

## 07 Labor and Class

The subject of this chapter is important in economics and to me personally. The chapter covers the economic bases but it does so from my point of view. I say things about class conflict that some readers will not like.

### 07 Labor and Class; Synopsis.

Labor is a resource like any other, like steel or wheat. Ideally, all workers of a similar kind get paid according to how much another worker of their kind helps the business firm make profit (revenue). All journeymen mechanics get paid according to how much benefit another new mechanic brings the firm. The same is true of all new lawyers.

An ideal economy would have full employment for all people who were willing to work and who had reasonable training. The lifetime earnings for any job would be fairly similar for all kinds of work. There would still be some differences in lifetime earnings for some kinds of jobs, but not as much as we have now. Dentists would still make more than dental assistants but the difference would not be nearly as much as now. There would be no unemployment or poor employment.

Workers cannot tolerate uncertainty of job, wages, and benefits. Business firms need a reliable work force. To counter uncertainty, workers tacitly agree among themselves, firms tacitly agree among themselves, and workers tacitly agree with firms, to structure the labor market so that jobs and wages are secure.

Workers and would-be workers pay prices for the certainty. First, the market does not directly set wages. The firm gets greater control over wages. Employees and employers have to fight over wages. Second, there are fewer total jobs. Some people with skills who are willing to work truly cannot find jobs. Now there is real unemployment. Third, there are really better and really worse jobs. Some jobs get pay out-of-proportion to the amount of training, such as professionals and managers. Some jobs have low wages and no benefits. Now there is real poor employment. The unemployed and poorly employed face greater hardship and uncertainty than they did before the tacit agreement to structure the labor market to gain security. In effect, the unemployed and poorly employed people pay the price so that workers who do have jobs have good jobs.

The normal level of unemployment now is about 8%. It is not 4%. The problem of unemployment and poor employment aggravates other problems of a distorted economy, and booms and busts. In a bust, the unemployment rate can rise to 12%. People call for state action. Good state action can be helpful but too often it is bad state action which helps in the short run but only makes things worse in the long run, such as tax breaks to business firms, supposedly to create jobs.

The unemployment and poor employment is not curable by any training program, jobs programs through tax breaks to employers, or education. This does not mean that training and education are not

worthwhile; it just means we cannot expect them to cure this problem.

Inevitable unemployment and poor employment cause many social problems. I do not list them in this synopsis. The attendant social problems are not curable as long as we do not face the root problem of systemic unemployment and poor employment, and deal with it directly rather than indirectly through some scheme.

When we deal with the problem of unemployment and poor employment, we have to not create another worse problem of dependency on government. Dependency occurs at the personal level through welfare and at the level of business firms through corporate welfare that is supposed to create jobs. It is very hard to cure one problem without aggravating the other. We have not done a good job in America. We have to do better.

**07 Labor and Class; Bigger Synopsis.** This bigger synopsis follows the development given in the main text.

Labor is an input factor like any other input factor (resource). Labor should be paid according to its cost effectiveness (marginal revenue productivity).

Workers cannot tolerate uncertainty. Business firms need a reliable work force. To counter uncertainty, workers tacitly agree among themselves, firms tacitly agree among themselves, and workers tacitly agree with firms, to structure the labor market as a ranked differentiated market.

Workers and firms create categories of jobs in a rough hierarchy. Jobs are ranked according to stability, wages, benefits or no benefits, amount of benefits, comfort, safety, and prestige. People are sorted into jobs through institutions such as schools, the police, and churches. The sorting of jobs works with the class system.

Because the labor market is imperfect, labor is not all used fully; some inevitable unemployment arises. The bottom rung in the labor market is the empty rung of unemployment. The next rung up is poor jobs with low wages and no benefits. Structuring the labor market to give security for most workers means inevitable unemployment and poor employment for some other workers.

Some particular features of labor as a resource make sure that unemployment is inevitable and that unemployment strongly affects the economy. See the text.

This unemployment really is inevitable. We cannot eliminate unemployment by being harsher to the poor, with any program to stimulate growth, jobs program, tax program, education, trade-off between unemployment and inflation, or any economic tweaking. Unemployment goes down during boom times we mistakenly believe that we can make it vanish, but we cannot. Even if we made all the unemployed people and the poor people vanish, the system would generate more of them. Unemployment is a reality, and we have to learn to live with it.

Unemployment reinforces racism, sexism, ageism, class conflict, driving toward fascism, bad schools, and other ills. To avoid these serious problems, we really do have to do something about

unemployment.

We cannot cure unemployment and poverty by private charity, and so we have to go through the state. We are morally obliged to devise decent welfare, health care, retirement, and education.

These programs cannot inadvertently reinforce other social evils in some ways, such as welfare dependency. The programs cannot inadvertently expand by encouraging people not to work but instead to get on the programs.

We also have to accept the hard fact that we can only carry them out to the extent that we can afford. We might not be able to carry out welfare so that all people live middle class lives. We have to focus on giving children as equal a chance as possible.

The structured labor market is like a zero sum game in which the gains (jobs) of one person come only with the losses (poverty) of another person. People in zero sum games fear and suspect each other. People in zero sum games form subgroups to capture a portion of the game (market) for their subgroup so as to make sure that they do not lose. A subgroup can advance not just by promoting itself but also by hurting competing subgroups. Social classes advance not only by helping themselves but also by hurting other social classes.

People fear unemployment because it has horrible impacts on the future of their children. Their fear is justified. The people that fear unemployment the most are those that live closest to it but still have jobs: the working class and the middle class that are not professionals. Not only do people fear unemployment, they also fear the unemployed and the poor.

To preserve the future of their children, working people and middle class people act to "keep down" the unemployed and the poor. They oppose social programs that help the poor, such as welfare, especially because the programs come at a cost to themselves. They support laws that differentially hurt the poor, such as laws against drugs, gambling, abortion, prostitution, and homosexuality; and they support harsh penalties for petty crime and for victimless crime.

The only way to alleviate the problems is to support the poor yet to not alienate other classes and to not cause more fear in other classes. We have to take the fear out of being poor without taking away the incentive to work and without creating other problems. That is what good programs are for.

I do not advocate a return to failed programs such as public housing and food stamps.

We probably do not need to spend much more than we already spend. We cannot lift all poor people to the level of the middle class.

We need to make clear our commitment that nobody suffers inhumanely and that all children will have a decent chance.

How much we can afford programs to alleviate poverty, fear, and class conflict depends on: (1) the urgency of problems, (2) the general level of wealth, (3) comparative wealth as seen through the eyes of

comparative competition, and (4) how much recipients abuse the programs. This chapter does not go into details.

We can try to make sure that no one particular ethnic group, gender, age, regional, or religious group always makes up the bulk of the poor, such as Blacks or single mothers. We need to make it equally possible for all groups to share in poverty. To do that, we need to make it equally possible for the children of all groups to be able to climb out of poverty. Only if people feel that their children are able to escape poverty are people willing not to oppress the poor. This is the key reason behind any of my suggestions.

We cannot give all poor children the equivalent of a middle class education. Education is not a cure for the problems and flaws of unemployment and poor employment. We should not expect education to lead to jobs for everybody, good jobs for everybody, or to end unemployment and poverty. We can make sure that all willing poor children that get a degree are absolutely qualified to the standards of that degree, so that there are no excuses for failure or for discrimination. We can give every willing child a minimum decent education.

We can maintain jobs programs not out of mistaken hope that they will provide jobs for everybody but as a way to rotate people out of poverty.

Some modest programs, such as Head Start and free school lunches, were cost effective and were morally good, and so should be reinstated or invigorated.

If we do not act, then class conflict will get worse as the United States becomes part of the single world economy. Politicians will take advantage of class conflict to promote reactionary power. Even if we do not care about the poor directly, still for our own interests we should help the poor so as to minimize the danger of reactionary fascism and the danger to ourselves. This danger is real and should not be underestimated.

**Wages Introduction.** Particular occupations get paid the same way that all input factors get paid: by their cost effectiveness. There can be no other basis for wages. This idea is the basic foundation for all further understanding.

Wages includes not only an hourly wage but also benefits of all kinds such as medical insurance, retirement, sick leave, vacations, bonuses, etc.

The category of “workers” includes not just people who receive an hourly wage but also people that receive a commission, managers, professional people paid by contract, and professionals who have their own business but the kind of business is quite secure. As part of wages, we can include fees to dentists, doctors, lawyers, teachers, plumbers, professors, accountants, etc. Their fees are the wages that we pay them for the utility that they render us in performing a service for us. We adjust how much we are willing to pay, or how often we seek them, according to the marginal utility that we get from another visit. Only true entrepreneurs that earn nearly all their compensation from deciding about uncertainty are not workers with wages.

Workers supply labor to business firms as if the workers were small firms supplying any input factor. Just

as Carl gives corn to get something in return, workers give labor to get something in return. Labor has an exchange ratio, its wages. Workers give labor until the marginal cost of giving labor about equals the marginal gain from wages. The average marginal cost to workers in a particular occupation, and the average marginal gain to employers of workers in a particular occupation, set the general exchange ratio for labor of particular kinds of occupations such as plumbers, computer designers, and doctors. We can also think in terms of the imaginary auction in which providers of labor (workers) offer labor to buyers of labor at various ratios until the workers and the business firms can agree on the correct exchange ratio. At partial equilibrium (the agreement point of the auction), the average marginal utility of wages to workers coincides with the average marginal revenue productivity of labor to employers, the exchange ratio (wages) is set, and the exchange ratio reinforces the conditions that set it.

Firms look at labor as an input factor. I give their viewpoint below. We will use the viewpoint of firms throughout this chapter as the easiest way to understand wages and labor.

