

# The Lump of Labour Fallacy Revisited

Conall Boyle

## 1. Source of the Lump of Labour Fallacy (LoLF)

I see Sam Brittan, a long-time supporter of CI, is sounding off again<sup>1</sup> about the Lump-of-Labour Fallacy (LoLF): “Basic Income has now become linked...sadly with the ‘lump of labour’ fallacy that asserts that there are not or will not be enough jobs to go round and so some other form of support is necessary.” Indeed, I was privileged to be reprimanded in person by the great sage of the FT for appearing to hold such views. The occasion was while I was interviewing him during the making the pro-CI BBC2 Counterblast programme ‘Why Work?’ in 1997. I had suggested that there never would be enough jobs for all those who wanted them, and maybe we shouldn’t even try to create masses of new jobs, because of the problems it causes for peoples’ lives. ‘Businessman’s economics’ was how he dismissed such ideas. I too, it seems had fallen for the LoLF. Perhaps we ought to refresh our minds about this, to avoid falling into this trap again:

This is what Samuelson’s ‘Economics’<sup>2</sup> a textbook used by millions of students has to say about it: “The lump-of-labor argument implies that there is only so much useful remunerative work to be done in any economic system, and this is indeed a fallacy. It is more correct to say that an economy can adjust to create **jobs** for willing workers. In the longer run, as prices and wages adjust to changes in technology and tastes, to supplies and demands, jobs will come to workers or workers will move to jobs. And in the short run, this process can be lubricated by appropriate macroeconomic policies. A look at history or across countries shows that there is no fixed lump of labor to be distributed—there is no need to ration out scarce work among the army of unemployed workers”

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<sup>1</sup> Samuel Brittan reviews *Promoting Income Security as a Right: Europe and North America*, Guy Standing (ed), London: Anthem Press, 2004 in Citizens Income Newsletter No 2, 2005

<sup>2</sup> Samuelson, Paul & Nordhaus, William (1989) *Economics 13e* McGraw-Hill New York. p687

The Economist (the magazine of choice for the decision-makers) website<sup>3</sup> gives some more information about the origin of this theory: “In 1891, an economist, D.F. Schloss, described such thinking as the lump of labour fallacy because, in reality, the amount of work to be done is not fixed. Government-imposed restrictions on the amount of work people may do can actually reduce the efficiency of the labour market, thereby increasing unemployment. Shorter hours will create more jobs only if weekly pay is also cut (which workers are likely to resist) otherwise costs per unit of output will rise. Not all labour costs vary with the number of hours worked. Fixed costs, such as recruitment and training, can be substantial, so it will cost a firm more to hire two part-time workers than one full-timer. Thus a cut in the working week may raise average costs per unit of output and cause firms to buy fewer total hours of labour. A better way to reduce unemployment may be to stimulate demand and so increase output; another is to make the labour market more flexible, not less.”

This view of the LoLF has remained unchallenged (indeed virtually unmentioned) from within academic economic circles, although some outsiders do not accept the full logic of the case. (See for example Tom Walker of Seattle has to say<sup>4</sup> ). Even Sam Brittan accepts that in the short-run, adjustment may require sacrifices by workers, and Samuelson acknowledges that for some groups of workers, job-sharing may make sense. So the academic, theoretical case seems pretty water-tight: It is wrong to say that there are the number of jobs is fixed. Given flexible markets, the amount of paid employment can be expanded to equal whatever number is required by those willing to work.

## **2. The 1980s apostasy: Thatcher falls for LoLF?**

When the Basic Income Research Group (as it was then called) started back in 1984, I, like most of the others in at the start was concerned by the appalling rise in the numbers of the unemployed. Instead of wasting billions keeping huge armies in idleness, wouldn't it be better to pay them an unconditional weekly income, and let

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<sup>3</sup> <http://www.economist.com/research/Economics/alphabetic.cfm?LETTER=L>

<sup>4</sup> <http://maxspeak.org/mt/archives/lump%20of%20labor.pdf>

them find something useful to do? was an obvious reaction, and so the idea of Basic Income took off. Mimi Parker actually called her 1989 book on CI *Instead of the Dole*. We too, it seems, had fallen for LoLF. If so, we had some strange companions: the Thatcher government, composed of convinced free-market believers. When all the market liberalisation did not cure mass unemployment, this government moved directly to reduce the Lump of Labour:

- early retirement was encouraged in the public services, like teaching.  
(Pension funds were raided to pay for this wheeze)
- Disability allowances (the so-called bad-back payout) where workers were declared unfit, expanded several-fold, with government connivance. There are still 2.75 mn workers in receipt of this payout
- Higher education places were expanded, with little extra funding. This from a government with an elitist view of the university sector.
- Youth training schemes, youth opportunities schemes abounded. None lasted long. None gave much real training, but all managed to keep large numbers of young people out of the labour-force.
- The Community Programme/Enterprise Allowance which offered £50 per week for a year to do something, with few questions asked. This proved very popular, a million took it up, many new business ideas were tried out. Again, the numbers were subtracted from the labour-force, but this crypto-*proto-CI* was stopped for being ‘too popular’.

