Unemployment Insurance, Inflation, and the Willingness to Work

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Abstract

In 1935, Roosevelt signed the Social Security Act into law, and with it a government commitment to provide unemployment insurance to most American workers. Unemployment insurance is a form of temporary wage replacement for workers who are unemployed, so long as they are available, and actively looking, for work. It is a familiar part of the fabric of life for American workers. But it is open to some interesting principled objections from the political left and the right. For example, opponents with libertarian sympathies may object to the compulsory withholding of wages to support such programs. While progressives who generally support programs of financial support for the unemployed may yet question the condition that beneficiaries of the program be available and looking for work. This paper entertains a novel justification for the conditional form of unemployment insurance that turns on the relationship between the unemployment rate and inflation, and that answers the progressive concern with welfare and the libertarian worry about unjustified provision.

1 Introduction

On August 14, 1935, President Franklin D. Roosevelt signed the Social Security Act (SSA) into law. In addition to old-age pensions, aid for dependent children, and strengthening of the Federal Public Health Service, the law created a system of unemployment insurance (UI), funded by a uniform Federal payroll tax, that would provide income support to workers who lose their jobs.[1] Roughly, UI works by (to borrow a memorable phrase from one of its early proponents, Winston Churchill)

[1] In the United States, each state finances and administers its own unemployment insurance, but it must adhere to federal guidelines and is subject to federal oversight. This federal-state arrangement has less to do with crafting optimal policy than it does with what was politically and legally feasible at the time. On the advice of Supreme Court Justice Louis D. Brandeis, FDR used the powers afforded by the Federal Unemployment Tax Act to levy a uniform federal payroll tax to incentivize each state to administer its own UI program. States provide most of the funding (paying for

'bringing the magic of averages to the rescue of millions': small contributions are collected from the large population of employed workers, and are used to provide benefits (in the form of partial wage replacement) to the much smaller population of workers currently experiencing temporary job loss. By pooling the risks of unemployment across a large and varied population, the unlucky few who've lost their jobs can be provided with some relief—until they're able to rejoin the workforce. Like all forms of insurance, better outcomes for many are made slightly worse (e.g., by paying a premium, by accepting a lower wage) in order to significantly improve terrible outcomes for a few. In this way, insurance mitigates risk, providing the insured with greater security *ex ante*. Or, as Roosevelt himself put it in his presidential statement occasioning the signing of the SSA:

> Today a hope of many years' standing is in large part fulfilled. The civilization of the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. Young people have come to wonder what would be their lot when they came to old age. The man with a job has wondered how long the job would last.
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> This social security measure gives at least some protection to thirty millions of our citizens who will reap direct benefits through unemployment compensation, through old-age pensions and through increased services for the protection of children and the prevention of ill health.
>
> We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age. (Roosevelt, 1935)

Despite its fairly broad appeal, UI can been criticized along two different, opposing lines. There are some who complain that, because UI is *compulsory*, the program objectionably interferes in the *autonomy* of workers and employers alike. The program essentially forces employees to purchase an insurance policy (at a set premium and with set terms) whether they wish to do so or not.[2] This is an objection from the libertarian right.

most of the actual benefits provided), with the federal government covering administrative costs. Within some federally mandated constraints, states are free to adopt their own eligibility criteria and benefit levels. The constraints are that money from a state's unemployment fund can only be used to provide unemployment compensation (Section 3304(a)(4) of the Federal Unemployment Tax Act), and that states cannot impose excessively burdensome methods of administration to curb the access of otherwise eligible recipients (Section 303(a)(1) of the Social Security Act).

