



# The Economics of Unemployment

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## INTRODUCTION

U. S. Bureau of Labor Statistics (BLS, 2018) reported that America employer payrolls increased by 201,000 workers in August 2018. However, the BLS Labor Force Statistics' Current Population Survey (CPS) revealed the U.S. labor participation was only 62.7%. Furthermore, the U.S. Census Bureau CPS indicates 96,157,000 adult Americans did not work in August 2018. The unemployed included 5,534,000 individuals that wanted a job but could not find one. Additionally, 1,443,000 reported they were available for work, wanted a job, and had searched for a position the prior 12 months. However, disturbingly, 598,000 working-aged Americans said they are not available to work even though they worked the prior year. The latter included individuals whose reasons for not working were "not ascertained."

## BACKGROUND

To understand America's misunderstanding regarding the actual number of unemployed adults nationally, one must understand the science of economics and its history. Economics has been defined as the science of production, services, and consumption (Minsky, 1986). Smith (1776) argued there are four types of fixed capital: (1) useful machines and instruments of trade; (2) building and means of procuring revenue; (3) improvements of land; and (4) the acquired and useful ability of all the inhabitants or members of a society. Smith expanded upon the value of a nation's inhabitants by stating that the acquired usefulness of members of a society should be maintained by education, study, and apprenticeship and that investments in workers is equal to investments in machines (Rindermann, 2008). Smith (1776) also argued that humanitarian efforts, altruism, and sympathy are an unreliable guide to moral behavior. Furthermore, he argued that people are not under the control of their passions and emotions and could not be trusted to look out for the welfare of the common man (Ashraf, Camere, & Lowenstein, 2005, p. 134, 135).

The abject poverty, inequalities, and unwinnable war that led to the Russian Revolution and the creation of the Soviet Union was built upon those principles. Karl Marx and Thomas Malthus interpreted Smith's theories to mean economic markets and prosperity should be the entitlement of all of a country's residents, not just the wealthy (Beattie, 2018). The result was the rise of Socialism, an economic model that valued the employees (producers) or over the suppliers (employers) and promoted the typical working class' ability to work as the most important and asset of a nation (Beattie, 2018, p. 1-3)

European socialism scientists Henri de Saint-Simon, Charles Fourier, Robert Owen, Pierre-Joseph Proudhon, and Mikhail Bakunin, however, had opinions in direct contrast with Smith's capitalistic theories (Arato, 1989). The issue was who would care for the working class to ensure they were able to prosper during times of economic growth. As a result, new voices from the West began to question both theories. Notably, Leon Walras, a French economist, tried to resolve the conflict by creating a model that used mathematical principles and statistics to create probabilities and scale to determine manage the volatility of supply and demand (Beattie, p. 6). The mixed economy theories of John Maynard Keynes rose to the top in America, and Keynesian economics, which argued government should intervene to balance economics, became the prevailing thought for decades. However, not everyone agreed with the constraint in Keynesian theory that stated that everyone who wants a job should be able to have one. This disagreement put pressure on the financial the banking and investment sections.

Minsky (1986) wrote, "There is nothing in the economic theory of either Keynes or Kalecki that points to the welfare state as the way out of the special instabilities that capitalist economies exhibit." When Keynesian economics failed to correct the 1991 – 2001 American recession, a new school of economic thought, the Rational Expectancy Theory (RET), rose to dominance. Grounded by the theories of John Muth, RET proponents once again promoted that trickle-down economics are what America's financial sector needed and promoted the idea of "natural unemployment" that argues the laws of supply and demand should determine how many people are employed based on production needs. RET argues that a "healthy" unemployment rate should range between 3% and 7% and that there is no such thing as "zero unemployment." Furthermore, RET argues that employers should have the freedom to hire only employees with certain skills sets. RET opines efforts other than what is ineffectual (Nash, 2018).

Arthur Lewis sought to bridge the gap between the competing economic theories by beginning a field of developmental economics focused on investments in human capital, which led to the creation of the Human Capital Theory (HCT). HCT proponents consider long-term unemployment as wasted human capital or the failure of a nation to transform raw human energy and power into highly productive assets capable of sustaining an economy under any condition. This theory argues the ties between investments in a nation's people (human capital) is so intertwined with investments in financial capital, organizational capital, intellectual capital, structural capital, relational capital, customer capital, social capital, innovation capital, and process capital that lack of investment in one area will negatively impact investments in the others (Edvinsson & Malone, 1997). Further, Nafukho and Brooks (2004) argue that a nation's wealth rises, and falls, on the backs of leveraged human capital.

## METHOD

The literature review sought to answer the research question: *Why are so many Americans not unemployed?* The overall goal of this study is to conduct a rigorous empirical review and examination of literature focused on the economic policies that influence unemployment in America. The purpose was to provide general definitions of the philosophies and perspectives from research, theorists, and practitioners regarding unemployment and collect sufficient works to classify and code the literature for synthesis. The intent was to critically appraise the phenomena of unemployment research from a broad range of perspectives.

Cooper's (1988) Taxonomy of Literature Reviews for an integrated exhaustive coverage with selection criteria was used as the framework (Cooper, 1988). A preferred reporting items for systematic review and meta-analysis protocols (PRISMA-P) statement and checklist was adopted to establish the

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