Some of these ‘lump-of-labour’ reduction programmes are still in action today. Generally, those of us in BIRG disliked the deceit involved, but accepted the government was doing something to alleviate the problem. In effect the government had conceded that there weren’t enough jobs to go round. We would have preferred an open declaration to that effect, followed by a Basic Income for all as a better solution. We may have fallen for a LoLF, but so it seems had the Thatcher government.

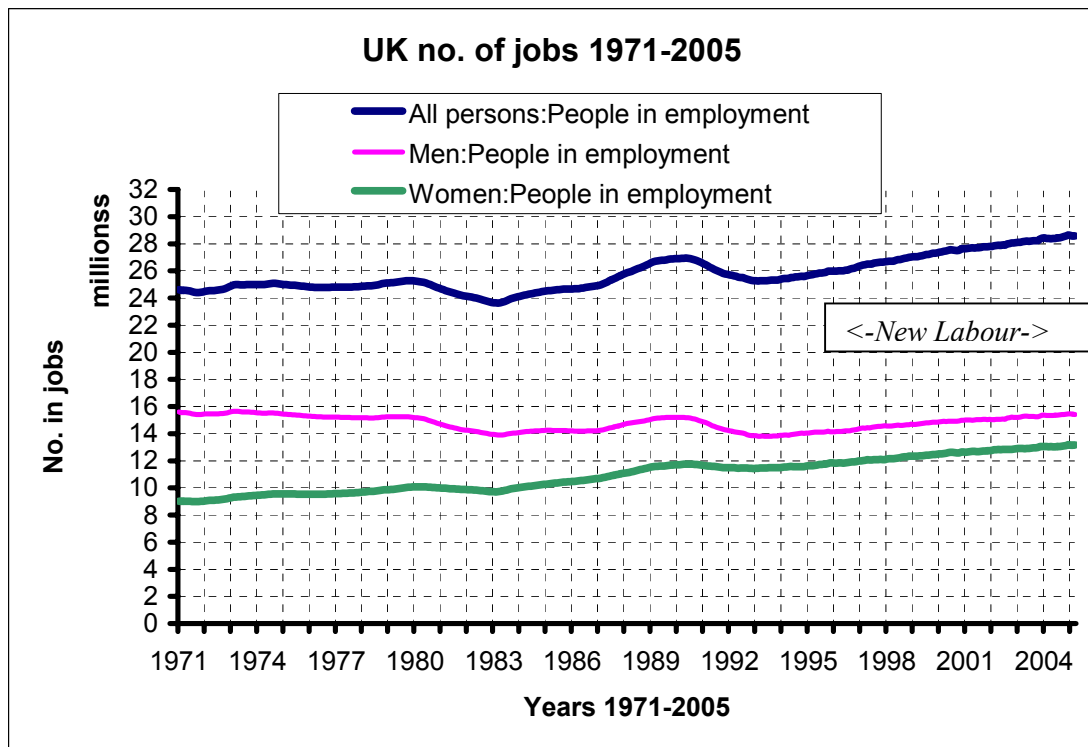
### **3. A ‘Failed’ European attempt to reduce unemployment: the 35-hour week**

During the 1990s, the EU, through its Social Chapter, tried to harmonise working hours. This was hailed by trade unionists as a great breakthrough in the fight to reduce

unemployment. There may be many laudable reasons for reducing working hours, but spreading employment is not one of them. In one of the rare occasions when the phrase ‘lump-of-labour’ appears in the economic literature<sup>5</sup>, the conclusion is that “Our empirical analysis does not provide support for the proposition that work-sharing would reduce unemployment. The results (do) show a positive direct effect on employment of a reduction in working hours.” At least the move to work-sharing through shorter hours did not make unemployment *worse*, and perhaps the civilising effect of more time off, freed from the job has been a worthwhile human achievement.