**Interlude: Wrong Ideas.** First we have to get over some wrong ideas:

(1) “A person is paid more to compensate for the greater time and effort that he-she puts into education, the expenses of a staff, or the costs of operation such as an office and insurance.” This idea of wages-for-trouble is an example of an objective explanation of cost, and it undoes imputation. Instead, we pay people who render more valuable services. We pay for the greater effectiveness of their services. In order to render more valuable services, these people have to pay for their education, staff, and other higher costs out of the extra they can charge us for the extra utility they can give us. These people get more education in anticipation of being able to provide more utility and so being able to receive higher wages. These people can afford more education, staff, and insurance because they deliver more utility, and so we are willing to pay them more for the more utility. If their greater expenses exceed the utility that we get from them, we don't pay. Whenever they do raise fees by using costs as an excuse, we go less often until the utility we receive does match their higher fees. When my dentist raised his fees for cleaning my teeth, I went less often. If investment in education guaranteed a good job, then we would not have as many anthropology PhDs working in banks.

In the short run, it is true that higher costs of education can lead to higher wages just as higher costs of sugar can lead to a higher price for lemonade. In the long run, wages, prices, and the cost of the components (education or sugar) that go into any higher level input factor (labor) or final good (lemonade) adjust to the revenue or to the utility that is delivered.

(2) “People get paid more primarily because they have more talent. Doctors, lawyers, college professors, plumbers, electricians, etc. get paid more because they are smarter than everybody else.” This is also an objective theory of cost that undermines imputation. It is partly true, but mostly it is the other way around: smarter people seek professions that confer greater utility to consumers and therefore receive higher wages. Innate differences in ability are not all that important except for some unusual professions such as brain surgeon or great blues artist. More people could become lawyers, doctors, executives, or electricians than we have now. High wages in those professions come out of imperfect markets and out of limiting access more than out of any greater ability. Ability does matter, but not that much. When many smart people do enter those professions, then wages fall, as a lot of young lawyers are finding out.

Both these ideas are part of a false mythology that helps people maintain an imperfect labor market.

**Back to Wages Main.** If a firm had to pay employees more than their cost effectiveness, the firm would go out of business. If a firm could pay employees less than cost effectiveness, the firm would make a profit for a while. Soon other firms would enter the business and raise wages to bid away employees so that they could make some profit too, even if less profit. The price war would continue until, in the end, the level of wages would rise (or fall) to cost effectiveness, all firms have to pay according to cost effectiveness, and no firm makes a profit out of misusing labor. Plumbers, police, lawyers, doctors, and programmers all should get paid according to cost effectiveness.

To see how particular occupations get their particular level of wages, look at differences on marginal revenue productivity (cost effectiveness) "at the margin". Adding one journeyman plumber adds or removes a certain amount of revenue for the firm. Removing one journey plumber adds or removes a certain amount of revenue from the firm. All journeyman plumbers are paid according to that difference. All journeyman plumbers are paid per day according to how much difference one more, or one less, typical journeyman plumber makes per day to the typical plumbing firm. All journeyman plumbers get paid according to the average marginal revenue productivity of journeyman plumbers. If one more, or one less, journeyman plumber meant a difference in revenue to the firm of \$200 per day, then all journeyman plumbers get paid \$200 per day. If one more, or one less, young associate lawyer makes a difference to the law firm of \$300 per day, then all young associate lawyers get paid \$300 per day. If one more, or one less, counter clerk at a fast food restaurant makes a difference of \$5 per hour (\$40 per day), then all counter clerks get paid \$5 per hour.

If an imperfect labor market reduces the number of journeyman plumbers, or forces a rise in their wages, plumbing companies do what any firm does when a resource is in limited supply at a higher price: the plumbing firm hires fewer journeyman plumbers until the increasing cost effectiveness (marginal revenue productivity) of journeyman plumbers rises to meet their new cost. This is true when consumers hire laborers directly, as when they pay doctor's fees. When doctors are more expensive, we use them less until their new cost effectiveness (marginal utility in this case) matches their higher fees.

If the state forces an employer to pay more than cost effectiveness, then the employers does what all firms do when faced with a higher price for any input factor: the firm cuts down on the input factor until the cost effectiveness (marginal revenue productivity) of the input factor rises to meet the cost. If the state forced the price of steel to go up from \$100 per ton to \$200 per ton, carmakers and washing machine makers would cut down on steel. Otherwise, the firm would go broke. If a law firm has to pay new lawyers \$400 per day, then the firm cuts back on new lawyers until each one is worth \$400 per day.

People use the argument above to justify not having a minimum wage law, but the argument is not used correctly for that purpose because the argument applies primarily to perfect competition while the minimum wage law operates in an imperfect labor market. For minimum wage laws, please see Part Ten of the companion big book.

The argument did not consider if wages are enough to live on, to live decently on, or to raise a family. In a modern economy, the wages for most jobs are enough to do all that, but the wages for a significant

fraction of the jobs are not enough to live decently or to raise a family on. The rest of the chapter explains the situation more.

The argument did consider why an average law firm employs 8 junior lawyers at \$500 per day while the average plumbing firms uses 12 journeyman plumbers at \$300 per day. The argument did not say why an average law firms does not instead employ 12 junior lawyers at \$400 per day, and the average plumbing firm instead employ 6 journeyman plumbers at \$400 per day. These “what if” questions have to do with general equilibrium, and the sorting of all resources into all markets, at the same time. These questions do not undermine the ideas offered here, and would strengthen the results if we had time to work through it all.

**Kinds of Unemployment.** Some unemployment, called “frictional”, would happen even in a perfect labor market because people need time to look for a new job, need time to retrain, and sometimes have to move. Estimates differ, but frictional unemployment is probably no more than 2% of the work force. Frictional unemployment is not much in question in this chapter.

Some people do not have a job because they do not want to work. As long as they do not seek a job, they do not count in the statistics, and do not count here. Some people do not work because they are legitimately disabled. They also do not count here. Some people do not work because they would rather be on a state program such as welfare. If they get on a program because they fraudulently get certified as disabled then they do not count here except as examples of abuse. If they get on a program other than disability, and pretend to seek work, but do not really seek work, then they do count here; but it is not clear how they count. They contribute a bit to the percent of people who genuinely want work but cannot find any (see below). They do not contribute enough to invalidate the argument of this chapter.

Besides frictional unemployment, another about 6% to 8% of persistent unemployment comes from people not being able to find work even though they want work. This inevitable unwanted unemployment is the main subject of this chapter. This inevitable unemployment comes both from structuring the labor market (imperfect competition among workers) and from imperfect competition among business firms, and so is called “structural” unemployment. Out of 8% to 10% total unemployment, about 6% to 8% is structural. The best Conservative economist after 1950, Milton Friedman, acknowledged this source of unwanted unemployment, called it the “natural rate of unemployment”, and argued that the federal government should do something.

In a modern technologically-heavy economy, an increasing number of people are just not smart enough (are too stupid) to be able to find work, even with some education. In an ideal economy with perfect competition, many not-smart people would be able to find work, but that is not so in a real economy with an imperfect labor market. I do not know how much not-smart people make up of the 6% to 8% unemployment rate; I guess less than 1%. Most not-smart people end up in bad jobs rather than in no job. The real problem is that the future. Not-smart people have little hope of getting anything other than a bad job. I do not know how much worse this problem will get. Within about 20 years, I think it will get bad enough so we have to act.

A rate of 6% to 8% unwanted employment might not seem like much (unless the reader has been unemployed for a long time and knows from experience) but it is enough to cause serious trouble

because there is no way for most people in the modern world to make a living other than with a job. President George H.W. Bush (Bush Senior) lost his own job when the official rate climbed to about 8% in 1991.

The United States has a total unemployment rate of 5% to 10% if we add frictional and structural. Sometimes the rate is higher because we are in the bust phase of the business cycle, or lower because we are in the boom phase; but the baseline rate always is somewhere in this range; and even in the boom phase, structural unemployment never goes entirely away. In the depression (or severe recession) after 2007, the official rate held steady at over 9%, often over 10%, for over 4 years.

The official figure overlooks unemployed people that want to work but have given up on seeking jobs, so the official figure is usually at least 2% below the real rate. When the official figure is at 5%, the real rate is closer to 7%. The greater the official figure, the more the real figure exceeds the official rate. When the official rate is 10%, the real rate is likely to be 13% or 14%. The U.S. is lucky. European nations, except Germany, have baseline unemployment rates of at least 10%, perhaps as high as 15%.

Besides unemployment, too many people can only get poor jobs: no benefits, and a wage too small to support children well. Along with the unemployed, these people do not fit into modern society. Collectively the unemployed and the badly employed make up the poor. The poor make up from 10% to 25% of the people. The number of poor declined over most of the 1900s but the number rose again after the rise of Ronald Reagan and Conservative Republicans, and probably will not go down soon. This group too is part of the main subject of this chapter.

More important than how much is who: in perfect competition, unemployment of any kind would not affect any particular group of people all the time, such as Blacks or single mothers, but would shift around randomly to all groups. At any time, 6% of Blacks, Whites, Hispanics, Asians, single mothers, old people, and young fathers with a wife and family, would be unemployed, or would be poor. This is not the case. If the overall unemployment rate is 6%, perhaps only 3% of White people are unemployed while at least 12% of young Black men are unemployed. If the official rate of unemployment is 8%, likely 20% of young Black men are unemployed. What feels bad to a young White man can devastate a young Black man. So we need to see why problems tend to cluster in particular social groups.

