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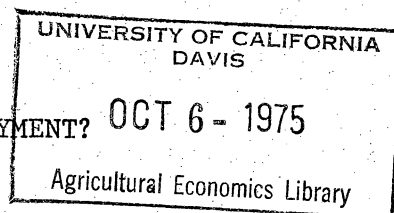
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WILL PUBLIC SERVICE JOBS CURE UNEMPLOYMENT?

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The assigned title for this paper is an excellent example in support of the principle that hindsight is better than foresight. Initially, I agreed to the title, but the longer I studied the subject the less comfortable I became with it. "Will Public Service Jobs Cure Unemployment?" seems to imply one of two questions. It may raise the question whether public service jobs are capable of curing unemployment, and this is an issue about which I have something to say. It may also be asking for a prediction whether public service jobs will, in fact, be used to cure unemployment. On this issue, I regret to report that my crystal ball is very cloudy.

More broadly, though, it seems to me the issue might be posed, "Should Public Service Jobs Be Used To Cure Unemployment?" This issue embraces the question of whether these jobs are capable of curing unemployment, but allows a number of other considerations, as well. And it is to the economics of this question that I propose to address this paper.

Back in 1959, Richard Musgrave provided a framework which I believe is useful for analyzing issues of this kind (Ch. 1). Musgrave suggests that the public sector can profitably be analyzed as consisting of three branches: an Allocation

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Branch, a Distribution Branch, and a Stabilization Branch. The Allocation Branch is concerned with the allocation of resources among competing ends. It has a balanced budget, and it operates in pursuit of economic efficiency, in a Pareto optimization sense. The Distribution Branch is concerned with the interpersonal distribution of income. It, too, operates on a balanced budget but its concerns are with equity questions in the distribution of income. Finally, the Stabilization Branch is concerned with stabilizing the economy. It does not operate under a budget balancing constraint. I believe that these three categories provide a useful framework for analysis of public service job programs.

Before proceeding any further, we also should consider what we understand "public service employment" to be. Governments have employed citizens for several millennia. But our subject here is clearly a more restricted set. I believe it to be people who for some reason cannot find jobs in the private sector, at least at the then-current stage of the business cycle. For purposes of analysis, we also need a standard of comparison. I take this to be the effects of a system of income guarantees financed by the same taxes and producing the same income distribution as the proposed public employment.

Within this framework, the Allocation Branch would, at first sight, appear to have little interest in public service employment. If one makes the standard assumptions that through some sort of a voting process people instruct their governments to provide levels of public services which provide marginal utilities roughly equal to the marginal utility of their private services, then there would seem to be no room for public service employment to improve resource allocation.

But the case is not that clear. Difficulties with voting as a process for articulating these kinds of choices have been recognized at least since Arrow first pointed out his voting paradox in 1951. Economists of the Galbraith School have argued for some years that there is an institutional defect in that private goods are subject to wide advertising whereas public goods typically are not, and that if there were equality in sales promotion there would be a different mix, involving more publicly produced goods. And there is, of course, the public choice school which argues in part that decisionmaking in large governmental units leaves many citizens with more or less public goods than they really want, and suggests that there are alternative structures which will come closer to satisfying everyone.

More generally, the assumptions involved to insure that a condition of competitive equilibrium is also one of Pareto optimality - that Adam Smith's invisible hand really allocates best - are very restrictive (Koopmans, Ch. 1). It is most unlikely that they will be fulfilled in any modern economy. And if they are not, then it is entirely possible that there is a better allocation of resources in the sense that it will make at least one person better off while leaving no one else worse off. But I see no clear grounds on which to argue that this allocation of resources would involve greater employment by the public. Hence, I believe we should pass on to the second broad category of activities which might justify greater public service employment, the Distribution Branch.

The Distribution Branch is concerned with alterations in the personal distribution of income. Hence, we are here discussing the use of public employment to combat unemployment and poverty that is not related to the business

cycle, but rather to some sort of structural problems. There are several ways in which these types of problems can arise. One that we hear about with some frequency is the so-called "culture of poverty". Essentially the argument is that we have individuals and groups in our society who have lived in poverty and on welfare for so long that they like it that way and are unwilling to make the kinds of sacrifices that are necessary in order to get and hold a job in our society. The issue of how widespread this culture of poverty may be is too broad to treat adequately in this paper. However, there is evidence to suggest that if it exists at all, it is not so widespread as many would believe.

