

The New York Times
Reprints

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. [Order a reprint of this article now.](#)

WATCH NOW
THE FIRST
12 MINUTES

November 26, 2011

The Fire Bell of Unemployment

By ROBERT J. SHILLER

THE failure of the Congressional [supercommittee](#) to come up with any agreement on the budget deficit makes it even less likely that Congress will rise above its partisan divisions and act on behalf of the millions of out-of-work Americans.

Yet without government intervention, we may well have high unemployment and social discord for years to come. How did this disaster happen?

Probably the most important reasons for the failure to rescue the unemployed are intellectual, rather than purely political. First, there is a lack of scientific proof that government spending — fiscal stimulus — will do much to remedy unemployment. Second, there is a lack of appreciation of the human impact and social consequences of high, long-term joblessness.

To see how divided economists are about the effects of fiscal stimulus, ask them to gauge the “multiplier” effect — the response of the broader economy to a dollar spent by the government. In September, the *Journal of Economic Literature* published several surveys of the literature on the subject; those surveys came up with so many different answers that it’s hard to show with certainty that stimulus even works. [One of those surveys, by Jonathan Parker of Northwestern University](#), said that, in general, academic studies of multipliers “almost entirely ignore the state of the economy.” Most studies fail to give credible estimates of the effects of such stimulus in a period of abysmal confidence and near-zero interest rates.

We are in such a situation now — for the first time since [the Great Depression](#). It may be ruinous to assume that the situation is hopeless and that we should thus do nothing for the unemployed. Richard Kahn, the man who invented the mathematical theory of the multiplier in [a 1931 article](#), later said that it was a mistake to think of fiscal stimulus only in mechanistic terms. Government action, he suggested, affects public confidence in ways that his model did not fully capture. But economists have generally run with his mathematical model, or fundamental variations on it, and ignored his caveat.

We have to close the government deficit eventually, but that can be done with tax increases and solid programs to create jobs. It was within the supercommittee's scope to devise a plan to accomplish this in a stimulative way. The contractionary effects of tax increases could have been offset by some expenditure increases that would stimulate the economy and help provide jobs. But that didn't happen. [I've written before](#) that this kind of plan, termed a "balanced-budget stimulus," ought to work.

FURTHERMORE, we have been ignoring the serious consequences of allowing long-term unemployment to continue.

Bad as it is for those without jobs and their immediate families, unemployment tears the fabric of our society. Duha T. Altindag of Auburn University and Naci H. Mocan of Louisiana State University used data collected by the World Values Survey on more than 130,000 people from 69 countries to [learn how unemployment affects confidence in civil society and basic democratic institutions](#).

They looked at a survey question inquiring whether "having a strong leader who does not have to bother with Parliament or elections" is a good thing. In the United States, being jobless increases the propensity to agree by about 11 percentage points, to 38 percent from the sample mean of 27 percent, after controlling for other factors like income and education. They also found that, in countries where they had the appropriate data, people who have been unemployed for more than a year are even more likely to agree, if other factors are held constant.

Some of the social discord and mistrust of government in our country of late is surely connected to long-term unemployment. We need to accept that we are now in very unusual times, and that unusual steps are needed.

One approach is to raise taxes and use the proceeds to subsidize hiring of the unemployed. In the [2007 book "Rewarding Work,"](#) Edmund S. Phelps, the Nobel laureate economist from Columbia University, had an interesting idea for spurring hiring. As he has updated that proposal, the government should provide a subsidy of \$4.50 an hour for the lowest-paid workers, with declining amounts until they earn more than \$15 an hour. Unlike the current "earned income tax credit," his plan would not be biased toward families with dependent children, but would apply equally to all workers.

He estimates today that the cost of such a program would be about \$150 billion a year, around 1 percent of gross domestic product. The program would be well worth the expense.

The American Jobs Act **proposed by President Obama** in September includes subsidies in the form of re-employment services, wage insurance, work-sharing benefits and self-employment assistance. Stephen A. Wandner of the Urban Institute and the W. E. Upjohn Institute for Employment Research **testified before the Senate Finance Committee this month** and offered a number of other ideas that have been successful on an experimental basis. Among them are comprehensive job search assistance and re-employment bonuses.

The stakes are very high here, and they are not just economic. As anger rises in today's economy, I'm reminded of Thomas Jefferson's words about the danger of "angry passions" arising between the North and South over the question of extending slavery to the Missouri territory. In an **1820 letter**, he wrote that "this momentous question, like a fire bell in the night, awakened and filled me with terror." He went on to predict, from his observations of such rancor, the secession of the South that was to come 40 years later.

Our country is a much more stable and just society now than it was in 1820. Still, we should regard the current economic dispute as another fire bell in the night. It is important to recreate the sense of a just society, without anger — and an important step in that direction is to ensure that there are enough

jobs.

Robert J. Shiller is a professor of economics and finance at Yale.