The rate of unemployment increases during the down phase of the business cycle and decreases during the up phase of the cycle. Employment goes down during the down phase and up during the up phase. Because of the normal slow increase in general productivity, even during the down phase of the cycle, some potential jobs are gained despite the overall increase in unemployment, even if people are not actually hired for those jobs until the economy begins to recover. During recovery, it appears as if the economy gains a lot of jobs when really all that happens is: (1) we realize the potential jobs from increase in productivity, (2) we recover the jobs that were lost during the down phase, and (3) we gain too many jobs because the up phase pushes the economy to over capacity (see later chapters for more details). The reader needs to be careful when state officials and commentators declare how many jobs the economy has gained over the last year. State officials and commentators try to use any gain in jobs as a sign of unusual growth and of an unusually healthy economy: "See. Our policies are working after all". The economy might have grown normally, might have grown unusually, and might be robustly healthy; but it is hard to tell from the figures usually given. The reader needs to ask: "What phase of the

cycle are we in? Should employment be expanding anyway? Should we have gained jobs due to increase in productivity anyway? Are we only realizing that gain in productivity now due to the recovery phase of the business cycle? Should we have gained jobs due to the recovery, even if we are not yet in the up phase? If we are already in the up phase, is some of the job gain due to the up phase of the cycle and so not permanent? Is the apparent growth more than we should have expected, or less, or about what we should have expected? Can we really credit any policies? Might the policies actually have hurt or done no good, so recovery and growth occurred despite them rather than because of them?" The questions need an unbiased informed professional economist to answer, but the reader can at least think about the claims and take what he-she hears with a grain of salt.

**Backdrop: Perfect Steel Market.** A good way to get across uncertainty in the labor market is to compare labor to another input factor so as to see what it would take to make the labor market nearly perfect. This section describes an idealized perfect market in steel. This section uses the idea that the cost of inputs totals up to the final price-value of an output without showing why this is so. This section assumes imputation, and then uses costs as if they were objective.

Iron comes from ore. Steel comes from iron. Steel varies according to intended use. Iron is like "raw" people before they are trained to particular occupations. Steel is like "cooked" people once they have been forged to particular occupations.

Steel comes in varieties depending on the final use: steel for knives, high-carbon steel for knives, spring steel, sheet steel for car panels, tensile steel for golf club shafts, etc. The amount of steel devoted to any purpose depends on the demand for the purpose and on the cost of creating the steel to that purpose, just as the number of people in any occupation depends on the demand for that occupation and on the cost of educating people for that occupation. The cost of making any particular steel for any purpose depends on the demand for that final purpose and the various costs of inputs for creating steel for that particular purpose, just as the cost of training people for any occupation depends on the demand for that particular occupation and on the cost of training people for that occupation. The final cost-value-price of steel for any purpose depends on the demand for that final purpose and on all the costs of inputs for creating steel for that particular purpose, just as the wages for any occupation should depend on the demand for that particular occupation and on the costs of training people for that occupation.

People differ from steel in that all steel comes from iron that is about the same to begin with while people are not the same in their natural abilities and aptitudes for training. Natural distinctions make a difference in how many people become mechanics, doctors, or game programmers; and in how much they get paid; but natural distinctions do not make so much of a difference that we have to worry about it a lot here. Ores differ too, but not that much. Most people could learn to do most occupations, with a few exceptions that require unusual ability such as artists, scientists, and athletes.

(A) Nearly all iron can be diverted to nearly all the different kinds of steel. Iron can "flow" between various uses without impediment. Steel also can "flow" between uses enough so for the ideas here. Steel can be recycled from cans, springs, and old cars from one use to another. (B) Iron can be stored for a long time before it is turned into a particular kind of steel. Even steel can be stored for a long time before it is actually put to use. (C) If the demand for any particular kind of steel drops below the amount available, then the surplus of that kind of steel is stored until the surplus is used up and the reduced production just

meets the need for that kind. If there is too much steel for car panels, then that steel is kept as stock until it is used up, and until the reduced new production of steel for car panels matches the new demand for car panels. (D) All these adjustments help to keep the cost effectiveness of all different kinds of steel about equal. The benefit-and-cost together of any one kind of steel is about the same as the benefit-and-cost of any other kind of steel. Low-cost steel yields low return while high-cost steel yields a high return.

(E) Low-cost steel is low cost because it is intended for use in goods that have low value, and so it has a low cost-effectiveness, such as steel in toys. High-cost steel is high cost because it is intended for goods that have high value, and so it has a high cost-effectiveness, such as stainless steel for aircraft or marine boats. (F) The total amount of steel responds to total demand. If total demand dwindles, total supply dwindles, and vice versa. If total supply ever exceeds demand for a while, the total amount of iron or steel can be stockpiled until the total dwindles to match the new level of demand or until demand picks up.

Different kinds of steel have different prices so their cost effectiveness must differ. Still, the cost effectiveness of different kinds of steel does tend to equalize because different kinds of steel can flow between different kinds of uses. The presence together of different cost effectiveness (and thus prices) with the tendency for different cost effectiveness to equalize can seem odd. It is not a case of economics wanting to have its cake and eat it too. Different kinds of steel are used differently, in different quantities. High quality steel is used in small amounts while low quality steel is used in large amounts. Yet the price is measured on the same units of weight, usually tons. This weight-based pricing exaggerates how price (cost effectiveness) differs. Before different kinds of steel can “flow” to become other kinds, they are qualitatively distinct. While they are qualitatively distinct, their cost effectiveness is qualitatively distinct, and serves as the basis for their different costs-prices. Cost effectiveness does not have to exactly equal all the time; it would be odd if it did; cost effectiveness only has to tend to equality because steel can flow. So, steel can show both tendencies without invalidating theory.

Labor differs from steel in nearly all these points, and the difference contributes to an imperfect, differentiated, ranked labor market. Labor is like steel in that cost effectiveness sets value-price-cost and the cost effectiveness of different kinds of labor tends to equalize. In perfect competition, the cost effectiveness of different kinds of labor (wages) would equalize as much as for different kinds of steel (steel prices). In the real structured labor market, the cost effectiveness of labor does not equalize nearly as much as with different kinds of steel. Labor cannot flow, or even tend to flow very much. Different kinds of labor become qualitatively different and remain qualitatively different. We need to see what keeps the cost effectiveness, and wages, of different kinds of labor so different.

Nothing in the nature of steel lends it to imperfect competition. Still, steel could be forced into an imperfect market. Suppose that a single maker took over the steel market (this almost happened in the United States in the late 1800s, and steel has been produced by oligopolist firms for most of its production history here). We would know because the quantity of steel available for nearly all uses would decrease and the price of steel for nearly all uses would increase. Steel users would adjust their use of particular kinds of steel until each particular kind was cost effective again at the new lower supplies and new higher prices. This is what happens in the labor market due to its imperfection - not dramatically, only by a few percentage points, but enough to change lives and society. We need to see what there is about labor, unlike steel, that tends labor to a structured imperfect market.

**Perfect Market in Labor.** Only if the market for labor were perfect enough could we have full employment with wages high enough for most people to raise families. If the market for labor were nearly perfect, it would have features similar to the ideal market for iron and steel:

People could “flow” into occupations, as iron flows into various kinds of steel.

People could flow between occupations, as steel can be recycled. Even as adults, people could easily retrain for occupations. It would be cost effective for a person to change occupations.

Almost anybody could do almost any occupation. Natural talent would still differ, and would cause some discrepancies in salary, but it would not make a big difference.

The wages for any occupation would depend on the cost effectiveness of the occupation. The number of people in any occupation would depend on the demand for the occupation, on the cost of training for the occupation, and on the preference of people for doing that occupation.

Differences in natural ability would affect to some extent the number of people willing to carry out particular occupations, and so would affect cost effectiveness and wages; but not as much as we think.

How enjoyable or un-enjoyable any occupation might be, would affect to some extent the number of people willing to carry out particular occupations, and so affect cost effectiveness and wages, but not very much.

The extent to which an occupation used technology also would affect wages somewhat. The more technology, and the higher the technology, the more a person would be paid. So, a rocket scientist still would make more than a janitor, but, again, the differences would probably not be as great as they are now.

The cost effectiveness for all occupations would tend to be about the same considered over the lifetime of employees. It would not fully equalize but would be more equal than we have now.

The total lifetime wages for any occupation would be about the same as any other occupation. The total lifetime wages of a doctor would be about the same as those of an electrician. This is the same idea as that any type of steel gives the same value over its lifetime as any other type, if we take into account the cost of making that kind of steel and how long it lasts. I will explain more about this point in a section below.

Workers would know in advance the prospects for any occupation, for many years into the future. Workers would know if there was likely to be increased need for computer programmers and decreased need for diesel mechanics, and how much. Workers could switch occupations to take advantage of shifts in the economy. Workers would not be blacklisted by their need to shift occupations.

Workers would know everything about their job and about their employer, including any problems the

employer was likely to have in the field of business, now or in the future.

Workers would know everything about their fellow workers that was relevant to doing a job well together.

Employers would know everything they needed to know about employees that might affect how the employee did a job, including his-her entire work history and his-her ability to get along with fellows.

Employers could exactly grade employees in terms of competency and cost effectiveness. Employers would have perfect knowledge of potential employees and would hire only on the basis of individual merit because individual cost effectiveness is what counts in the pursuit of profit.

Employers would have perfect knowledge of all current employees, would pay only on the basis of individual merit (cost effectiveness), and would promote only on the basis of individual merit (cost effectiveness).

