



Worksheet 15.2

Jobless Growth? How could this be?

Economic Growth, defined as an increase in a nation's total output of goods and service (and therefore the *national income*), is desired not only for the sake of *growth itself* (producing more stuff requires more resources, and may not necessarily make the average citizen better off), rather *growth is needed in order to achieve full-employment of a nation's labor force*.

Growth is good. This tenet of economics is rooted in two basic observations: 1. Growth leads to an improvement in the average standard living of a nation's people, and 2. Growth is needed to employ the growing workforce of a nation experiencing population growth and immigration.

America's work force is a diverse group of people of all skill levels. 150 million strong, the nation's workforce requires a healthy national economy with strong investment and consumption to maintain enough jobs to keep unemployment low. Recently, however, the prospect of employment in America has diminished as the number of people out of work has grown.

Involuntary unemployment is perhaps the most serious cost of an economic slowdown. A willing and able worker, skilled in mind and body, unable to find productive work, represents a monumental failure of a nation's economy. Policies aimed at promoting growth are in fact aimed at creating employment.

When monetary policy fails to create employment, the government must pick up the slack. In 2009, with slower growth threatening employment in China, Beijing launched a fiscal stimulus of \$500 billion, of around 15% of China's GDP. This large stimulus had a positive effect on both GDP and the job market.

America's 2009 stimulus package also restored growth, but according to a [Washington Post article](#), unemployment did not fall in the US as it did in China. Read the second and fourth paragraphs.

The tricky thing about macroeconomic policy is that while it can put billions of dollars into the nation's banks, households' and firms' pockets through tax breaks, government bailouts, subsidies and infrastructure spending, firms will not start to hire until they *feel confident*. Confidence, according to John Maynard Keynes, is an *animal spirit*, a trait of humans beyond the assumption of rational behavior. Until confidence is restored, America's unemployment rate will remain high.

Questions:

1. How can output in the US be growing even while unemployment continues to rise? Is there *always* a direct relationship between these two variables?
2. Expansionary fiscal and monetary policies can put money into firms' and households' pockets, but cannot guarantee employment will fall. Which type of expansionary policy is *more likely* to lead to lower unemployment? Fiscal or Monetary?



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3. Firms' expectations and consumer confidence are important determinants of consumption and investment. Is there anything policymakers can do to improve these 'animal spirits' during an economic downturn such as that experienced in the US in 2009?