

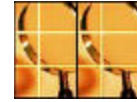
# Special Report 04/01



## **NOTES ON THE SOCIAL AND ECONOMIC BENEFITS OF JOB CREATION IN KANSAS CITY'S 3RD DISTRICT**

BY  
MATHEW B. FORSTATER

FEBRUARY 10, 2004



## NOTES ON THE SOCIAL AND ECONOMIC BENEFITS OF JOB CREATION IN KANSAS CITY, MISSOURI'S 3<sup>RD</sup> DISTRICT

### **Mathew Forstater**

Associate Professor of Economics and  
Director, Center for Full Employment and Price Stability, UMKC

Any comprehensive community development project will be limited unless it includes job creation as a top priority. Unemployment harms individuals, families, neighborhoods, and communities; job creation brings real, tangible, direct and indirect social and economic benefits, not only for those employed, but for all members of the community as well as the community as a whole. The economic benefits are both microeconomic and macroeconomic, and there is also an important mutually reinforcing relation between these economic benefits and the social benefits.

Nobel-prize winning economist Amartya Sen has pointed out that there are three different aspects to employment: the income aspect—employment provides income security for the employed; the production aspect—employment results in increased production of goods and services; and the recognition aspect—the employed person is engaged in a worthwhile activity. When members of the community are employed at productive jobs, the person employed has income and recognition, and the community gets better and more goods and services.

In addition, there are not only the initial benefits of job and income security and more and better public and community services. There are also the numerous indirect benefits—the economic and social multipliers—that accompany these. On the economic side, the initial job and income growth associated with employment translates into further increased spending and rising incomes throughout the community. The social multipliers concern the benefits to individuals, families, neighborhoods, and communities of decreased crime, drugs, and family disruption, and increased and strengthened security, education, health care for the infirm and the elderly and environmental protection.

Let us look briefly at 16 specific potential benefits of real job creation in our community.

## **1. Job creation increases financial security and promotes higher living standards**

When individuals are unemployed, they are without a means of supporting themselves and their families. To take care of their ongoing needs and those of their children and other dependents, they must therefore resort to one or more of the following: 1) deplete savings; 2) incur additional debt; 3) rely on public and/or private assistance of some kind. Of course, as will be discussed below, we also know that a small percentage of individuals faced with such a situation will resort to income-generating crime. In all of these cases, individuals and families face increasing financial insecurity and a lower standard of living, with all their attendant effects.

Job creation therefore increases financial security and promotes higher living standards. Families will be able to save, or at least not deplete their savings, or deplete it as much. Debt accumulation will be diminished or even reversed. The stress on public coffers and private agencies will be relieved. Living standards will be increased, with all of the resultant beneficial effects, some of which will be discussed below.

## **2. Job creation results in increased spending, translating into higher sales and profits for businesses.**

When a community suffers from high unemployment, it is denied important purchasing power. Local businesses will lack the sales they need to support investment and employment. Additional layoffs may occur, exacerbating these problems.

By providing a steady income stream, job creation supports spending. At least some of that spending will support local businesses, resulting in another round of support for individuals and families in the community. Local firms will enjoy the business they need to encourage investment and additional job creation.

## **3. Job creation is the key to good physical and mental health.**

Individuals who are unemployed are much more likely to lack health insurance. Parents are much less likely to take their children to the doctor if they lack the ability to pay for expensive health care. Studies have shown that unemployment is directly related to ill physical and mental health, as well as poor pre-natal care.

Individuals who are unemployed often blame themselves, leading to depression. Financial insecurity associated with joblessness creates stress and anxiety. The unemployed often are unable to provide a healthy diet for themselves and their children. There are now many studies demonstrating the direct relation between unemployment and a variety of mental health problems, including suicide.

Job creation supports good mental and physical health. Employed persons are more likely to have health coverage or the ability to pay for health care. Being engaged in productive activity supports good mental health (recall Sen's citing the recognition aspect

of work—the feeling that one is contributing to society and taking care of themselves and their children).

#### **4. Job creation is the best weapon in the battle against poverty.**

Unemployment is a major cause of poverty. Those who are unemployed are much more likely to be living below the poverty line. Job creation is the best antidote for poverty—as cited above, it support saving, diminishes debt accumulation, and supports spending.

#### **5. Job creation results in decreased crime.**

Many studies now demonstrate the direct relationship between unemployment and income-generating crime. The major factor in the decline in many types of crime in many regions during the 1990s was the lower unemployment rates and stronger economic growth. Most individuals would prefer to support themselves in a legal manner, rather than live a life of danger and fear by resorting to criminal activity.

Job creation decreases crime rates. This has many strong, positive secondary effects. Less crime means less people in the courts, the prison system, on parole. Less crime means less victims of crime. Less crime means a safer community.

#### **6. Job creation promotes healthy state and local government budgets.**

Unemployment results in higher government spending and lower tax revenues. Government spends more on various forms of assistance for the unemployed and their dependents, as well as on the secondary impacts of unemployment (e.g., higher crime rates, etc.). Tax revenues fall because unemployment lowers incomes and spending. Both income and sales tax revenues fall. Higher government spending and lower tax revenues mean budgets out of balance. To address their budgetary problems, governments will try to increase taxes and cut spending, exacerbating the economic problems.

Job creation results in higher tax revenues and eases government spending in certain areas. Working people pay income taxes and spend on goods and services that are taxed, increasing local and state tax revenues. The employed will no longer require public assistance, so government spending will fall. Spending will also fall on the secondary effects (lower crime rates, etc.). Job creation promotes healthy government budgets, allowing lower tax rates and allowing spending in other important areas.