[2] Although, in the American system, employers finance the system via a payroll tax, the conven-

From its left, UI faces an objection of a different sort. Although the details vary by state, recipients of UI must meet certain eligibility requirements. Principal among them is that one must meet a *work-search requirement*: "[A]s a condition of eligibility for regular compensation for any week, a claimant must be able to work, available to work, and actively seeking work," ("State Laws," 42 U.S.C. §503(A)(12)). This typically involves certifying—and, in many states, meticulously documenting—that one has engaged in a sufficient number of weekly "work search" activities (e.g., attending job interviews, applying for jobs, etc.). Furthermore, if offered "suitable employment", claimants must accept the offer or else lose their unemployment benefits. Compliance is monitored through the U.S. Department of Labor's Benefit Accuracy Measures audit process. For these reasons, UI is a paradigmatic example of *workfare*, which many of the left regard as unjust—or, at the very least, unjustifiable.[3]

One further worry—this one less philosophical, and more practical: following the Great Recession in 2008, the UI trust funds in most states became *insolvent*. Many states were unable to afford the benefit payments owed to the unemployed, and consequently had to borrow from the U.S. Department of the Treasury to make up the difference. As a result, during the economic recovery, many states raised their UI payroll taxes in order to pay back what was owed and to replenish their coffers. With apologies to Churchill, the magic of averages can only get us so far.

In light of these three worries, I will mount a qualified defense of UI. The defense is qualified because, as I will argue, there are several features of the policy that could stand revision. Perhaps most centrally is its status as *insurance*—at least insofar as that precludes sources of funding from outside the class of potential beneficiaries of the insurance. I think there is a good case to be made for expanding the tax base, to include more than employer payrolls, in order to finance UI.

In the next section, I briefly characterize what I take to be the essential features of UI. In the section after that, I develop the worry from the right by looking at some possible justifications of UI that, I think, ultimately fail. Then, I provide a different justification that improves over the others. This justification appeals to the relationship between unemployment and inflation. In the section after that, I argue that, in answering the worry from the right, we've also provided an answer to the worry on the left. UI's work-search requirement can be justified on principled grounds (at least, up to a point). Part of what allows us to answer the

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tional economic wisdom is that this cost is passed on to employees in the form of lower wages. And so, indirectly, employees are paying the premiums for their unemployment insurance by accepting wages that are lower than they would be otherwise.

[3] For a heterogenous collection of objections to, and discussions of, workfare, see Anderson (2004), Attas and De-Shalit (2004), Goodin (2004), White (2004), and Wolff (2004).

worry from the right requires those who are unemployed to be actively willing and seeking to work.

2 What Is Unemployment Insurance?

Unemployment insurance (UI) is a social insurance program that provides temporary financial assistance (typically in the form of partial wage replacement) to workers who have lost their jobs through no fault of their own and who are actively seeking reemployment. Although they might differ in their details, UI programs characteristically have four features that are worth emphasizing.

First, UI is not *means-tested*. To receive benefits, claimants have to demonstrate eligibility. In the US, this typically involves (among other things) having earned a sufficient amount a wages, and having worked a sufficient number of hours, during a set base period. However, one's eligibility is unaffected by one's level of wealth. Unlike other forms of social assistance, one needn't fall below some baseline in order to be eligible. High- and low-earners alike are entitled to collect unemployment benefits.[4] (In fact, because one's weekly benefit amount is a function of one's earnings during one's highest earning quarter in the base period, high-earners might very well receive *more* benefits than low-earners.)

Second, UI is *work-tested*. In most states, one is eligible to receive income support for up to 26 weeks.[5] But in order to remain eligible during that time, one is required to be able, available, and actively seeking work. What one must do to *demonstrate* that one is willing to work varies by state, but typically involves at least some monitoring by the U.S. Department of Labor's Benefit Accuracy Measures audit process. Furthermore, claimants are required to accept *suitable* work if it's offered (although, of course, what counts as "suitable" is a matter subject to some interpretation).

Third, unlike some forms of public assistance (e.g., TANF, SNAP), UI is *ex ante nonredistributive*. Because (*ex ante*) the pool of potential beneficiaries is (largely) coextensive with those who finance the benefits, there's a sense in which UI doesn't involve redistributing wealth from one group to another (like, e.g., the rich to the poor), but rather involves pooling risk in a way that is advantageous to all. Of course, UI is redistributive *ex post*: money is transferred from those who remain employed ('the lucky') to those who lose their jobs ('the unlucky'). But, *ex ante*, because we don't know who will lose and who will keep their jobs, UI

[4] Early advocates of social insurance, like Jean Jaurés, preferred it to means-tested public assistance precisely because one's eligibility is based on one's past contributions, rather than need, and could thus be more readily justified as a true entitlement.

