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Opinion | A great inexcusable macroeconomics-GRIM- omission

Vivek Moorthy Thursday, 27 July 2020

"We must rectify the colossal failure of the discipline to consider a policy of shorter work hours"

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Colossal job losses are ongoing globally due to the corona calamity. In a recent article, I suggested pragmatic policies, when demand drops drastically, to reduce hours per worker ('Ignore the work week; Reduce the work year', Mint, 16 June). As a matter of fact, policies to share work, based on the week, were widely discussed in the 1930s and partly implemented in response to the Great Depression. Nevertheless, leading economists then failed to discuss shorter-hour policies, and so in the post-War period too. Delving into the raging discussion then provides valuable guidelines for policies now.

During the 1920s, continuing a pre-World War one trend, the work week was shrinking and more companies adopted the 8-hours-for-5- days (8x5) workweek in the US. By 1932, there was strong support across a wide spectrum to enact legislation for a 30-hour week (6x5). In June 1932, New York's Mayor Fiorello La Guardia stated that if the 30-hour week was not adopted, "the US Constitution would have to be rewritten within three to five years." The doctoral sociology thesis of Arthur Dahlberg, a former engineer with fountain pen patents, titled Jobs, Machines and Capitalism, was published in 1932. He recommended statutory federal enactment of shorter hours. With Communist influence growing after unemployment rose in the Depression, he said that capitalism as a system should be given a "fair trial".

Although addressed to "technicians and managers", Dahlberg's book greatly influenced Senator Hugo Black of Alabama. He initiated legislation for a 30-hour week, and asked Dahlberg to testify before Congress. Across the Atlantic, the English philosopher and mathematician Bertrand Russell called for a shorter 20-hour week in October 1932 in a famous essay. There were umpteen articles in US publications on shorter hours.

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Both the Republican presidential candidate Herbert Hoover and Democrat Franklin D. Roosevelt actively supported the 30 Hour Bill. However, after being elected in November 1932, Roosevelt withdrew strong support for the Black Connery 30-hour Bill. It failed to get enacted in April 1933 despite easily clearing the Senate. The above facts are drawn from the book Work Without End: How Labor Abandoned Shorter Hours for the Right to Work (1988), by the labour historian Benjamin Hunnicutt.

Much milder work-sharing legislation based on a 40-hour week cap was finally enacted by Roosevelt as part of the President's Reemployment Agreement (henceforth PRA) of July 1933, part of the National Industrial Recovery Act. Overall, his New Deal demand stimulus replaced work sharing as the main mechanism to boost jobs.

Unfortunately, this vital work sharing issue has been neglected by mainstream economists from then to now. Specifically, consider the explanations for the Depression—and ensuing policy prescriptions—of the three greatest macroeconomists of the last century, who lived through it. John Maynard Keynes attributed the slump to a collapse of animal spirits of entrepreneurs and called for massive fiscal stimulus to overcome it. Milton Friedman and Anna Schwartz argued that massive errors in Federal Reserve policy were to blame and that Fed decisions should have been based on money supply, not interest rates. Irving Fisher, after evaluating various theories about business cycles, attributed the collapse in the US to debt deflation and deleveraging. His remedy? The deliberate raising of the price level, i.e. reflation.

All three had a pronounced bias against discussing, as distinct from endorsing, work sharing as a remedy. Friedman and Schwartz's A Monetary History of the United States: 1867 to 1960 (1963) covers the Great Depression and the New Deal in great depth. The 800-plus-page book's index itself runs to about 80 columns, but has only one detailed discussion focusing on wages and prices, pertaining to the National Industrial Recovery Act. Yet there is no mention at all of the 1933 work sharing PRA, a part of the above Act, and its possible impact on macroeconomic outcomes.

Irving Fisher, in his 1933 article The Debt-Deflation Theory of Great Depressions, writing shortly after the New Deal began to be enacted, stressed that Roosevelt's reflationary policies were leading to recovery. However, he didn't discuss shorter-hour policies.

Finally, let us scrutinize what Keynes wrote in 1936. In chapter 22 in his General Theory... on the trade cycle, he discussed other New Deal policies, but not the PRA. Indeed, in less than half a page, he broadly dismissed "redistributing the existing volume of employment" as "a premature policy – much more so than the plan of increasing consumption". There is no mention of his Cambridge don and friend Lord Russell's call for a 20-hour week. In the index, there are about 50 sub entries under Wages, none of which mention hours. Neither "work" nor "hours" features in the index.

Yet, in the next chapter, Keynes is sympathetic to mercantilism and protectionist policies (with qualifications, recognizing the risks of retaliation), since a trade surplus entails more jobs. Returning to the present, US President Donald Trump has been bashing China for its trade surplus but ignoring the need to reduce manufacturing hours to save jobs in America. In some sense, he is in distinguished intellectual company. One can certainly conclude that this Great Inexcusable Macroeconomics - or GRIM -Omission that has continued for nearly a century needs to be rectified.

Vivek Moorthy is professor, economics and social sciences area, Indian Institute of Management Bangalore
Author's website: http://economicsperiscope.com
Author's email: vivek.moorthy@iimb.ac.in