump took office in January 2017.

The official unemployment rate peaked amid the Great Recession at nearly 10 percent. It has been falling fairly steadily ever since, through most of the Obama years as well as the 18 months that Trump has held office. So again, there is no evidence that anything Trump has done per se has brought the official unemployment rate to its current low level.

We also need to be clear, though, as to what employment conditions really look like even when the official rate is historically low, at 3.8 percent. The US Labor Department itself has more than one measure of conditions in the labor market. The rate we are quoting — 3.8 percent — refers to everyone who had any kind of job as “employed,” including people who wanted to work 40 hours a week but could only find a job at, say, 10 hours a week. We call the people who aren’t getting as many hours as they would like as “underemployed,” but they are still counted as employed in the official measure of unemployment.

The Labor Department also has categories of people that it calls “marginally attached” and “discouraged.” These are people who are not counted as part of the unemployed in the official measure, because they haven’t looked for a job within the last month, but have looked within the past year. But if we count the underemployed, marginally attached and discouraged workers as among the unemployed, the US Labor Department’s own figure for this measure of unemployment rises to 7.6 percent for last month. That is 12.3 million people overall — roughly equal to the entire population of New York City and Los Angeles.

But even that isn’t the end of the story by any means. Since the 2007 financial collapse, the percentage of the adult population that has been either working or looking for work has fallen significantly. If the same percentage of people were in the labor force today as were in it as of 2007, that would add up to another 5.3 million people. If we include these people as among the unemployed, underemployed or marginally attached, the unemployment rate by this measure would reach 10.9 percent, a total of 17.6 million people — so we can now add in the entire populations of Chicago and Houston in our pool of unemployed or underemployed. Let’s also just note that even this figure doesn’t account for the

2.2 million people in the US who are incarcerated, with our incarceration rate roughly triple that of other advanced economies. This is all within what is touted as the strongest labor market in nearly 20 years.

There seems to be yet another anomaly in the current US economic landscape, which is that growing employment should be driving up wages, but that is not happening. Why is that?

Starting with Karl Marx himself, economists have long argued that low unemployment rates will drive up wages. This is because, at low unemployment rates, workers should have more bargaining power relative to business owners. At low unemployment, workers should be able to demand higher pay, and if their bosses refuse, the workers should be able to get another job easily. Correspondingly, when unemployment is high — i.e. when what Marx called the "reserve army of labor" is large, workers lose bargaining power. Businesses tell workers that they can easily be replaced. Workers have little to no leverage in bargaining with their bosses. That is at least the first cut at a theory.

On top of this has been the impact of globalization — which has effectively expanded the "reserve army of labor" into a global pool available to be hired by businesses. Because of globalization, workers face this kind of situation: With low unemployment, they may go to their bosses asking for a raise. But the boss can just say: "You want a raise? Fine. I will just move the plant to Mexico, where wages are 1/5 of what I pay you. Or will import from China, when I can pay workers 1/20 of what I pay you."Yet, if this theory is correct, then why aren't US workers getting wage increases now, when the official unemployment rate is historically low? One factor is, as mentioned above, even with the low unemployment rate, a broader measure of unemployment still leaves something like 11-12 percent of all adults among the "reserve army of unemployed." But there is also another critical factor at play. That is, under neoliberalism, workers have lost bargaining power relative to their bosses even when unemployment is relatively low. It has been a fundamental tenet of neoliberalism to attack the laws, norms and institutions that have been built to support workers' well-being. These include, first and foremost, unions. It also includes measures such as the minimum wage. If unions, for example, are weak, then workers don't have the institutional strength to bargain up their wages.

This dynamic is very real and has been going on now for over 40 years in the US.

Indeed, the former Chair of the Federal Reserve, Alan Greenspan himself acknowledged that this was the major explanation as to why workers weren't getting pay increases even at low unemployment. Greenspan himself described the situation as workers becoming "traumatized" by the effects of neoliberalism and globalization.

The bottom line is that the average non-supervisory worker in the US today is earning (after controlling for inflation) a wage that is about 4 percent less than in 1972 — 46 years ago. This is while average worker productivity — the amount the average worker produces in a day — has more than doubled since 1972. We have here also the single most important explanation for the rise of inequality. If productivity doubles over time, while workers' wages remain stagnant, that means that there is a huge pile of increased income resulting from the productivity rise that has to go somewhere. That increased income goes to the top — to the supervisory workers, to business owners and to Wall Street.

