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How State Austerity Has Led to Demoralization

By [Robert Shiller]

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The high unemployment that we have today in Europe, the U.S. and elsewhere is a tragedy — not just because of the aggregate output loss that it entails, but also because of the personal and emotional cost to the unemployed of not being a part of working society.

Austerity, according to some of its promoters, is supposed to improve morale. British Prime Minister David Cameron, an austerity advocate, says he believes that his program reduces welfare dependency, restores "rigor" and offers encouragement for the "doers, the creators and the life-affirmers." Likewise, U.S. Congressman Paul Ryan says that his program is part of a plan to promote "creativity and entrepreneurial spirit."

Some kinds of austerity programs may indeed boost morale. Monks find their life's meaning in a most austere environment, and military boot camps are thought to build character. But the kind of fiscal austerity that is being practiced now has the immediate effect of rendering people jobless and filling their lives with nothing but a sense of rejection and exclusion.

Austerity was supposed to improve morale, but it has often led to rejection and joblessness.

One could imagine that a spell of unemployment might be a time of reflection, re-establishment of personal connections and getting back to fundamental values. Some economists even thought long ago that we would be enjoying much more leisure by this point. British economist John Maynard Keynes, in his 1930 essay "Economic Possibilities for Our Grandchildren" speculated that by 2030, higher incomes would reduce the average workday to a mere three hours, for a total workweek of only 15 hours.

While there are still 17 years to go, it appears that Keynes was way off the mark. So was Robert Theobald, who, in his 1963 book "Free Men and Free Markets," questioned the public's repugnance toward high unemployment. He asserted that "we can have meaningful leisure rather than destructive unemployment," and that we do not need "a whirling-dervish economy dependent on compulsive consumption."

But finding something satisfying to do with our time seems inevitably to entail doing some sort of work; "meaningful leisure" wears thin after a while. People seem to want to work more than three hours a day, even if it is assembly-line work. And the opportunity to work should be a basic freedom.

Unemployment is a product of capitalism. People who are no longer needed are simply made redundant. On the traditional family farm, there was no unemployment. Austerity exposes the modern economy's lack of interpersonal connectedness and the morale costs that this implies.

Work-sharing might keep more people marginally attached to their jobs in an economic slump, thereby preserving their self-esteem. Instead of laying off 25 percent of its workforce in a recession, a company could temporarily reduce workers' hours from, say, eight per day to six. Everyone would remain employed, and all would come a little closer to Keynes's ideal. Some countries, notably Germany, have encouraged this approach.

But work-sharing raises technical problems if increased suddenly to deal with an economic crisis like the one we are now experiencing. These problems preclude the sudden movement toward the ideal of greater leisure that thinkers like Keynes and Theobald proclaimed.

One problem is that workers have fixed costs, such as transportation to work or a health plan, that do not decline when hours (and thus pay) are cut. Their debts and obligations are similarly fixed. They could have bought a smaller house had they known that their hours would be reduced, but now it is difficult to downsize the one that they did buy.

Another problem is that it may be difficult to reduce everyone's job by the same amount, because some jobs scale up and down with production, while others do not.

In his book "Why Wages Don't Fall During a Recession," Truman Bewley of Yale University reported on an extensive set of interviews with business managers involved with wage-setting and layoffs. He found that they believed that a serious morale problem would result from reducing everyone's hours and pay during a recession. Then all employees would begin to feel as if they did not have a real job.

In his interviews with managers, he was told that it is best (at least from a manager's point of view) if the pain of reduced employment is concentrated on a few people, whose grumbling is not heard by the remaining employees. Employers worry about workplace morale, not about the morale of the employees they lay off. Their damaged morale certainly affects others as a sort of externality, which matters very much, but it does not matter to the firm that has laid them off.

We could perhaps all be happy working fewer hours if the decline reflected gradual social progress. But we are not happy with unemployment that results from a sudden fiscal crisis.

That is why sudden austerity cannot be a morale builder. For morale, we need a social compact that finds a purpose for everyone, a way to show oneself to be part of society by being a worker of some sort.

And for that we need fiscal stimulus — ideally, the debt-friendly stimulus that raises taxes and expenditures equally. The increased tax burden for all who are employed is analogous to the reduced hours in work-sharing.

But if tax increases are not politically expedient, policymakers should proceed with old-fashioned deficit spending. The important thing is to achieve any fiscal stimulus that boosts job creation and puts the unemployed back to work.

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