[5] During a recession, this duration is automatically extended by 13–20 weeks (depending on the state) under the Extended Benefits (EB) program.

improves the prospects of all by lessening the misfortune of being unlucky.

Fourth, participating in the UI program is *compulsory*. UI is financed by a payroll tax collected from employers.[6] The tax is levied on the first $7,000 of each worker's annual earnings. Employers are *required* under law to pay the appropriate amount per worker they employ. Conventional economic wisdom holds that, although employers technically foot the bill, this cost is actually passed on to employees in the form of lower wages. By raising the cost of employing each employee, employers will offer each lower wages than they would otherwise. In effect, then, employees are *de facto* compelled to purchase unemployment insurance—at a premium determined by the rate at which their employer is taxed in employing them.

This last feature—that contributing to UI is effectively compulsory for employees and employers alike—is what motivates the first objection, to which we now turn.

3 Worry from the Right: UI compromises autonomy

Let's grant that the conventional economic wisdom, mentioned at the end of the last section, is correct: the cost employers are forced to pay per employee to fund the UI program is passed on to employees in the form of lower wages. Let's say, for any given employee, i, that $\$x_i$ is the additional annual earnings they would've made had they been paid the higher wage. We can say, then, that it's as if each employee, i, is effectively being made to pay $\$x_i$ per year for an insurance policy against involuntary unemployment. That is, each employee is effectively forced to purchase unemployment insurance.

But—the objection goes—being *forced* to purchase something at some particular price compromises one's *autonomy*. Everyone has the presumptive right to *choose for themselves* which goods and services to purchase, and what prices they're willing to pay for them. Perhaps this right can be ignored in certain exceptional circumstance. But, absent further justification, it's objectionable to force employees to effectively purchase unemployment insurance.

> **Autonomy Objection:** It objectionably compromises one's autonomy to be forced to purchase specific goods or services. Compulsory UI effectively forces employees to purchase unemployment insurance policies. Therefore, compulsory UI objectionably compromises employees' autonomy.

This objection can be developed in two different ways, which it will be helpful to distinguish. These two ways correspond to two different reasons as to why

[6] The payroll tax rates are *experience-rated*: each employer's particular tax rate is a function of how many workers that employer has laid off in the past. The idea is to discourage employers from laying off employees, and to partially internalize the costs of doing so.

one might be concerned with retaining the autonomy to choose which goods and serves to purchase at which prices. The first reason concerns one's *welfare*—how well or poorly off one is. In this case, autonomy is worth protecting because it is (typically, but defeasibly) *instrumentally* valuable: to the extent that one is a good judge of one's own interests, retaining autonomy over one's choices about what to purchase will (typically) result in more welfare. The second reason takes autonomy to simply be worth protecting for its own sake. Even if one were to exercise one's autonomy in a way that wouldn't result in more welfare, it's nevertheless important that one's choices be one's own. To take away a choice in the name of the individual's ultimate interest is still to take something away. And that's no small thing.

3.1 Developing the Autonomy Objection

To see these two different reasons in action, let's suppose that there is an employee, *i*, who would prefer to be paid a higher wage and remain uninsured than to be paid a lower wage and be insured—that is, they would be unwilling to pay $\$x_i$ for a year's worth of unemployment coverage. One might try to argue that, while perhaps some might have preferences like that, it would be irrational—or, at least, imprudent—of them: their overall interests would be better served by accepting the lower wages in return for the insurance policy. They would, after all, have to save a *significant* amount—and, thus, drastically curb consumption—if they hope to insure against the loss of their job all on their own. If they're rational, they should realize that pooling their risk with others makes more sense. If that's right, a concern for welfare is compatible with forcing these employees to purchase the insurance (even though they, somewhat irrationally, don't want it).