Just as firms can fight in a price war, or can bid against each other for contracts, all employees could bid against other employees at any time for any job. There would be no “tenure” of teacher, professor, shop manager, TV news anchor, Right Wing commentator, college dean, fireman, policeman, priest, or CEO of a corporation. Anybody could offer to do the job for a lesser wage, and, as long as that person performed up to his-her claim, that person could hold the job – until another lower bidder came along.

A job might last one week or might last a lifetime, but workers would have no necessary expectation of any job lasting a lifetime. Probably most people would have to hold at least half-a-dozen different jobs during their lifetimes in different parts of the country, and would have to retrain for an entirely new occupation at least a couple of times in their lives. This retraining is like the recycling of steel.

If a firm went bankrupt, workers would be alright because they could find a job in another firm within a reasonable period of time. Workers would not need a fat severance package and a portable private retirement fund.

The total number of workers could be reduced to accommodate a decline in the total number of workers needed, just as total production of steel could decrease to accommodate a decline in the total amount of steel needed. Surplus workers could just sit on a shelf until demand rose again and they were needed again.

If employers in general needed more workers in general, workers would be produced rapidly by some mysterious means. If the number of workers needed decreased, surplus workers would mysteriously vanish without any hardship on the workers that retained their jobs or on other people such as family members.

This list could be extended, but the point is clear enough already: the real labor market could not possibly approach the conditions for a perfect labor market, or even a near-perfect market. The real market is far too sluggish and uncertain.

**What Employees and Employers Want.** Now we can appreciate what about labor tends to an imperfect structured market. Keep in mind that “workers” includes professionals such as college professors and managers; only entrepreneurs are not workers. People cannot stand uncertainty for their families. People need security to raise children. Employers need a well-trained, reliable workforce on which they do not have to spend much to retrain. Americans like to think of workers and employers as antagonists but workers and employers share many common interests.

Workers want to make sure they have basic training to get a job by the time they are ready to get a job. They want to be sure their job pays well enough to raise a family. They need to know they can stay in a job long enough to raise a family to the point where their children get the training that they in turn need to find and hold a job. They want to make sure they can live in their old age without becoming a burden to their children. They want to know that their employer will not go out of business before their own needs are met.

Employers want employees that can get along on the job, get along with other employees, with management, their families, and the community. Employers want employees that are quickly trainable, reliable, healthy, safe, docile on the job, do not cause arguments, and take orders reasonably well. Employers do not want to spend money training anybody that will then go work elsewhere, and they do not want to spend money continually training new people (“turnover costs”), so they want employees that will stay with them. Employees absolutely must cover the costs of employment to employers, that is, employees have to be cost effective. Employers know that workers need safe houses, good schools, good medical facilities, and recreation for families. Usually no one employer can cover these costs alone because the facilities extend beyond the workers for the particular employer. Employers want the community to provide these facilities in general for workers in general. Employers will contribute to maintaining good quality facilities and a good quality educated workforce if those facilities are already in place in a community.

**Structured Differentiated Labor Market.** The needs of most workers and employers can be met by structuring, differentiating, and ranking the labor market, and by setting up community institutions that maintain the structured imperfect labor market. This solution satisfies the needs of most workers but leaves some workers out entirely, and leaves others with bad jobs. This section describes the ranked and differentiated labor market while a later section describes the institutions that maintain it.

The structured labor market resembles a differentiated market such as for toiletries, and works much the same way. Workers and employers cut up the job market into graded niches according to these features: stability, safety, wages, benefits or lack of benefits, degree of benefits, amount of prior education needed, amount of on-the-job training needed, comfort, pleasure, and prestige. Workers and employers cut up the job market into unskilled, skilled, floor supervisor, low-level manager, mid-level manager, etc. They cut up the job market into occupations each with their own expected salaries, benefits, and degree of prestige such as retail worker without benefits, retail worker with benefits, stock manager, truck driver, dispatcher, legal clerk, professor, doctor, or circuit judge.

There is a close relation between the structured, differentiated labor market with socio-economic classes such as: poor, unskilled working class, skilled working class, clerical middle class, nonprofessional middle class, professional middle class, upper middle class, modest business firm owners, upper class,

and large-scale owning class. I will not go into the relations here but keep the ranked classes in mind.

*Zero Sum Game.* This kind of market is like a zero sum game in which the gains of one player come only with the losses of another player, like poker. The labor game is played for high stakes: our own livelihood and the future of our children. To lose is to disappear from the real life of our times. In this kind of game with such high stakes, players tend to fear each other and to suspect each other. Players tend to form subgroups to capture a portion of the game (labor market) so as to make sure that their subgroup is safe enough. Besides seeking their own advantage directly, subgroups also seek comparative advantage by harming other competing subgroups.

**Labeling.** This section explains an important way of maintaining the structured differentiated labor market.

I switched from tee shirts to pullover shirts when I became middle aged. When I want a new pullover shirt, I do not go to every store in town, compare every pullover shirt in town with every other pullover shirt, and compare every pullover shirt in town with possible substitutes such as sweatshirts, dress shirts, Hawaiian shirts, and tee shirts. If I have ready access to a decent mall, I might check out stores there. But then I do what I have done before: I go to the store that worked pretty well in the past and I make the best choice there. There is nothing un-strategic about my behavior. I minimize search time, and minimize opportunity cost. If I lived away from a good mall, I would do the same thing with catalogs but probably I would end up choosing from my favorite two catalogs (not named here). Birds and other animals do the same thing. When they look for food, they do not go to every blade of grass or tiny twig. They go where they have had good luck before or to places that look the same or smell the same as where they have had good luck before. Humans and animals all look for signs to narrow down the search and to speed up the search. If using signs causes us to overlook the absolute best bargain sometimes, it helps in other ways that more than make up for that occasional loss.

Because employers could not possibly evaluate all potential employees and current employees as individuals, they too use experience and signs. They categorize employees according to what groups are likely to have what traits as good employees, and look for signs to sort employees into various categories. Some signs work negatively to exclude, such as bad school history, a sign of drug use or alcohol use, or a record with the police. That is the first screening that most employers do. Employers hire and promote on the basis of these labels as much as on the basis of any individual abilities. They do not often hire based on an in-depth evaluation of individuals, no matter what the personnel offices say. The most important signs are school history. Often at least a hundred people apply for each academic position. The first thing the search committee does is to make a big pile of applications that will be rejected right away. Only after that does it begin to consider individual applicants. When it does consider individual applicants, it uses signs to rank them, such as the school where they got their degree and the number of publications. It excludes further on that basis. Only when it has narrowed down the search to less than a dozen candidates does it really consider individual features.

There is nothing necessarily wrong with labeling. It is strategic. It saves everybody time, effort, and resources. Ultimately it serves the consumer. The cost is that sometimes it overlooks an unusual qualified person. Because the alternative is tremendous uncertainty, screening and the use of signs very likely helps lower the total amount of unemployment. Most importantly: It is unavoidable because it

is rooted in human nature.

That is, there is nothing necessarily wrong as long as labeling does not reinforce the class system, sexism, ageism, class conflict, the use of the schools in the class system, or other social problems, and as long as prejudiced people cannot use labeling to promote their own prejudices to the detriment of consumers. Of course, labeling is abused in many ways and does have those bad results.

Americans used to consider this kind of labeling innocent enough, and useful in finding jobs. Americans used to think some ethnic groups had a greater aptitude for some kinds of jobs than other jobs, and some ethnic groups were preferentially hired for those jobs. In the late 1800s, the Irish were the cavalry soldiers and police. In the late 1900s, some Americans preferred Jewish doctors even if they otherwise disliked Jews. Some Native Americans build skyscrapers. It is Politically Incorrect to say so, but many Americans, including many Blacks, think American Blacks are the best athletes, or only Blacks can be great jazz musicians. We all know that all Greeks are geniuses. We could live with this kind of labeling if all people could get at least some kind of decent job, and if people of true merit could get into any occupation despite the labeling; if good White jazz musicians could get a job according to their talent.

Now suppose that some ethnic groups are not positively labeled but negatively labeled: Jews are lousy athletes, Irish are unreliable drunks, Blacks are all lazy and stupid, Italians are all members of organized crime, and Greeks are all divisive moralizers. Suppose even worse that the labeling reinforces itself. Blacks are lazy and stupid so that they can only get bad jobs, and, like most other sane people, act uninterested and lackadaisical on bad jobs. Italians cannot find typical professional jobs so they turn to organized crime. Hispanic kids find that education does not help them get a better job, so they stop going to school, people stop funding their schools, and the schools become so bad that employers will not hire kids that come out of those schools. These are all types of "self-fulfilling prophecy". They are beliefs-actions that make themselves come true. It is all too common in the labeling game. This is necessarily wrong.

What to do? This is not the place to evaluate Affirmative Action or the economic side of the Civil Rights movement. The structured differentiated ranked labor market will not go away because we could not tolerate the uncertainty. The label system will not go away because it is rooted in strategic human nature and because much good actually comes of it. The proper response is to make sure we take care of the poor to the extent that we can afford to do so, that all subgroups rotate out of poverty, and to make sure that all students are labeled fairly so the system serves individual merit as much as possible and serves abuses as little as possible. We have to make sure that all people that receive a label (diploma) are fully qualified according to expectations: no competence, no degree. Guaranteeing the quality of graduates will not end prejudice but it will help and it will drastically cut down on the excuses from both sides.

**Inevitable Poverty.** (1) It is not necessary that uncertainty lead to a structured differentiated system; but it is common among people and among social animals. We should not expect otherwise. (2) It is not necessary that every structured and differentiated system is ranked. It is possible to sort without making some better and some worse, such as with kitchen utensils; but ranking often comes along with differentiation. It is almost unavoidable that there will be some good jobs, some jobs on which people can raise families, some jobs on which people can only just raise families; and some crappy jobs that pay minimum wage without benefits. (3) It is not necessary that every structured, differentiated, and ranked

system have “holes” at the bottom, so that some people are out of the system as the unemployed; but that usually happens too.