Neoliberal economists contend that the cure for economies with relatively high unemployment rates is increased labor market flexibility. What's the relationship, if any, between labor market flexibility and unemployment rates?

Let's first of all be clear on what we mean by "labor market flexibility." It is a pleasant-sounding euphemism. We like things that seem flexible, as opposed to rigid. But another way to describe "rigid" labor markets are ones that have built-in protections for workers. These would include effective union representation, a decent "living wage" minimum pay level, reasonable compensation for workers who have lost their jobs, and active policies to get unemployed people back into good job situations. By contrast, a "flexible" labor market is one that doesn't bother with these forms of support for working people. Thus, under "labor market flexibility," business owners are free to do with their workers as they wish.

The theory is that, when labor markets are free of protections for workers (i.e. "flexible"), then businesses will be more willing to hire workers and the unemployment rate will go down. There is some validity to this position. If you make people desperate enough, they will take any job or go out into the street and do anything to bring in some income. They will also then be counted as employed, since, for example, they are out there, say, selling cigarettes or lottery tickets. Businesses can then hire workers for a pittance. But this obviously does not correspond to anything like what we may consider as a decent society.

At the same time, even capitalist economies are capable of delivering low unemployment rates with strong social protections — i.e., relatively low unemployment rates, along with strong union support, and decent wage levels. The best example of this is the Nordic economies, such as Sweden. The Nordic economies have operated at unemployment rates at roughly the same level or lower than countries with far fewer social protections for workers. These economies have also benefitted from workers having decent incomes, because when workers have money in their pockets, they then will spend more to support businesses.

Finally, when we are talking about huge rates of *official* mass unemployment — such as Greece at 21 percent or Spain at 16.5 percent today — the fundamental problem is not that businesses are tied into knots by rigid labor markets. The problem is overall lack of spending in the economy, and the solution is for the government to advance large-scale public investment programs that will increase overall demand in the economy and improve life for people at the same time. The most important example of this for the present are [Green New Deal programs](). My co-workers and I have developed programs that combine expanding job opportunities and advancing climate stabilization for many countries, including Spain, Puerto Rico and India, as well as the US overall and various states within the US. The Green New Deal is an effective way to expand job opportunities and lower unemployment, and it is also the only way to seriously fight climate change.

As yet another indication of the highly perverse nature of US capitalism, a study released just a couple of weeks ago by the United Way ALICE Project reveals that almost half of US families cannot afford basics like rent, food and health care. What sort of progressive economic policies can be implemented that would unleash the potential for creating an equitable economy and a decent society in the sense that there is broader prosperity and that the poor are not left to the whims of a Darwinian socioeconomic order?

Where to start? Let's begin with the Green New Deal — investing heavily in renewable energy and energy efficiency to supplant our existing fossil-fuel dominant energy system. That will produce jobs. By itself, investing in green energy will not generate enough good jobs to maintain the economy at something like true full employment, and we need a serious commitment to maintain true full employment. So, we also need to expand public investments in education, research, infrastructure and social services like home care. These will need to be financed by increasing taxes on the affluent. To make sure the newly created jobs are good jobs, we then need to restore some semblance of decent labor market protections, like a $15 minimum wage and strong rights for workers to organize themselves into effective unions. We also certainly need universal decent health care — Medicare for All. Then we also need to heavily regulate Wall Street, so that the economy's financial resources are channeled into productive activities, including small business investments that produce lots of jobs. Effective financial regulations are also our only safeguard against a replay of the 2007-09 financial collapse. Finally, we need a truly generous safety net, including food security.

These are all things that are eminently workable and affordable. All of these things are under attack now under Trump. But let's face it: they have also been under attack throughout the neoliberal era, starting roughly in 1980 under Reagan, and continuing through to the present, including under Democratic Party administrations, Clinton in particular. I think it is fair to say that the program advanced in Bernie Sanders's 2016 presidential campaign provides us with a fairly decent blueprint for moving forward in creating some semblance of a decent US society.