It's far from obvious that *every* employee would be better off purchasing the insurance policy, though. And not merely because many employees will have the good fortune of never losing their jobs—and thus have paid for something that, in some sense, goes unused. (That clearly doesn't reflect the correct standards for evaluating whether purchasing an insurance policy is beneficial! Insurance guards against risk. So, whether purchasing it is *good* for someone or not should be understood in terms of its *expected* benefit *ex ante*, not its *actual* benefit *ex post*.[7] Being given a losing lottery ticket can nevertheless be a benefit *ex ante* if the jackpot is high enough.) It's not clear that every employee is benefited by purchasing the insurance policy *even in expectation*. Especially given that unemployment benefits are capped at a maximum, certain high-wage, low-risk employees very well might *rationally* disprefer paying for an insurance policy that they are

[7] Furthermore, typically, being insured comes along with other, non-pecuniary benefits that are enjoyed even when the insurance goes "unused": e.g., the peace of mind that comes from knowing that you're insured, etc.

unlikely to need. If, in addition, we allow for a plurality of rational attitudes toward risk, it becomes even less plausible that every employee is benefited *ex ante* by UI.

In any case (returning to the point above), even if *every* employee did benefit from the purchase of unemployment insurance, being effectively compelled to do so is then at best *paternalistic*: it compromises autonomy in order to promote best interests. And, at the very least, wouldn't it be better for us to allow employees to *choose* to purchase unemployment insurance if they so wish?

3.2 Response #1: Market Failure

Let's grant that, *ceteris paribus*, it would be better to allow employees to choose to purchase unemployment insurance if they so wish. A voluntary UI would be—on grounds of autonomy—superior to a compulsory one. However, because of the nature of unemployment and of insurance, *ceteris* is very much not *paribus* in this case. It's very unlikely that there could be a successful *voluntary* UI program. Compulsion is required for it to be provided at all.

Here's why. In order for a private insurance market to flourish, the risks that it's meant to insure against must meet the following criteria. First, the risks have to be suitably independent of each other. This is necessary if the 'magic of averages' are to work their magic. Pooling risks that are (relatively) independent results in a package that is less risky in aggregate. The chance that my six-sided die lands on '1' is $1/6$, but that chance that *all six* of our dies land on '1' is $1/46656 \approx 0.0000214$. It can make sense, then, for an insurer to charge us each a premium to insure against our respective dies landing on '1', while remaining reasonably confident that they won't be bankrupted.

Unemployment, however, fails to be suitably independent. The fact that I lost my job provides some evidence that you will too—especially given that, in the face of a major recession, very many of us will lose our jobs at once. Major recessions are exactly when UI is most sorely needed. But private insurance is unlikely to be able to remain solvent when the pool of claimants grows too large. Never mind that *social* insurance also has trouble remaining solvent in these situations. The difference is that the state can more easily borrow, or draw from other funds, to make up the difference. Furthermore, by contrast with a private market, it's okay if state-run insurance policies are ultimately too risky to be profitable.

The second criteria that must be met in order for a private insurance market to succeed is that there must be a suitable symmetry of information between insurers and those seeking to be insured. If (as is often the case) members of the latter group have much more information about their insurability than the insurer, we can encounter a problem of *adverse selection*, leading to a "death spiral" and culminating in the collapse of the market. In the case of UI, it's plausible to think that individual employees have much better information about their chances of losing their jobs than insurers could. Consequently, private insurers will be unable to engage in price discrimination by charging employees premiums tailored to their particular risks. As a result, they'll charge a premium corresponding to something like the *average* risk of job loss. That premium will be higher than what low-risk employees are willing to pay, and so they will opt to leave the market, electing to not purchase unemployment insurance. Only high-risk employees will be left in the pool, so in order for the insurer to remain solvent, they will have to raise the premiums—eventually pricing everyone out of the market, leading to collapse. If the asymmetry of information can't be remedied (as it likely can't be in this case), the market can be rescued by making purchasing the insurance compulsory. This prevents the low-risk employees from leaving the market, stopping the "death spiral" before it begins.

