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A Keynesian Perspective to the Economy: How Social Assistance Can Reduce Unemployment and Out-of-Workforce Rates

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ABSTRACT

In this paper, I examine the relationship between social welfare programs and unemployment. Unemployment and welfare are two of the most significant topics in macroeconomics, with many disagreeing on the relationship between the two. A commonly held belief, particularly in the United States, is that too generous of a welfare state discourages and disincentives people from looking for work, leading to continuous unemployment. However, my findings indicate that increased government spending on social welfare programs can actually improve employment rates. Looking at past studies conducted by economists in England, Germany, and the United States, I find that social assistance programs are beneficial at decreasing unemployment in the long term. Such programs allow workers to find and retain jobs for which they are prepared by allowing for increased training, increased search periods, and increased educational attainment for children. This research is heavily influenced by Keynesian theories and ideas that government should play an active role in the economy to reduce unemployment. While Keynes looked primarily at direct relief assistance for people in times of economic downturn, my findings expand on the idea and look at alternative policies that can be used to reduce unemployment continuously.

Introduction

High unemployment is widely considered to be one of the most significant economic issues around the world (Feldstein, 2017). The Bureau of Labor Statistics (n.d.) defines unemployment as being when people “do not have a job, have actively looked for work in the prior [four] weeks, and are currently available for work” (para. 5). Unemployment prevents people from supporting themselves, their families, and the economy at large, which consequently negatively affects both the individuals and society as a whole. It was for this reason that John Maynard Keynes, one of the most influential economists of the twentieth-century, focused much of his work on unemployment and viewed it to be the most detrimental economic concern (Blinder, 2020). Many economists were in agreement that unemployment was a negative reality, but differed on the solutions needed to confront it. Prior to Keynes’ publications of his ideas, the common belief was that the economy would simply correct itself over time, and therefore, government involvement in the economy was unnecessary at best and harmful at worst (Majaski, n.d.). However, Keynes challenged this idea. Noticing that Britain’s unemployment remained at 10% consistently throughout the 1920s as the government refused to take action, Keynes decided that society should not just wait for the market to solve itself (Constitutional Rights Foundation, n.d.). He instead advocated for more direct government involvement in the economy in order to increase unemployment (Jahan, Mahmud, & Papageorgiou, 2017).

In this paper, I argue that investing in social welfare programs is a viable way for governments to increase employment. This is controversial, as many believe that a welfare state encourages laziness or discourages people from working (Thompson, 2018). The idea is that if there is too large of a safety net, people will not be motivated or encouraged to find work to support themselves independently, which will keep unemployment high. This has led many to believe that decreasing or limiting social assistance programs would better incentivize people to find work. While this idea may at first sound logical, there are a few key flaws with this thinking, specifically when looking at long-term employment rates and prospects. My research finds that assistance programs can allow workers to receive increased training and can help ensure children receive increased education, both of which provide individuals with increased opportunities to find and retain jobs in the long-term.

Assistance Programs Help Workers Find and Retain Jobs for Which They Are Trained

Social welfare programs are often thought of as a safety net, as they provide support for many individuals who are currently unable to support themselves and their families. Yet, according to Dr. Thomas Biegert (2017), social welfare programs really should be thought of as a “trampoline” (para. 3).

A primary reason for this is that these programs help workers receive increased training. In Biegert’s blog, he claims that social assistance programs provide workers with increased opportunities to gain training. Essentially, social assistance programs give individuals additional time and resources so that they can invest in increased training for themselves. Without these resources, it would be more difficult for workers to acquire this training, for they might not have the financial resources, time, or support in order to do so. As a result, Biegert (2017) claims that these programs can “increase.. their skill level and their employability which again will enable them to find a good job that they can and will keep for a longer time” (para. 3).

In addition to just job training, social assistance programs also provide workers with the ability to find the jobs for which they are most trained. This is essential, as many workers would otherwise have to take the first job available, which may be one for which they do not have appropriate training. In an article entitled “Social Welfare: Do its advantages outweigh its disadvantages?,” author Kira Goldring (2020) claims that “[u]nemployment benefits also provide people leeway to find jobs that match their skill sets, rather than snapping up the first available position” (para. 5). Essentially, workers are able to better ensure that they are well-suited and prepared for the jobs that they take. And because workers have a better chance to find a job for which they will be well-compensated and prepared, they will likely retain the job for longer (Biegert, 2017).