A group of studies in rural areas of Arkansas recently tried to look specifically at the issue of whether a culture of poverty was a major deterrent to upward job mobility among the economically deprived. I think it is worth quoting some of their conclusions: "Certainly, there are individuals and families in the study areas for whom the 'culture of poverty' is an accurate description. Data from these studies merely indicate that the number of individuals for whom the poverty culture description is accurate probably has been over-emphasized. Little evidence was found in these studies to suggest that the 'culture of poverty' is a dominant mode of thought among the poor, or that it can safely be used as a basis for generalization." (Grinstead, Green and Redfern, page 12). Other factors, including health problems and transportation problems were found to be significant deterrents to increased employment among the rural poor.

A second broad category are those individuals who lack skills which are in demand in the present-day economy and who are not likely to be able to acquire

those skills. Some of these individuals are disabled or are too old to work. Clearly, a public employment program can be at best a very limited value for such people. Beyond establishing sheltered workshops - a controversial subject in itself - there is little that public employment programs can do for these individuals whose basic problem is their physical inability to hold gainful employment.

There is a group, however, who might be served by public employment programs. These are people who are physically able to work, but do not possess skills which are in demand in their labor market. Some of these people might be helped to relocate. Others, however, will need retraining. As a part of that retraining process, public employment may have a significant role. Integrated with classroom instruction, it may provide an excellent opportunity for on the job training in certain areas. Also, it will help to overcome the difficulty which presently underemployed people have in entering training, that they must support themselves in the process. Thirty percent of the respondents in the Arkansas study indicated that they had not participated in job training programs because they were unable to quit work to enter training (Grinstead, Green and Redfern, page 24). It should be noted, however, that this last problem can be overcome equally as well by an income supplement program. It seems to me our conclusion on this point is that there may be a limited role for public employment, principally as a source of on-the-job training, but retraining programs do not appear to be likely to justify major public employment programs.

The question remains, however, of what to do with those physically able individuals who lack necessary skills and who for some reason or other can't

be equipped with new marketable skills. Chief among these may be the individuals who are far enough along in their working careers that they will find it very difficult to change to a new way of life. For these individuals, public employment could be visualized as a long-term alternative to income supplement programs or welfare. Furthermore, it has an appeal to the average voter. He thinks he is getting something for his expenditures. Income supplements, on the other hand, may be viewed simply as a "dole" to people he doesn't understand and has no real desire to understand.

But these conclusions need to be viewed with considerable caution. As a practical matter, a public employment program may have to include many individuals who otherwise would be employed privately. Further, the real administrative costs of the public employment program may be greater than those of an income supplement program of similar size. If so, then society may not realize a net gain from public employment of these workers, either. Clearly, society is more likely to gain from public employment programs if current public employment already makes use of substantial numbers of individuals with a comparatively low level of skills that are represented in the group of disadvantaged we are talking about employing. If new tasks must be made to imply this unskilled labor, their productivity seems more questionable. Ideally, at this point I would introduce for you a series of statistics on the skill levels of public employees. Unfortunately, I have not been able to find such statistics. The observations of twenty years of continuous State and Federal employment, however, cause me to suspect that the distribution of skill levels among Government employees is not much different from that of the private sector, and that governments find it about

as difficult to design productive employment for unskilled workers as does modern industry.

Compared with some sort of an income supplement program for redressing inequities in the income distribution, then, public employment seems to have a fairly limited role. It probably is not a useful tool for individuals without employable skills. It may be a useful tool as an adjunct to a retraining program to provide new skills for otherwise employable people. Its usefulness for individuals who are basically employable but who lack skills currently demanded in the market place and are not likely to be able to absorb those skills, seems more questionable. Public employment may have a limited role in this area, but income supplements seem likely to be a more efficient solution in the majority of instances.

Finally, we come to the third broad category of reasons why Government might engage in public service employment, those embraced in Musgrave's Stabilization Branch. For those of us who were in graduate school in the 1950's, there was little question but what the answer to the title of my paper was "Yes." This was simply a particular form of increased government expenditure, and we all know that  $y=c+i+g$ . We might discuss the advantages of this form of fiscal policy compared with others, and condemn the "leaf raking" school of public relief. But the possibility that public employment might be ineffective as an anticyclical measure never really occurred to us. Milton Friedman was a solitary voice.