Because of these features of unemployment insurance (i.e., that the risks aren't independent and that there's significant asymmetries of information), unless it is provisioned by the state, *no one* will be able to purchase it because it won't exist to be purchased. This complicates matters. So long as some employees would want to purchase UI if it were made available, it's not obvious that the justification for compulsory UI need be paternalistic. Instead, there's now a conflict between those employees who would want to purchase the insurance and those who wouldn't. If forcing the latter to purchase insurance they don't want violates their autonomy, wouldn't preventing the former from purchasing insurance they *do* want do so as well?

I think there are sensible grounds for answering, 'no'. Proponents of the *Autonomy Objection* take there to be an important difference between, on the one hand, forcing someone to do something they don't want to do, and, on the other, failing to provide someone with the opportunity to do something they do want to do. There's a crucial difference, for example, between forcing someone to eat a sandwich they don't want to eat and failing to provide someone with a sandwich they do want to eat. It's true that, in both cases, I do something that affects what the other person can do. But in the former case, I compromise their autonomy by making for them a decision that's rightfully theirs. In the latter case, I do no such thing. And so, while it is surely noteworthy that UI is unlikely to be produced absent some form of coercive government intervention, that by itself is not enough to defang the *Autonomy Objection*.

3.3 Response #2: Benefiting Us All

Let's change tack. Rather than try to address the *Autonomy Objection* head-on, let's look at what arguments have been given *in favor* of UI. Let's take as a representative statement of its goals this statement from 1955 of "Major Objectives of

Federal Policy with Respect to the Federal-State Employment Security Program" from the U.S. Department of Labor (quoted in Woodbury, 2014, p. 473):

> Unemployment insurance is a program—established under Federal and State law—for income maintenance during periods of involuntary unemployment due to lack of work, which provides partial compensation for wage loss as a matter of right, with dignity and dispatch, to eligible individuals. It helps to *maintain purchasing power* and to *stabilize the economy*. It helps to *prevent the dispersal of the employers' trained workforce, the sacrifice of skills*, and *the breakdown of labor standards* during temporary unemployment. [emphasis added.]

This statement identifies several potential benefits of UI. Here are three:[8]

1. *Consumption-smoothing over periods of involuntary unemployment.* (Gruber, 1997). UI enables individuals to maintain relatively similar levels of consumption during periods of both employment and unemployment, helping to strike the optimal balance between savings and consumption over the course of their life. Because consumption-smoothing allows one to achieve a higher standard of living, given certain assumptions about how one's welfare aggregates across time, purchasing a well-designed UI can be prudentially optimal.

2. *Stabilizes aggregate economic output.* The consumption-smoothing effect mentioned above is recapitulated across the economy as a whole. During times of high unemployment, because of the income replacement UI provides, aggregate demand falls less drastically than it would otherwise. This results in more stability in aggregate economic output over time. The highs will be somewhat less high, but the lows won't be nearly as devastatingly low as they would be otherwise. Deeper depressions and longer recessions are bad, and so the macroeconomic stabilization UI affords is, on balance, good.

3. *An investment in human capital, which facilitates re-employment.* The unemployed are enabled, and incentivized, to maintain and develop their skills. Although this is good for the unemployed, it is also good for future employers who, when more jobs become available, will have an easier time employing those who already have the relevant skills. Furthermore, some have argued that UI facilitates more efficient employee/employer matching. The idea is that the extra cushion that UI provides allows unemployed individuals to wait for jobs that better fit their particular interests and skills. This, in turn, benefits employers.

[8] For a survey of these, and other, benefits of UI, see Karni (1999).

Do these rationales help to make the case against the *Autonomy Objection*? The first doesn't—although it helps make good on a claim that was floated earlier: namely, that purchasing UI can be prudentially optimal. But, as was previously argued, this doesn't respond to the *Autonomy Objection* because the objection is about *choice*, not *welfare*.

