FIGHTING FOR JOBS

War and Employment
Apparent Cost of the Iraq War

- No rationing
- Taxes cut
- Economy improved
- Unemployment dropped
- Stock market boomed
- Housing prices rose
- Prescription drugs
- Personal income and profits up
Message Imbedded

- War is good for the economy
- War got us out of the Great Depression
- Economies are at risk when war ends
- No domestic destruction with foreign wars
- Soldiers are well paid volunteers
- Better to fight there than here
War Does Have Real Costs

- Lives lost
- Continuing care
- Wasted real resources
FIGHTING FOR JOBS

Why does the economy improve during wartime???
• WE DON’T RUN IT AT FULL EMPLOYMENT

• WE MAINTAIN EXCESS CAPACITY DURING PEACETIME
With Full Employment Policy:

• Real costs of war will be explicit
• The Military will have to pay high enough salaries to take workers from civilian jobs.
• Conscription may be necessary.
• Domestic consumption will fall.
• Military purchases of arms and munitions will drive up prices and cause shortages.
• The Fed will respond to elevated inflation with higher interest rates.
How To Sustain Full Employment

• Government offers a job to anyone willing and able to work at a fixed wage.

• Nothing else to change!!!
Ramifications

• War costs become obvious
• The fixed wage for the new public service jobs becomes the minimum wage.
• This new employed labor buffer stock replaces the current unemployed buffer stock and acts as a better price anchor.
• Real output increases.
• Labor flexibility is improved.
• Many disruptions of unemployment vanish.
• The market sets the federal budget deficit.
Negatives

• NONE!

• Why hasn’t this been done?

• Innocent Frauds in the Financial Markets!
Innocent Frauds Supporting War

- Federal deficits risk solvency
- Federal deficits take away savings
- Federal deficits elevate interest rates
- Federal deficits burden our children
- We are borrowing from foreigners to fund our spending habit.
Conclusion

• The costs of less than full employment:
  • Lost output - public and/or private
  • Family deterioration
  • Neglected children

• WAR!!!