#### 4 The UK proves them wrong – ‘flexibility’ leads to more jobs

The following graph summarises the success of ‘New Labour’ in producing a job-creating economy<sup>6</sup>.



To move up the total number of jobs by more than two million is very impressive. The breakdown between the sexes shows both men’s and women’s job numbers have

<sup>5</sup> Arie Kapteyna, Adriaan Kalwijn & Asghar Zaidi The myth of worksharing *Labour Economics* 11 (2004) 293– 313

<sup>6</sup> Source ONS Labour Market Statistics

increased by about one million each. The longer-term shows a different picture: Jobs for men are still below where they were in 1971, although currently increasing. The story for women is one of almost continuous increase, up nearly 50% in the same time-period.

This is a triumph of the British flexible labour market model, which other European countries might wish to copy. Abandoning social protection, or at least not repairing the damage done to it during the Thatcher years has paid off in lower unemployment. One could quibble that the British work some of the longest hours, that labour productivity is poor – resulting in much lower hourly pay rates. Many of the new jobs are part-time. It is a matter of political preference whether it is better to follow a UK-US model of flexibility with lots of jobs or a Euro-model of strong social protection but fewer jobs.

### **5. Lump of Labour or is it Lump of Jobs?**

Not surprisingly, Sam Brittan is correct when he draws our attention to the LoLF. But there are a few points to remember:

- (i) To prove that the LoLF is indeed fallacious requires dismantling many employment protection rights.
- (ii) The effect takes time. Should a new lump of labour become available – mass layoffs in an industry is one source, but a change in social attitudes which suggest that women are better off in a job than as housewives – they can all *eventually* be absorbed into jobs.
- (iii) LoLF is only concerned with one form of work -- *paid* employment. This reflects the economists' curious doctrine of a work-leisure substitution effect.<sup>7</sup> Rational workers, they claim, make a calculation of how many hours they wish to work, for how much money, weighing this up against their time free of the job, which is to be devoted to leisure.

The economists' belief that only those in a job do any work, and that all else is leisure is of course outrageous!. Those not in a job are labelled 'inactive', which seems a

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<sup>7</sup> again see Samuelson, p680

nasty way to describe the efforts of parents caring for children, to take one example of inactive leisure. Engineers define 'work' as useful effort, and it's easy to see that most useful effort is unpaid. Similarly, not all the jobs that people do are useful, some are even quite damaging. The LoLF should really be called the '**Lump of Jobs Fallacy**'. Talk of a lump of jobs may remind one of a pile of doggy-poo, but then of course, many of the jobs in the flexible new-economy are like that.

## **6. Another fallacy: Jobs as Welfare?**

Together with a belief that there will eventually be enough jobs all those who want one, there is another jobs-related belief which I have found, even among fans of CI. Sometimes known as the Work Ethic, this is the belief that only a job can affirm your worth. Earned income which means wages from jobs, is seen as a well-merited entitlement, with unearned income, like payouts from the state seen as demeaning or dishonest. The main engine to distribute wealth is through incomes earned from jobs. Those that fail in the job-system can be helped out by social welfare, paid for by taxes on income and sales. Jeremy Rifkin, writing in support of this 'European' model of jobs plus welfare believes that the US-UK model of the flexible economy with workers stripped of protection presages a bleak future. Far better, as he says in the title of his new book<sup>8</sup>, is *The European Dream: How Europe's Vision of the Future is Quietly Eclipsing the American Dream*.

The market economy is marvellous at producing the goods, but the job-system is unable to spread the benefits to all. Incomes from jobs are not enough to keep everyone at a decent level, although there is more than enough wealth in the economy. Inequality keeps on growing as those with power capture more of the 'economic rents' from money and other resources. A social welfare state can go some way to fix this, but fails to address the reasons for mal-distribution in the first place. James Robertson's idea<sup>9</sup> of *pre*-distribution provides a much more promising basis for CI. Preventing the capture of unearned 'economic rent' would be a start. Paying this out as a Social Dividend follows on obviously. If you believe in the Job-System as Welfare,

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<sup>8</sup> Writing in the Guardian on June 22<sup>nd</sup>, 2005,

<sup>9</sup> James Robertson <http://www.jamesrobertson.com/index.htm>

then Lump of Jobs Fallacy becomes an insuperable obstacle to CI. If you think we are all entitled to our social dividend, then maybe you can accept that this would allow and encourage all sorts of useful work, both paid and unpaid.

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2,000 words

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