So much for the appeal to self-interest. It could be argued, instead, that, because UI provides significant relief to the unemployed *ex post*, one has a moral duty—one that is grounded, not in self-interest, but in the interests of your fellow workers—to contribute to the collective fund. The fact that the standard of living of a sizable number of people can be significantly improved by UI, but that UI can only function if we all contribute, means that individuals have a duty to contribute. Call this the *Moral Argument*.

That argument doesn't work either. First, as an aside, notice that the reasoning generalizes from "fellow workers" to "fellow citizens" (why should it matter morally whether we're both workers?), and so it doesn't support UI *as such*, but rather some form of (possibly means-tested) public assistance. Second, and more seriously, even if it's true that you have a moral duty to contribute to the collective unemployment fund, unless that moral duty is one that it would be legitimate for the state to enforce, *compulsory* UI nevertheless seems objectionably coercive—and in a way that ultimately compromises your autonomy. Just because you have a moral duty to, e.g., confess to a crime, doesn't mean that it doesn't compromise your autonomy to be forced to do so.

The other two rationales—about macroeconomic stabilization and investment in human capital—seem to imply that we (in some sense) *all* might benefit from a well-designed system of UI. If we all benefit from something, then isn't it justifiable to each of us? And if it's justifiable to each of us, who can object? Call this the *All Benefit Argument.*

I don't think this argument works either. First, again as an aside, notice that the argument doesn't really support UI *per se*. Couldn't the same benefits be achieved with a program (like the Extended Benefits program) that kicks in only in times of economic strife? If boosting aggregate demand during busts is doing the heavy lifting, why offer UI during booms? Second, while it might be right that a well-designed UI is beneficial in aggregate (e.g., it increases output, increases aggregate welfare), I'm skeptical that it really benefits *each* of us. Recessions affect different groups differently. There are still winners and losers, even if, in aggregate, there is more losing than winning. Finally, and most seriously, even if it's true that we are all benefited by having a flourishing system of UI, how does that address the charge that its being compulsory compromises individual autonomy?

In the next section, we will explore the relationship between unemployment and inflation. And we will investigate the claim that some level of unemployment is necessary to keep runaway inflation at bay. The unemployed play an important, sacrificial role as a "reserve army of labor," driving down wages and slowing inflation. Because rising inflation is particularly bad, we all owe the unemployed compensation for their sacrifice in providing us with an important service. And it doesn't objectionably violate one's autonomy to be made to contribute what one owes.

4 Inflation

What does unemployment have to do with inflation? Phillips (1958) noticed that there appeared to be a negative relationship between the two. When unemployment is low, inflation is high; when unemployment is high, inflation is low. This has come to be known as *the Phillips curve*.

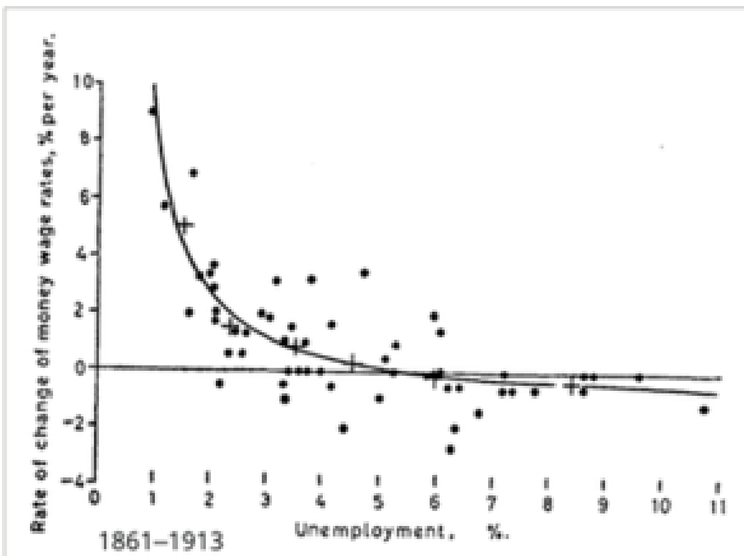

Figure 1: Curve, from Phillips (1958), plotting the negative correlation between unemployment and inflation.