#### **7. Job creation can result in increased productivity.**

When there is high unemployment, job security is low. This can affect worker productivity. Employment also results in a healthier labor force, and studies have shown that better health means higher productivity. There is a strong relationship between income and nutrition, and nutrition and productivity. It is a short step from these facts to

the acknowledgement that job creation can increase productivity. In addition to these 'micro' factors affecting productivity growth, there are also 'macro' sources of higher productivity. Higher employment means strong growth of demand and higher capacity utilization, increasing productivity. Higher productivity means more efficiency and lower costs, which can translate into lower prices, higher profits, and more investment, employment and prosperity.

#### **8. Job creation is good for the elderly.**

Job creation supports the elderly in a number of ways. Many elderly are dependents, and so job creation increases their security. Job creation supports government budgets, also key to many services upon which the elderly depend. The employed themselves are future elders, and so the long term security of the elderly is supported by job creation, by supporting savings and slowing debt accumulation.

#### **9. Job creation supports public and social goods and services.**

As already stated, unemployment decreases tax revenues and puts extra demands on government budgets as well as private agencies, resulting in less public and social goods and services. This includes fewer people employed in these types of positions. By supporting healthy government budgets, job creation supports public and social goods and services. In addition, some of the new jobs can (and should!) directly support such services.

#### **10. Job creation improves income distribution and reduces inequality.**

There is a direct relation between unemployment and inequality. Job creation promises to improve income distribution and reduce inequality. The social benefits of decreased inequality have been well-documented. Of particular significance are the ways in which inequality makes everyone worse off, including the rich. Increased inequality can threaten democratic institutions and damage social cohesion. Even the symbolic value of job creation at this time should not be underestimated.

#### **11. Job creation can improve conditions and promote investment in the poorest communities.**

Job creation can result in improved economic and social conditions in the poorest areas. It is known that low-wage workers tend to live in poorer communities and spend a larger portion of their income locally. Thus, job creation will result in increased spending in the neediest regions, which can further increase employment where unemployment is the highest and most burdensome. Lowering poverty rates will increase the inducement to invest in poor neighborhoods, with a positive impact on economic and social conditions.

**12. Job creation will allow children to return to school or complete more years of schooling, and provides other benefits for children as well.**

Unemployment is directly related to increased school dropouts. Families where the parents are unemployed often need their children of working age to work to help chip in to support the family. Job creation will thus allow children to return to school or complete more years of schooling. In the long run, this results in a more educated, better skilled labor force, increasing productivity, with beneficial effects for all.

Job creation benefits children in other ways as well. Unemployment is directly related to family disruption such as divorce, so job creation actually supports families. Children also benefit from better health and nutrition, and from having role models. These benefits of job creation should be emphasized.

**13. Job creation can stimulate output, income, consumption and investment.**

Unemployment means lower output, income, consumption and investment. Job creation will increase output and income, which will result in more consumption spending, and ultimately increase the inducement to invest.

**14. Job creation increases worker morale, and reduces discontent and labor strife.**

The psychological impact of joblessness, as well as the effect unemployment has on decreased job security for the employed, have both already been noted. Job creation and high levels of employment increase worker morale and reduce worker discontent and labor strife. This can also impact positively on productivity as well.

**15. Job creation can spur technical and organization innovation.**

Unemployment means low demand and stagnant wages, which translate into low incentives for firms to innovate. Job creation, through its positive impact on demand and wages, increase firms' incentives to retool and implement new organizational and technical innovations. This leads to further productivity growth, lower prices, higher profits and investment.

**16. Job creation promotes community.**

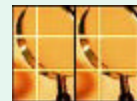
Unemployment not only depresses individuals: high unemployment can depress the entire community, not only economically but in terms of the sense of community itself. Job creation ignites hope in both individuals and communities. It promotes social and political cohesion. Job creation creates stakeholders in neighborhoods and communities, increasing social and political stability. These impacts should not be overlooked or undervalued.

## **Mutually Reinforcing Relation Between Social, Micro, and Macro Benefits**

It may not be the case that the total benefits of job creation are a simple summation of the social, macroeconomic, and microeconomic benefits. Rather, there may be a mutually reinforcing dynamic at work, in which benefits in one area increase the benefits in others. In other words, the principle of cumulative causation may apply, in which positive feedbacks and reinforcing dynamics predominate. One good example where this may apply is productivity growth. There are both macro and micro sources of productivity growth and these may be mutually reinforcing. A number of the social benefits may also affect productivity through increased job security, etc. The total effect may therefore be greater than the sum of the individual impacts. These are the social and economic multipliers that result from job creation, and benefit individuals, families, neighborhoods, and communities in multiple ways.

# **CFEPS**

*Center for Full Employment and Price Stability*



The **Center for Full Employment and Price Stability** is a non-partisan, non-profit policy institute at the University of Missouri - Kansas City dedicated to promoting research on and public discussion of issues related to macroeconomic and monetary policy, especially employment and budgetary policy. The Center is interested in your feedback on the ideas put forward in its publications. You can contact us at:

**Center for Full Employment and Price Stability**  
University of Missouri – Kansas City  
Department of Economics; 211 HH  
5100 Rockhill Road  
Kansas City, Missouri 64110

tel.: 816-235-5835  
fax: 816-235-6558  
[www.cfeps.org](http://www.cfeps.org)  
[cfeps@umkc.edu](mailto:cfeps@umkc.edu)