Both the imperfect competition of the labor market and other types of imperfect competition in other markets among business firms contribute to inevitable unemployment. I will not try to separate out the effects of the two sources. I focus on the imperfection in the labor market.

It is hard to show rigorously, in a short space and without mathematics, how the logic of how structuring, ranking, differentiation, and “holes at the bottom” happens, but it is possible to give some examples to get the idea across.

We do not only differentiate between different brands of ice cream or beer, we also rank them from better to worse. Some kinds of ice cream and beer we just do not like. I do not like “lite” beer. I cannot go into the ranking by brand name because I do not wish to get sued, but anybody that has had to do an ice cream run or a beer run with a group of people gets the idea.

When social animals face uncertainty, they tend to differentiate and rank their social system, including some “runts” and “outcasts” at the bottom. The classic example, which is incorrect but useful, is the “pecking order” among birds such as chickens and pigeons. Bird A can peck any bird from B to Z; bird B can peck any bird except A, from C to Z; bird C can peck any bird except A or B, from D to Z; and so on. “Can peck” includes priority with food and sex too. Birds on the top do pretty well but birds on the bottom die early, and they rarely can raise a family of their own.

I like to go look at ponds. Many ponds have logs on which turtles sunbathe when the turtles can find a space. The spaces on the logs appear to be ranked from better to worse, although I am not sure what criteria turtles use. Particular turtles are able to get a particular ranked space and to hold it for a long time. Turtles that cannot get a space have to spend their time in the water, without benefit of the full sun.

It gets worse than this. Among monkeys and most social mammals, there is no strict pecking order although there is higher and lower, and usually there is a highest male and a highest female. Animals form coalitions, so that among a dozen females at the top, the top three might be in a coalition, the next three in another coalition, and so on. These coalitions also have rank. Groups above the bottom harass, take food from, urge sex upon, deny sex to, harm the children of, and otherwise make life miserable for, the group at the bottom. Animals in the group at the bottom live shorter lives, are less healthy, and have worse reproduction.

*Not Saying.* Here it is important to be clear what I am NOT saying. I am not saying that, because of human nature, social class is inevitable. I cannot go into a general theory of social class. People naturally tend to seek advantage, and naturally tend to form subgroups to take advantage. Sometimes one subgroup will deliberately thwart another subgroup so as to get advantage. Subgroups can persist across generations. Whether or not subgroups become social classes depends on other factors such as technology, culture, and history. Social class does not develop in human beings only out of innate mammalian propensity. Social class is more likely to develop when people face considerable uncertainty, can divide themselves into subgroups, can make life chances of subgroups differ, can label subgroups, and can make it stick. Social class predated capitalism and likely will be around after capitalism. It has

been far more harmful in other times, places, and systems. But that does not mean social class does not exist in capitalism or that we can overlook it in capitalism. Uncertainty and imperfect competition, with inevitable unemployment and poor employment, are enough to get social class going, keep it going, and make it harmful.

The structured, differentiated, ranked labor market is not the only human social arrangement that leads to poverty and exclusion. Differentiation and ranking occur in tribal life and with pre-capitalist agriculture, and might even occur among hunters and gatherers. Poverty and exclusion have been facts of human life at least since moderately intense agriculture beginning about 6000 years, and probably before. Why structure, differentiation, ranking, poverty, and exclusion develop in situations other than capitalism is the proper topic of economic anthropology and cannot be examined here. The reasons are both similar and different. The fact that structure, differentiation, ranking, poverty, and exclusion do develop in other situations does not mean they are an inevitable part of human life, and does not mean that poverty and exclusion are any less terrible because they also develop in capitalism.

**Interlude: Humans as an Unusual Resource.** This section and the next describe unusual qualities of people as resources. These qualities lead us to question the idea of wages as the reward for cost effectiveness. Even so, I offer no alternative theory because there is no better alternative theory and because speculation would take too long. I bring up these points because people need to be aware of their effect on a differentiated ranked labor market. The unusual features of people are important because the economy is circular and closed. I am not able to show here in detail how circularity and closure make each feature important but the reader should get the gist. These features are not integrated into economic theory and so I do not speculate on the results.

Unlike steel, if ever there is a surplus of workers as in a recession, the surplus workers cannot be shelved until such time as the present supply of workers has reduced to meet current demand for workers.

The future production of workers cannot be matched to the future demand for workers. There is a certain supply of people at any given time, and all those workers must be used. If they are not used fully, there must be some unemployment and political unrest.

For most resources, the supply increases according to the demand. If the demand for steel goes up, the price goes up. If the price of steel goes up, producers make more. On the other hand, if the demand goes down, the price goes down, and the supply goes down. At least in advanced economies for the past 150 years or so, neither relation is true of people. There is a relation between wages (wealth) and human reproduction but it is hardly the close relation found in other resources such as steel. Raising wages does not result in more people. Lowering wages does not result in less people, and sometimes results in more people.

People decide on the number of their children not just in response to wages but for many other reasons, mostly having to do with the need for security and with comparative competition. The number of people in the economy does not depend on the demand for people or depend directly on the cost effectiveness of people as a resource.

Even so, the economy still has to use people according to cost effectiveness and it still has to use as

many people as possible.

People can flow somewhat between occupations, and this flow can help alleviate the problem of a determined number of people. But flow between occupations does not change the fact that there is a certain number of people, this number is not necessarily related to the current demand for people, and yet all people have to find a job anyway – a job that is good enough to raise a family.

Unlike as with other resources, people-consumers have to buy all the proceeds of the economy (with the exception of some capital that is used by business firms to make other capital). It is as if petroleum had to earn enough in sales so as to be able to buy all the proceeds of the rest of the economy. Regardless of the supply of people, people collectively have to be paid enough on the basis of their cost effectiveness so as to buy the entire output of the economy.

For as long as accurate statistics can determine, labor (wages) has made up about 60% to 80% of the costs of production. Even with a continual flow of new technology and “labor saving devices”, labor still makes up about 60% to 80% of costs of production. Out of this 70%, labor-as-consumers have to buy all the products of the economy. The other 30% goes to capital buying capital, and leaving it out is not the problem. The problem is that labor’s share remains so constant despite amazing changes in the type and extent of technology over the last 100 years, and, out of this constant share, labor has to buy all the final products of the entire economy. In some mysterious way, the economy arranges it so that labor continues to receive 70% of the value of the economy, just so laborers-as-consumers can continue to buy the entire output of the economy; but nobody knows for sure that this happens or how this happens.

**Continued Interlude: Reproduction as a Special Feature.** In perfect competition, capital just replaces itself as part of the process of making and selling. Business firms do not have to deliberately invest to replace any capital. Even in the Classical variation of perfect competition in which there is savings, investment, and interest, capital just replaces itself. No firm has to worry that the total supply of steel is too little, just enough, or too much for the total needs of the economy.

Suppose that the supply of, and demand for, steel stay steady in the economy. Year after year, the economy uses a billion tons of steel. The economy uses a billion tons of steel and reproduces a billion tons of steel. We can say that the cost effectiveness of steel causes steel to just reproduce itself. Of course steel does not begat little iron babies as in biological reproduction but the idea of reproduction still makes sense. If steel did not reproduce via its relation to all the rest of the economy, then there would not be enough steel.

The idea makes some sense as applied to people and to particular occupations but it is not as clear as with steel. Suppose the economy needs so many retail workers, so many mechanics, and so many lawyers. How do we make sure that enough resources go to the right people so that we can create the right numbers in those professions? Do we make sure the people now in these occupations have high enough wages so they can have enough babies and so they can train their own children to take their place? In Medieval Europe, sometimes people did think like this. We can say that particular occupations do not have to physically reproduce themselves in this manner as long as the entire population reproduces itself, but this answer will not quite do. This answer would work only if children could flow freely between all occupations, and we have seen already that they do not. Even in the

modern world, people act as if they had to make enough salary not just to make children but also to train their children to the same occupational level as parents. Doctors feel that they have to make enough money to be able to send their own children through medical school. Mechanics and electricians feel as if they have to make enough money to make sure that their children are trained at least as well as they, and so on.

On a larger scale, how do we make sure that just enough resources go to people in general so that the population as a whole can reproduce, and only just reproduce? How do we make sure that all the people make enough in wages so that they can all raise a family with the right number of children to just replace workers as a whole? How can we make sure that, if people have more babies than are needed to just replenish the stock of workers needed now, that those babies can find jobs when they grow up? What do we do when some occupations make more than enough to reproduce themselves, such as skilled immigrant laborers, but some occupations make less than enough to raise a family and so replenish the numbers needed for those occupations, such as long-term resident northern European and East Asian professional people? These are not idle questions when we realize that many people do not make enough on which to raise a family in security.

It might be that giving wages to people according to cost effectiveness does not allow people in particular jobs enough wealth to make sure that they reproduce. It might be that the wages paid to any occupation accord with cost effectiveness of that occupation but it also might be that the wages are not enough to reproduce the people in the occupation.

If the wages for an occupation are not enough for the people to raise a family then people cannot reproduce even if their wages are in complete accord with cost effectiveness. A lot of jobs do not pay enough raise a family but pay only enough for one person to get by. A lot of jobs do not pay enough to raise a family securely and with hope that the children can have a decent chance to get a better job. It is as if the public price system were telling these people that there were too many of them and so they should reduce their abundance. Yet they do not reduce in abundance. In fact, these are the occupations for which there always seems to be too many people.