Why might this be? If unemployment is low, wages will rise. This is because, if unemployment is low, workers occupy a strong position for bargaining up their wages—as the supply for replacements will be low. If wages rise, then so does the cost of production. And, because those costs will be passed on to consumers, if the costs of production rise, so will prices. Because all firms face this dynamic, the aggregate price of goods and services across the economy will increase—i.e., price inflation. But it doesn't necessarily stop there. Because the gains from the increase in nominal wages have been undone by the increase in overall prices, if unemployment remains low, employees will bargain to have their nominal wages raised again. This, in turn, raises the cost of production, etc. We've set-off a *wage-price spiral*: asking for higher wages leads to higher prices, which necessitates asking for even higher wages, which leads to even higher prices, …and so on.

On the other hand, if unemployment is high, wages will fall. When unemployment is high, workers occupy a much weaker bargaining position regarding their wages. If an employee demands a higher wage, employers can simply refuse and easily find a replacement from among the "reserve army of labor". This keeps the costs of production low, in turn lowering prices. In this way, higher levels of unemployment places downward pressure on wage growth, which slows inflation.

These dynamics, while intuitive, are significantly oversimplified.[9] And that, while there may be some relationship between unemployment and inflation in the short term, that relationship is more complicated than the Phillips curve suggests. In particular, the relationship is not *stable*: e.g., one cannot just pick some particular level of unemployment, and accept whatever the corresponding level of inflation is that comes along with it. Instead, inflation will remain at that level only temporarily, eventually giving way to *accelerating inflation*: prices will rise at an increasing, rather than fixed, rate.

According to the "expectations-adjusted Phillips curve" hypothesis (Friedman, 1977, p. 456-9), there's a level such that if the unemployment rate falls below it, what result is *accelerating* inflation. This level is sometimes called the 'natural rate of unemployment' or the 'non-accelerating inflation rate of unemployment (NAIRU). Although this view is not without controversy, let's accept for the sake of argument that something like it is true.

Accelerating inflation is very worrying. We have good reason to want to avoid it. But, because sufficiently low levels of unemployment appear to lead us straight to it, we must be willing to tolerate a certain level of unemployment. In fact, we must more than tolerate it: we *need* a certain number of people to be unemployed. We could, by pulling on certain economic levers (e.g., lowering interest rates), deliver many of those people from unemployment. It's not *impossible* to lower the unemployment rate below its "natural" rate—it's rather that it's quite strongly in our interest not to do so, given its relationship to accelerating inflation. So, there is a sense in which the unemployed are providing the rest of us with a much desired *service*. And, for that reason, we owe them compensation.

Let me consider two objections. The first concerns inflation. Although runaway inflation is undoubtedly undesirable, so are lots of things. So, we might well ask, what makes it so special? The second objection is that, even if it is true that one is benefiting profoundly from the unemployment of others, isn't it neverthe-

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[9] And controversial. For example, Friedman (2005) famously argued that "inflation arises from one and only one reason: an increase in a quantity of money," (p. 4).

less *still* objectionable to force them to contribute against their will?

Let me make three points about accelerating inflation: one economic, one political, and one philosophical. Volatile increases in the general price of goods and services, in addition to undermining purchasing power, have profoundly destabilizing effects on the economy. These effects are widespread and debilitating. Unstable prices make it nearly impossible to plan, to save, and to coordinate economic activity in general. Prices lose their ability to effectively communicate useful information, which is one of their central roles. Declining growth, inefficiencies, and lower living standards likely result. These consequences are—if not *universally* negative—very nearly so for the vast majority of people.