As I understand the current thinking in the economics profession, we are not nearly so confident that we know everything - or nearly everything - that it is important to know about cures for inflation and recession as were some



years ago. In particular, while most economists probably will not accept the extreme position that only money matters, I think most of us will agree that money matters. It makes a difference how the public employment is financed. By that I mean not only that the effects differ whether it is financed through increased taxes or whether it is financed through an increased deficit, but that the way in which the Government finances the deficit, and the way in which financial markets react to that financing is of considerable importance. Advocates of the "crowding out" phenomenon apparently are trying to tell us that it is possible for deficit financing of a public employment program to so interfere with private investment that the program creates as much unemployment as it resolves, and becomes self-defeating.

The majority of our profession, however, probably is not willing to go that far in condemning the usefulness of fiscal policy. If we admit to the usefulness of fiscal policy, then the logical next question is the proper role of public employment as one element in that fiscal policy. After all, there are numerous other tools available. To fight a recession, we can reduce taxes, we can increase transfer payments, or we can engage in other forms of Government spending. (Furthermore, of course, one can discuss which taxes to reduce, and in what ways, etc.)

The advantages and disadvantages of changes in taxes and transfers, compared with changes in Government resources-using expenditures, are beyond my time limits in this paper. However, it may be of some value to consider briefly some of the pros and cons of public employment versus other forms of government resource-using expenditure. If the purpose is to increase incomes of the

disadvantaged, direct government hire may be more cost-effective than, for example, purchases of goods and services from private business. There is less leakage into profits, into additional wages and salaries to individuals who are already employed, and into similar places.

On the other hand, public employment has certain disadvantages. As compared with purchases from private business, it may be harder to start and stop. Starting it up means creating a new organizational structure to operate it, whereas private business already has that structure. (Parenthetically, preserving that private business structure may be an advantage of direct purchases in itself. It may help to facilitate later recovery.) Once a public payroll is set up, a variety of forces come into play which make it difficult to reduce that payroll.

There may, of course, be a limited set of Government expenditures on which timing is not urgent. A community may need a new post office, but this may be an expenditure which could be made, for example, any time in the next 5 to 10 years. Such expenditures might well be handled on a counter-cyclical basis, and there may be some of them that can most practically be done directly by Government rather than through contract with private industry. But this appears likely to be a fairly restricted set. In sum, the logical instances for public employment as a stabilization measure - short of a long, drawn out depression like that of the 30's - seem to me to be limited.

Note that there are two sets of factors which I have said very little about in this discussion, the social and the political. From a social viewpoint, public employment may have important advantages over income transfers, in

the sense that it may seem less like a dole and therefore be less degrading to its recipients. There apparently yet remain sizable numbers of Americans whose pride will not permit them to accept "welfare."

There may also be some other social reasons for public service employment programs. For example, the unemployment rates among youth, and particularly among black youth are disquieting. It may well be that public service employment programs aimed at groups like this would be more effective than income supplement programs in not only providing them with an income but giving them an opportunity to complete the process of maturing into fully productive workers and meanwhile keeping them "out of trouble." The continuing costs to society of drug addiction, crime and other problems which are likely to accompany idleness, might easily outweigh the marginal costs of administering a public employment program.

From a political viewpoint, public employment programs may be easier to enact than income supplement programs. Hence, the practical choice in some circumstances may be between helping people through public employment or not helping them at all. Under these circumstances, many of the observations I have made are clearly inapplicable.

To summarize, it seems to me that the case for a major expansion of our program of public service employment is, at best, uneasy. On resource allocation grounds, while there is room for argument it is difficult to make a clear case. On income distribution grounds, there are some specialized instances in which public service employment may be superior, but in general it seems to me the decision must go to income supplements. On economic stabilization grounds, there also

are instances in which public service employment would have potential advantages. but other measures seem to be indicated in a large proportion of cases. However, in the instance of some specific groups, such as youth, the case for public service employment may be much easier to support. Indeed, I suspect that if we eventually decide to institute a broad scale program of public service employment, rather than an income supplement program, the prevailing arguments will have been social, rather than economic.

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