**Mechanisms.** Having looked at people as an unusual resource, I return to the main argument about the structured differentiated ranked labor market, and the class system. I mentioned labeling as a way to maintain the structured labor market and the class system, and the role of schools in labeling. This section lists some other ways.

People maintain the system by participation in various institutions. People of a similar income, social level, and outlook, all “hang out” in the same places and do similar things: churches, schools, athletic events, concerts of various kinds, bars, sports leagues, etc. They go to similar schools and their children go to similar schools. People of similar social class exclude other people from the same places. One doctor with his-her family might go to a working class Baptist church, but that is not common, and too many doctors would change the character of the church. If too many working class people began to go to a rich Episcopalian church then many old members likely would go to another church. Working class Hispanics have their own churches. Americans think they choose their spouses freely but they still manage to choose within their social, educational, religious, and ethnic group over 90% of the time. Children do rise in the scale, and do get better off than their parents – that is why

parents “work their fingers to the bone” and stay up all night worrying – but children usually rise in moderate steps that do not upset the hierarchy.

Labor unions play a part in this scheme, and they used to play a large part for some workers in the 1950s and 1960s. They are not so important now. It is important to be clear that unions did not cause the structuring of the labor market, and that we could not eliminate structuring or unemployment if we eliminated labor unions. Structuring and unemployment existed hundreds of years ago, long before labor unions. Structuring and unemployment existed when capitalism was most free and perhaps closest to the dynamic ideal, in the 1800s in England, when John Stuart Mill described a structured labor market that had been inherited for generations from parents to children.

Eliminating unions might push the economy slightly toward the dynamic ideal, but so would eliminating churches, bars, sports leagues, Right Wing groups, Left Wing groups, and all civic organizations, and forcing people to marry by lottery – we would lose more than we would gain from eliminating those groups and from eliminating labor unions too. In fact, I think we would do better with managing unemployment and poor employment if labor unions were more common, larger, and stronger, and if unions were educated in what is really going on.

The same is true of the minimum wage law. It does not make much difference either way, and we are likely to lose more than we gain by getting rid of it.

*Schools.* Schools are the major way by which people are sorted into particular levels and jobs, or are sorted out entirely for unemployment. Schools are the major means by which people are trained in the basics of all jobs and of their particular job.

Schools do not provide knowledge about science, mathematics, and history so much as they give psychological training and provide certification that a person will be useful rather than disruptive. They are supposed to insure that an employee will be ready to receive on-the-job training cost effectively. The employer provides the large majority of actual knowledge and training on-the-job once the employer feels that he-she can rely on the new worker, even for doctors and lawyers. Any school that guarantees its graduates are ready for on-the-job training has a high placement rate.

Schools manage a game similar to the runaway game of advertising. Not all the people that get a piece of paper can get a job. It used to be that the longer the stay in school, the more likely a child was ready for cost effective on-the-job training. To make sure that their children got the best jobs, parents invested more time in longer stays in school. Thus the amount of time needed in school has been increasing steadily, and the cost of keeping a child in school has gone up even faster. Now, additional time in school does not guarantee a better job. Yet any child that does NOT have a piece of paper definitely cannot get a decent job at all. So parents have to keep their children in school for ever-longer periods of time at greater expense but without guarantee of any benefit. Now not even an advanced degree such as a Master’s degree is enough to guarantee a job. Now it is necessary not only to have the degree but to find other ways to distinguish yourself such as what school you go to or what activities you were involved in. Children begin “padding their resumes” with extra-curricular activities from the middle of grade school.

Schools-as-runaway-advertising occurred just when Blacks and other minority groups began to believe in

education as a way to rise in the structured job market. Just as Blacks and other minorities began consistently to make sure some of their children did graduate from high school and college, degrees became inadequate for finding a job unless a child went to a different school than the ethnic school or unless a child participated in activities that were not offered at the ethnic school. When we have enough lawyers, even the lawyers will be unemployed. When enough ethnic children get pieces of paper, especially the ethnic children will still be unemployed. It only adds salt to the wound that the quality of education at ethnic, inner-city, and far rural schools is often abysmal, parents refuse to see it is abysmal, and parents will not take the needed decisive steps to improve quality when it is abysmal.

*Comparative Competition.* Schools and the other mechanisms for maintaining the jobs-and-class system fall in with the natural tendency for competition to be comparative even if comparative competition leads to runaway games. People do not judge success by some objective standard, but instead judge their success compared to what other people do. People keep up with the Joneses. People are willing to spend whatever they need to keep up with the standards for their occupation and their class. If they do not, they fall behind and they put their children at risk.

Comparative competition makes it hard to do anything about the flaws and problems of capitalism. Because of comparative competition, people never feel as if they have enough. Because of comparative competition, in fact, people are correct: they never have enough, especially if they give some to a potential competitor. There is no end to the runaway games. People correctly sense that, if they help the poor, then they put themselves at a disadvantage compared to other people that do not help. Only if everybody gives in some equal way is it possible to get around runaway games. It is hard to make people give in an equal way without a good obvious transparent accountable fair-and-equal scheme, such as a good fair-and-equal tax plan to support schools. It is hard to have a good fair-and-equal plan without a binding religious sanction to enforce the scheme. We think the state should be able to do this because the state has the power to take from everyone according to ability and to give according to need, but it is not that easy. Few people feel that the state has taken justly and given justly, and they are correct enough to make a difference. People that otherwise would be good hearted do not cooperate with state programs, their non-cooperation undermines the programs, and this undermining makes everyone else refuse to cooperate too – another vicious circle. Yet as long as we do not have a religious sanction, we have to rely on the state.

**Evidence.** Before going on to look at some implications, it is well to be sure of the flaws and problems. This section cannot offer proof to anybody who is convinced there are no flaws and problems but it can offer illustrations to people open to the ideas and to evidence.

*Persistence.* Unemployment never goes away. Even in the up phase of the business cycle, it never goes away. It always comes back after the business cycle. Even after more than 200 years of continuous economic growth faster than the rate of population growth, we still have unemployment at about the same rates as we have had for over 100 years. If unemployment could be cured by economic growth, it would have been cured long ago. Economic growth makes a bigger pie but a pie with similar shares; one of the shares is the zero share of no job; another share consists of bad jobs.

*Sexism.* After over 100 years of “Women’s Lib”, women still get paid no more than 70% of what men get for the same work. Women still cannot move into managerial positions at anywhere near the same rate

as men. The “glass ceiling” might have some cracks but it is still in place.

*Ethnic Strife.* The greatest tension occurs between the poor versus people with jobs. Usually the class tension is mixed with ethnic tension as well. When Black Los Angeles rioted after police officers were not convicted of any crime in beating Rodney King, Blacks rioted against the small Korean business firms in Black neighborhoods. In the movie “Do the Right Thing”, the Black friend of an Italian pizza shop owner helped destroy the shop. In Miami, Cubans vaulted over Blacks in the ethnic hierarchy to reach modest prosperity and economic security, and the two groups have lived in mutual anger ever since. Just before I wrote this chapter originally around 2005, France was torn apart for weeks as resident Arabs rioted against a 30% unemployment rate and against the racism of the French.

In a zero sum game with subgroups based on ethnicity, the players rightly know that the rise of one ethnic subgroup usually comes only with the relative fall of another subgroup. If Irish rise, the English must fall. If the Italians rise, the Irish must fall. If Cubans rise, Blacks must fall. If Blacks rise, then poorly educated Whites must fall. The movie “Gangs of New York” showed how Americans have understood this problem, have lived with it for decades, and have tried to fight it for just as long. Too often we lose.

*French Example.* In France, a business firm that accepts a young person as an employee has to accept him-her pretty much for life, and has to give that young person the generous benefits of a French worker, including health insurance and six weeks paid vacation per year. This is how middle class French families fight uncertainty for their children. French firms cannot try out the employee first, as American firms do with a standard probationary period. The French practice pushes uncertainty from the lucky young people that do get jobs to the unlucky unemployed. The unemployment rate among the young in France is about 25%. As I wrote this chapter for the first time in about 2005, legislators proposed a change to allow firms to have a probationary period for new employees. Firms could let go new employees during a probationary period without a heavy burden of showing cause. The new law aimed at alleviating some uncertainty to firms in case the firms hired a “bad apple”. The new law aimed to reward good employees and to weed out bad employees. Economists estimated that the unemployment rate among young people would be cut to about half if the new law were enacted, to about 12%. Yet this change was too much uncertainty for the French young people who anticipated getting good jobs. They demonstrated vigorously and won. They kept the ability to retain their good jobs from the time of hiring, without any probation. The 75% of French young people that still would get good jobs were not willing to risk that they might fall into the few that are let go, even if that meant keeping at least 12% of their fellow young people needlessly unemployed. Structuring really does cause unemployment and harm, yet people are willing to impose the penalty on others if they benefit themselves.

Four lessons are:

- (1) France has a baseline unemployment rate of about 12%. This is typical.
- (2) Not even allowing free hiring and firing could reduce that baseline rate of unemployment – free hiring and firing would lower the extra unemployment due to bad hiring practices from 25% to the baseline rate of 12% but it would not lower the rate much more.
- (3) Some people are always willing to use a structured situation that benefits them even if they hurt some

other people and hurt society. People will use imperfection to capture a situation for their own benefit. People will hurt other people to make themselves better off. Not all situations are Smithian, even in a robust capitalist economy – and it matters.