Studies have shown this to be the case, as evidenced by the results seen in the *National Evaluation of Welfare-to-Work Strategies.* Conducted in 2002 by the Department of Health and Human Services (HHS), this was the largest study on welfare conducted by the United States at the time. The HHS examined recipients of the welfare program Aid to Families with Dependent Children (AFDC), which required recipients to also receive Job Opportunities and Basic Skills Training (JOBS). The study’s aim was to see whether training and educational programs would allow workers to find and retain higher-paying jobs. The study found that a hybrid model implemented in Portland, Oregon, which encouraged workers to look for short-term education and/or job training and wait for a job that provided a sustainable, livable wage, was successful at reducing unemployment. This program was associated with increasing employment by 21% and giving workers a 40% increase in their earnings in the second year in which they were studied. On the other hand, a Grand Rapids, Michigan Labor Force Attachment (LFA) program, which instead focused on having recipients take jobs as quickly as possible, only produced an 11% increase in employment and an 18% increase in earnings during the same period (HHS, 2002). Essentially, programs that included some training programs and allowed workers to wait to find a job they were suited for and would be better compensated for, was essential to helping workers gain jobs and earn more money. Thus, welfare or income support can be used as a tool that allows workers to both receive training and find the job for which they were trained.

Assistance Is Vital to Reducing Childhood Poverty and Creating Paths to Employment in the Future

Social assistance programs do not only help reduce unemployment for workers. These programs allow many children to gain education or training that improves their employment prospects and opportunities once they reach adulthood. This reduces the likelihood of unemployment in the long run. This idea is straightforward: when children grow up with adequate health care, food, and other essentials, they will perform better in school. Conversely, children who live below the poverty line and do not have access to these necessities are less likely to complete school. According to the Urban Institute (2015), children in “persistent poverty” are 13% less likely to complete high school and 43% less likely to complete college than other lower income students moving in and out of poverty (p. 4). By not completing high school or college, children are more likely to be unemployed in the future. This is because workers without a high school or college degree are more likely to be unemployed. According to the Bureau of Labor Statistics (2019), from 2005-2019, the employment-population ratio for people with less than a high school diploma ranged from 38.5% (May 2011) to 44.9% (October 2018). On the other hand, those with a bachelor’s degree or higher had an employment-population ratio that ranged from a low of 71.5% (February 2017) to a high of 77.2% (February 2007). Likewise, many workers without a college degree are more at risk of being laid off during economic downturns. During the pandemic, the unemployment rate for workers who graduated high school but not college was 17.6% compared to 8.4% for college graduates (Lytle, 2022).

Social assistance programs are able to mitigate these harms. In their article entitled “Economic Security Programs Help Low-Income Children Succeed Over Long Term, Many Studies Find,” authors Arloc Sherman and Tazra Mitchell (2017) found that social assistance programs “help families afford basic needs, and keep millions of children above the poverty line....[and] they help children to do better in school” (para. 1). Similarly, in her article “Welfare’s Payback,” Mariana Bolotnikova (2020) writes that “[s]pending on services like Medicaid expansion, K-12 education… makes children more likely to attend college” (para. 2). By providing necessary resources for children to do well in school, they are often more likely to obtain training and education. It has been found, for instance, that food stamps can improve high school graduation rates by 18% (Northwestern Institute for Policy Research, 2017, p. 1) Similarly, a 10% increase in Medicaid eligibility for those between the ages of 0-17 increased children’s educational attainment, as the high school drop-out rate decreased by 4.0-5.9% , and increased college-completion rate by 2.3-3.0% compared to the sample means used (Cohodes, Grossman, Kleiner, & Lovenheim, 2014, p. 33) Therefore, investment in social assistance programs provides increased support that helps children stay in school, which in turn provides them with a greater potential for gaining and retaining employment.