(4) State interference confuses the situation, often making the situation worse. Interference causes us to misunderstand the issue, and leads to wrong policy advice. State laws required young people to be hired without a probationary period in the first place. To alleviate this first artificial interference, employers asked the state for explicit legal authority to hire according to the free market. Employers tried to use state interference to undo state interference so as to return to a more natural market condition. Young people were able to use the state more effectively to block the request of employers. Rather than rely on the market, both sides turned to the state. Looking only at this part of the scenario, an advocate of the free market might wrongly conclude that young people could achieve full employment if all state interference were gone. If we remove state interference, everybody will NOT be well off. 12% of young people still would be unemployed. Without interference, some people would be better off than when previous interference hurt them but that does not mean everything will be fine. The dynamic ideal does not eliminate all flaws and problems. State interference obscures this situation. It allows all parties to appeal for more state interference, and it allows naïve advocates of the market to argue incorrectly that removing state interference is all we need. Often we need to remove state interference so that we can think straight. If we still find flaws and problems, then we might have to do something; and that something might include other, better, kinds of state interference.

*Lifetime Earnings.* This argument excludes the effects of compound interest. Those effects soften the argument somewhat but do not invalidate the main point. The main point is that, in a perfect labor market, the wage per year (per hour) for all occupations would not be the same but the lifetime earnings of all occupations would tend to be about the same. This is the same as saying that ideally steel can flow between uses, and that the cost effectiveness of steel tends to equalize for different kinds of steel as a result. Since this outcome is not true for labor, deviation is evidence of a structured, ranked market.

These exact figures do not matter, only the idea: Suppose marine stainless steel gave a 20% advantage over regular stainless steel in various ways, that it lasted 5 years, and that regular stainless steel lasted 5 years. Marine stainless steel would confer a 100% advantage over regular stainless steel (5 times 20% equals 100%). Users of marine stainless steel (tools and boats) would act cost effectively to pay twice as much as for regular stainless steel. Does that mean the makers of marine stainless would make twice as much profit as the makers of regular stainless steel? No. It should also cost twice as much to make marine stainless. The market should adjust so that this is the case. If the market did not adjust so that this was the case, then the market would be imperfect.

The same is true of occupations for people. An electrical engineer makes more than an electrician. It takes slightly longer to train an electrical engineer than to train an electrician. Thus the electrical engineer works slightly fewer years. If we total up the salaries over the lifetimes of the electrical engineer and the electrician, and account for training cost, then the added cost effectiveness of the electrician would justify his-her slightly higher salary per year and higher training costs – but no more. If the electrical engineer received more in total lifetime salary than was needed to cover training costs and a few more years in school, then people would switch from electrician to electrical engineer until the wages of electrical engineers fell into line with their cost effectiveness. If the wages of an electrical engineer were more than

needed to cover the cost of training and the cost of a few more years in school, then electrical engineers would not be cost effective to employers. An employer would pay too much for electrical engineers. The employer would stop hiring the current crop of electrical engineers and instead recruit his-her own trainees from outside the schools. The employer would pay the trainees a lower wage than current electrical engineers but more than electricians – a wage equal to their cost effectiveness.

The per-year earnings of all occupations would not be the same but the lifetime earnings of all occupations would tend to equalize. If not, the market is not free.

Yet high school guidance counselors correctly advise students to stay in school. The longer students stay in school, the greater will be their lifetime earnings. This advice is correct but it does not primarily show the benefits of the free market. Rather it primarily shows the effects of structuring, differentiation, and ranking. The more education that people get, the higher up they rise in the class system, and the more earnings they make.

The market has not broken down but it has been structured; and the structure is part of a ranked differentiation system that is also intertwined with class, sexism, racism, ageism, etc. Only in a ranked differentiated system would people receive significant differences in lifetime earnings and would the differences closely go along with position in the social scale. If I were a parent, I would still advise my child to use the class system wisely, including getting the appropriate education. I would also explain what it all really means.

*Pop Culture Images.* An intuitive understanding of a structured ranked labor market might show up in modern reality game shows, such as “Survivor”, “Big Brother”, and “Weakest Link”. In them:

- (1) Some player is always shoved to the bottom,
- (2) the bottom player gets eliminated each week,
- (3) there always is a bottom player no matter how many bottom players are eliminated,
- (4) players are willing to hurt their fellows, and
- (5) the elimination continues until one player gets most of the prize by being alone at the top.

Sometimes normal people see things clearly that experts are hazy about.

**Class Conflict.** Here comes the hardest part of the chapter. Keep in mind that the labor market is differentiated, structured, and ranked; played by groups; has a group of losers at the bottom; works like a zero sum game where a gain by one subgroup means a loss by another subgroup; one subgroup is willing to block and to hurt other subgroups; and subgroups are identified by social class, ethnicity, age, and gender.

I include in the “working class” all workers that have to punch a time clock and all white-collar middle class workers such as an accountant in a car dealership or the floor manager of a department store.

The “poor” includes the unemployed and the people that have poor employment with low salaries and no benefits.

People in the professional middle class or upper middle class do not usually fear poverty overtly. Their children are not likely to fall into poor employment or into unemployment at one step. In contrast, people that have only poor employment fear the unemployed. Their children are all too likely to experience long times of no job. Working class people fear both the unemployed and poorly employed. They fear the poor. Their children just might fall into poverty at one step or two steps. Many of their children will have a hard time finding a job on which the children can raise a family. Only a person who has lived this way can appreciate the constant uncertainty and the fear. Fear is a reasonable response. To admit the fear is not to say less of these people. Anybody would be afraid for his-her children in the same situation.

Working class people correctly understand the structured labor market even if more affluent people do not. They know that the total number of good jobs is pretty much fixed at any one time, so that if one person gets a good job another person has to lose out. They know that the total number of good jobs might expand over time but it will never expand so that everybody can have a good job and so that there is no unemployment or poverty. They know that at least some people have to be unemployed, poorly employed, and poor all the time.

The working class correctly understands the labeling system. They know that people are not sorted entirely according to individual merit. They know that people are sorted according to bad labels such as “school dropout” or “stoner”, and that people are also sorted according to ethnicity, gender, age, and religion. They want to make sure that they are in the right category, and that their children inherit the right category or better.

The working class understands that to be in a particular ethnic group or gender group means to be poor. To be Black or an unwed mother does not absolutely mean being poor but it means a much greater chance.

The working class knows that as long as other groups bear the brunt of poverty then they and their children do not have to fear unemployment, poor employment, or poverty as much. As long as Blacks, Hispanics, and unwed young mothers are poor, and their children are poor, then Whites, Asians, and Conservative couples that stick together do not have to be poor, and their children do not have to be poor. If we move too many Blacks, Hispanics, unwed young mothers, and their children, out of poverty, then necessarily some Whites, Asians, and young couples that stick together have to fall into poverty – especially if the working class pays the bills for the programs that raise other people out of poverty.

The working class has to make sure that the poor do not rise out of poverty in a way that might move themselves or their children into poverty, and especially the working class has to make sure they do not pay the bills for social programs that upset the balance.

None of these ideas are unreasonable. These ideas might not be pretty but they are human and natural. Almost anybody that was in the working class would feel the same way. When middle class people fear that their children might actually fall into poverty as a result of social programs, or when the bill for programs is high enough to undermine their own success at comparative competition, then middle class

people feel the same way too. It is one thing to condemn poverty in the abstract and quite another thing to fight poverty when the fight necessarily helps competitors and necessarily endangers your own children. It is fine for comfortable middle class people to use poverty as a crusade to feel better about themselves because they do not have to fear the immediate results of their crusade. It is not fine to cut the throat of your own child. It is not fine to take the food out of your own child's mouth to put it in the mouth of another child.

(The middle class sometimes supports the poor politically, and forces the working class pay for social programs, as a way to gain politically allies, to keep up conflict between the poor and the working class, and to keep too many working class children from rising too fast – but that is another story.)

To maintain their own position, people that fear the poor do two things:

(1) Withhold help from the poor, such as through opposing welfare, job training, shelter for the homeless, Head Start, and appropriate crime prevention by police officers and humane neighborhood groups.

(2) Promote laws and programs that actively undermine the chances of the poor to advance: harsh laws against abortion, soft drugs, and victimless crimes such as prostitution and gambling. They recommend long sentences for crimes such as passing a few bad checks while they excuse crimes that have a much worse impact such as white-collar embezzling.

People use morality to carry out class conflict.

People that fear the poor are not all black-hearted villains. They feel the calls of religion and of human decency. They like helping the poor as long as helping the poor does not undermine the security of their own children.

Here we must face the mixing of morality and strategy. Recall from the chapter on human nature that people use morality as a tool in the struggle of comparative competition with other people. People of one subgroup use morality as a tool in the struggle against people of other subgroups. They use morality to help themselves and to hurt other subgroups. It does matter somewhat whether the morality is wrong or right, but, in these cases, it matters more that the morality is being used as a tool.

People that fear the poor use a strong moral stance against abortion, gambling, soft drugs, pornography, intoxication, and other faults as a weapon to keep the poor off balance and unable to rise. They use morality as a weapon to keep the poor down. They cultivate a strong moral fervor in themselves so that they can do all this while feeling good about themselves, even though they know at some deep level that what they do hurts the poor.

To repeat: Whether the morality is right or wrong is not immediately at issue here. It is more important to see that people use morality as a weapon in class conflict even if they are not aware that they do so. Many supposedly immoral behaviors some people do not consider so immoral; for example, I do not consider the use of soft drugs immoral. Other supposedly immoral behaviors are the kinds for which we are best off not using the state as our shepherd, such as gambling, prostitution, abortion, pornography, and homosexuality. When we use the state to pursue these moral causes, especially if we can see that

state actions affect groups differently, then we invite the state into our lives in a dangerous way. This is a case where using the state to solve a problem causes more harm than good, especially by setting a bad example.

When working class people fear the poor, they accept Right Wing demagogues that promise to restore social order and to protect them against uncertainty, especially if demagogues combine social order, economic security, morality, religion, and defense against enemies. This happened in Germany between the world wars and happened in other places such as Argentina. America too is vulnerable to religiously based fascism. We veered close to this in the early 2000s. We cannot protect ourselves from religious fascism unless we lessen fear of the poor and reduce class conflict.

To be truly clear and truly righteous, people must ask if their energy could be better spent in other ways that do not hurt the poor, such as by directly helping the poor, unwed mothers, parentless children, drug addicts, and porn addicts. They must ask themselves if they really act because it makes them feel superior and better, and because it hurts social groups that they do not like. If a person has examined his-her own motives, and the results of his-her actions, and finds that he-she is using his-her energy to best advantage, then he-she has to act on moral conviction. But only if a person has examined the situation thoroughly and is convinced that his-her life cannot be best used otherwise should a person act on a moral fervor that hurts the poor. To hurt the poor out of misguided moral fervor, and especially to serve our own hidden ends, is a great immorality, a great sin.

**What To Do: Face Up.** This section is a personalized summary. This section does not offer many suggestions. See the Suggestions at the end of the book.

Capitalism, even flawed imperfect capitalism, does make everybody better off, including eventually the poor. Right now, there is no better way to make everybody better off. But it takes time for everybody to get better off. During that time, differentiation, ranking, the hole of unemployment at the bottom, and bad jobs, never go away. The dynamic ideal does not cure all problems. The pie gets bigger, but the slices never changes, including the empty slice. Even when everybody else gets better off, some other people always have to endure unemployment, and some other people make only enough in their bad jobs to get by and never enough to raise a family securely. Even when total wealth increases, it still hurts body and soul to be at the bottom in the meantime. People and their children die at the bottom, even in America. We should rely on capitalism for progress, and we should not subvert the great benefits of capitalism. We cannot blind ourselves to the flaws and problems either.

We have to accept the full logic of the situation. The same logic that showed us the benefits of capitalism also showed us the flaw of imperfect competition and the problems that arise from it. The same logic that showed us the dynamic ideal also showed us that we cannot always rely on the dynamic ideal to overcome all flaws and problems. To overlook any flaws and problems is to deny the logic that showed us the benefits of capitalism and thus to deny the benefits of capitalism. The same logic that showed us the benefits of capitalism shows us the inevitability of a structured, differentiated, ranked labor market with holes at the bottom for the unemployed, poorly employed, and poor; and that same logic showed us the inevitability of class conflict. To deny the inevitability of an imperfect labor market with its problems is to deny the same logic that shows us the benefits of capitalism.

We have to accept that unemployment and some poverty really are inevitable. It would be nice if we could “turn loose the free market”, flap the job ads as President Reagan did, or wave a magic policy wand, to make unemployment and poverty go away; but that will not happen. It would be nice if we could rely on charity to take care of the poor so we did not have to involve the state; but that will not happen either, so we have to involve the state. It would not be nice, but might be convenient, if we could be nasty enough to the poor to force them all to find work somehow; but that cannot happen because there is not enough work. Without magic, we have to get into the trenches to see how to manage the problems in ways that do the most good and the least harm.

We have to accept that these are real: uncertainty, structuring of the labor market, differentiation, ranking, social class, fear, comparative competition, unfair competition such as racism, anger, class conflict, the use of morality as a tool in class conflict, state aid corrupts people, poor people “milk” the system, the problems cannot be solved “once and for all”, and fascism due to socioeconomic-ethnic-religious conflict is a genuine threat.

We have to accept that neither more education nor any jobs program can finally cure poverty and unemployment. If everybody were educated to PhD level, the PhD market would differentiate and rank, and at least 5% of PhDs would be unemployed. If everybody were trained to be a computer whiz, the labor market for whiz kids would differentiate and rank, and at least 5% of whiz kids would be unemployed. When we have a lot of lawyers, lawyers differentiate and rank, and some lawyers end up poorly employed. Education is needed to create good jobs, and for progress. I am glad we spend a lot on education. Jobs programs are still a good idea. We just cannot look to education or other training as magic hammers to do our hard social work for us.

We have to accept that economic expansion programs will not make jobs for everyone. Natural growth is the best way to grow the economy but even natural growth produces a bigger pie with the same slices, and with one slice still empty. Induced expansion programs can only do that much at best. In fact, induced expansion programs further distort the economy and likely produce greater rates of unemployment and bad employment even if they make some favored groups better off. Mostly induced expansion programs do not even really aim to make jobs or help the poor but only use jobs and the poor as a disguise for special interests.

Use “welfare” to mean all aid programs. Because people are self-interested strategists, we have to accept that people abuse welfare, and we have to accept that the abuse can be bad enough to undermine all programs. If a person can choose between getting the salary of a full-time job from working or from welfare, too many people choose welfare. Even if a person can only get a lesser amount of support from welfare than wages from a job, too many people still choose the leisure of welfare over working. If a woman can have one child by supporting it herself, or can have four through welfare, too many women take welfare as their “baby daddy”. If a man can support one child himself but can impregnate five women and then have welfare support his children for him, then too many men become deadbeat welfare dads. People who receive health care as part of welfare are no more likely to exercise, eat right, and live well than the average American; I would guess they do worse. The more we give to people and children in welfare, the more likely that people choose welfare over work. The welfare ranks swell, and unemployment grows. We as a society really need welfare; most recipients of welfare really need it; and most women on welfare do not abuse it; so we have to make sure it works right.

When working people see bad welfare cases, even if those cases are not typical, they get angry; in fact, they get mad. Their anger is not mere racial prejudice or mere reaction to stereotypes. It is not mere class conflict, although it is also class conflict. Their anger has a real basis in the flaws and problems of capitalism and in how people abuse programs. To deny their anger has a real basis is to deny them the status of full human beings just as much as we have denied that status to Blacks, women, gays, and welfare recipients in the past.

So we have to find a method of support that makes sure children do not starve, and that children get a roughly equal chance, but so we promote welfare freeloading as little as possible. I think most state agencies have worked their way toward this resolution, and I have little to offer here except to wish we could do it openly and rationally rather than in the haphazard way America does things.

We have to use welfare with other distinct programs for national health care and for retirement insurance. In this regard, we could do much better.

To avoid racism and other social ills that go along with bad employment, we need to find a way to rotate all racial, age, ethnic, gender, and religious groups so that all stand an equal risk of bad jobs, unemployment, and poverty. Just as every group needs an equal chance to rise, so every group has to put up with an equal risk of getting crapped on. If all groups stood an equal chance of bad luck and good luck, then all groups would be more likely to help, would be more rational about helping, and would be less likely to use morality as a tool in class conflict.

Groups that are not now at the bottom will not tolerate the idea that they might have to suffer a bigger chance of falling, even if equalized risk means society as a whole benefit, and even if it means their own grandchildren benefit in the long run. Especially groups that are near the bottom but not at it, such as Whites with decent but not great jobs, will not stand it. They are terrified their children might fall into bad employment and then never be able to rise again. They are close enough to see how horrible that fate is. They stop programs to equalize risks and opportunities, just to make sure their children do not fall, programs such as Head Start and national health care. They support strict drug laws and strict sex laws such as against abortion, because those laws hurt the poor and keep the poor down. They support reactionary near-fascist politicians to make sure they do not lose their rung on the ladder. They demonize the poor and the families of the poor so they can use moral indignation against them and their families. They demonize racial groups that are more likely to be poor, such as Blacks and Hispanics, so they can use moral indignation against them and their families. Their behavior is sad but also it is rational as long as we do not deal directly with the flaws and problems of real capitalism. When Blacks have a rung up, they do it against the people below them, such as Hispanics and "White Trash". When Hispanics have a rung up, they do it against the people below them, such as Blacks and "White Trash".

I do not know of any magic way that does insure equal chances of bad luck or good luck. Along with decent welfare, health care, retirement, and not badgering the poor, the best single thing I can think of is this: Make sure every child who leaves school with a degree is competent to the level of his-her degree. If a child has only an eighth grade diploma, at least we can all know that he-she is definitely competent at eighth grade level. A real eighth grade education is actually more than enough for most jobs. If we could be sure that every eighth grade graduate really was competent at eighth grade level, that certification

would be enough for most kids to get jobs. If any child cannot learn enough to become competent at his-her grade level, then that child cannot graduate. The future of all his-her fellows depends on being absolutely firm. Any laxity puts all similar children in danger. Every Black, Hispanic, or poor White child that graduates without being able to read destroys the credibility of all Black, Hispanic, and poor White children. Every Black, Hispanic, or poor White child who graduates without being able to add 2+2 makes sure that no Black, Hispanic, or poor White child gets a decent job. We need mandatory foolproof statewide testing or national testing. Remove all excuses for discrimination on all sides. Make sure employers know they can rely on a graduate regardless of color, gender, or religion. If a child has a chance at an education but "blows it", then that child is forever on his-her own. No adult who "blew" his-her chance at education can ever receive any welfare. Make them go back to get a real honest GED before they can ever get any welfare. Such a program does not need education of equal quality for all groups, and we can never insure education of equal quality for all groups anyway. It will not give every group an equal chance, at least not at first. It will not end all problems. It will not eliminate unemployment, poverty, or discrimination. But it will improve the situation a lot, maybe enough so that, in combination with the right kinds of other aid, we can do better than we have done so far.