Supporting The Economy

A major concern about investment in welfare is the high cost it imposes upon the government, both federal and local. According to the U.S. House Budget Committee (2023), in the fiscal year of 2022, the federal government spent $1.19 trillion on more than 80 welfare programs. State and local governments likewise spend a lot on welfare programs, with the Urban Institute (n.d.) estimating that state and local governments spent $791 billion on welfare in total in 2020. With this information, it seems that continued investment in welfare is simply too expensive. However, such large investment in welfare can actually still help the economy. This is due to the high cost unemployment has on the economy. When people are unemployed, they have less money to spend purchasing goods. When people are unable to purchase goods and demand decreases, companies are even less likely to be able to sell goods, make a profit, and hire more workers. As less spending occurs within the economy, it is harder for the economy to maintain its strength or grow (Steinberg, 2024). The high cost is perhaps best evidenced by the impacts the Great Recession had for young individuals. According to the Center for American Progress (2013), it was estimated that the one million young Americans who were unemployed for a prolonged period during this time will lose more than $20 billion in earnings over the next ten years. This means that they will have trouble paying off debt, purchasing homes, and making other large purchases. This restricted and decreased spending has significant consequences for the economy at large, as it results in less growth and job creation in many industries. Not just unemployment has high economic costs. Childhood poverty is similarly costly for the economy. Due to the detrimental short- and long-term impacts of poverty (and the lost opportunity costs associated with it), it was estimated in 2007 that childhood poverty costs the U.S. $500 billion per year, which is about 4% of the GDP (Holzer, Schanzenbach, Duncan, Ludwig, 2008) This extreme cost is echoed by the Peter G. Peterson Foundation (2023) which examined the cost of childhood poverty, primarily considering the reduced future earning potential of these children. According to their findings, in 2015, adults who grew up in poverty had earnings that were "reduced" by $294 billion, and overall, that childhood poverty reduced the economy by almost $1 trillion dollars (para. 8). This shows that childhood poverty costs about the same per year as federal spending on welfare. And the cost of childhood poverty is increasing every year. It is necessary to reduce childhood poverty and help children receive the resources they need. Social assistance programs offer a solution and have the potential to do so. To best help the economy and boost spending, it is essential to reduce unemployment and allow for increased employment opportunities in the future. Governments should invest in welfare.

Conclusion: Keynes' Beliefs

Thus far, I have addressed why welfare is generally helpful for reducing unemployment. It improves workers' potential to find jobs for which they are trained and provides increased educational opportunities for children. Rather than a hindrance, welfare or income support programs help workers and reduce unemployment. As I mentioned at the start of this paper, this also upholds a key tenet of Keynes' theories and ideas. Keynes believed that unemployment was one of the most significant concerns in economics due to the high public costs, such as the reduced ability to spend money on goods and services. Likewise, Keynes was immensely concerned about economic inequality for the same reasons According to Steve Pressman (2014), a post-Keynesian economist, "Keynes, however, saw…that inequality would reduce spending, profits, business expectations, and investment" (p. 513). Keynes was especially concerned about childhood poverty as well. According to Pressman (2014), Keynes' supported programs such as family allowances to reduce childhood poverty, which he believed "reduce[d] human capital and slows down productivity growth" (p. 515). Essentially, because those living in poverty would not have as much money to spend on goods and services, Keynes believed that high poverty was a pivotal concern that governments needed to address. It was for this reason that he first encouraged governments to intervene in the economy to reduce unemployment. Specifically, Keynes focused on the government providing direct relief to citizens. It has since been widely noted that he was an early supporter of family allowances, which are payments made to all families with children, believing this would increase family's spending power in the short-term and allow for children to contribute to the economy through work in the long-term. Yet, Keynes' ideas remain most well-known for inspiring public works programs during severe economic downturns like the Great Depression and the Great Recession. In these instances, the public works programs were generally only utilized as a temporary solution, focused on providing short-term relief toward individuals during times of immense economic crisis. Thus, it is only considered an option when absolutely necessary. As a result, many believe that Keynes' ideas about government involvement in the economy are only relevant during economic downturns and crises. However, Keynes himself believed that any unemployment was always a bad thing that had to be remedied. Therefore, short-term, temporary work programs often do not fully achieve his goal of reducing unemployment constantly. Another course of governmental action is needed in order to reduce unemployment continuously, not just when the economy is not in a depression or recession. Evidence shows that social welfare programs are a viable way for governments to reduce unemployment. Because of this, these programs can and should be considered as an additional way of achieving Keynes' theories and goals and as a mechanism for reducing unemployment.

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