The effect that accelerating inflation might have on our political institutions is even more concerning. Because of its economic effects, we should expect increased public discontent—perhaps culminating in social unrest, greater polarization, and a further erosion of civic institutions. If accelerating inflation becomes hyperinflation, we're really in trouble. As citizens we have an interest in—and, arguably, a responsibility to ensure—the maintenance of the state's basic ability to function and to offer sufficient protection against arbitrary violence. We thus, as citizens, have an interest in, and a responsibility to ensure, the mitigation of runaway inflation.

Finally, a philosophical point. Because accelerating inflation destabilizes the value of property, insofar as you have a stake in your belongings, you have a stake in slowing inflation. Runaway inflation makes stark that important features of one's property (its economic value, for example) depend on background socioeconomic arrangements. Furthermore, because of accelerating inflation's destabilizing effects on the economy and our basic civic institutions, if left unchecked, it *itself* undermines your *autonomy*—at least insofar as we think that autonomy requires, not just the absence of manipulation and coercion, but also the capacity to self-rule.[10] Following Raz (1986), one might hold that *being autonomous* requires the ability to form, and act on, plans. One might lack such an ability for personal psychological reasons. But our ability to plan can also be undermined by the conditions of our environment. In particular, the kind of economic and political *instability* resulting from accelerating inflation makes planning for the future practically impossible. As a result, if runaway inflation is left unchecked, our ability to form and reliably execute plans for the future is significantly undermined, and the range of acceptable options for leading a life of our own making shrinks.[11] As a result, one's autonomy is compromised—and, arguably, more

[10] For a defense of the idea that we should understand autonomy in terms of the capacity to rule oneself, see Raz (1986, p. 373-78). For Raz, autonomy has three components: freedom from manipulation and coercion, appropriate mental abilities (e.g., ability to form intentions and to make executable plans), and an adequate range of options.

[11] Thanks to Nick Geiser (personal communication) for helpful discussion on these points.

severely so than it is (if it is at all) by being compelled to purchase UI.

Both the economic value of one's property and one's ability to effectively plan one's life depend on background socio-economic arrangements. And, in this case, protecting the economic value of one's property and safeguarding one's autonomy requires us to send a sufficient number to join the "reserve army of labor". By refusing to provide compensation, on the grounds that I should have the autonomy to do with my property what I wish, I fail to properly acknowledge that the property in question has the value it does in part because of the efforts of those I am unwilling to compensate—and that my ability to plan for the future, which is one of the hallmarks of being autonomous, does so as well. Because the members of the "reserve army of labor" are, by actively seeking employment (and thus exerting deflationary pressure on wages), providing a service that we benefit from and should want performed, it's as if they *are* working, and working for each for us. Employees should be paid. And so we owe them compensation in the form of unemployment benefits.[12]

If that's right, though, this doesn't justify UI as it's currently understood—for a few reasons. First, it's revisionary regarding the *class of potential beneficiaries.* If it's right to understand unemployment benefits as a form of *compensation* for a service provided, the benefits should be made available to anyone who is providing that service—regardless of whether they've paid into the system or worked for the requisite amount of time. (That said, there might be reasonable pragmatic reasons to keep these eligibility requirements in place.) Second, it's revisionary regarding the *class of contributors*. Anyone who stands to benefit from the inflation-reducing services of the unemployed (a large class indeed!) could plausibly be counted among the tax base used to finance the unemployment benefits. On the one hand, this transform the program into something a bit more redistributive than classic examples of social insurance. On the other hand, by significantly expanding the tax base, UI might have a better chance of remaining solvent (even if the face of major economic downturns).

What about the fact that UI is *work-tested*? Is that another feature of the pro-

[12] One might understandably object that this argument appears, at bottom, to be a *Fair Play Argument*: citizens incur an obligation to reciprocate (e.g., to compensate the unemployed) as a result of enjoying important benefits (e.g., the economic and political stability that results from preventing runaway inflation). Many—and especially Libertarians—don't find such arguments particularly convincing (although, see Brown, 2020, for an interesting, qualified defense). The Libertarian asks, reasonably enough, "Why must I compensate someone for benefits that, although I enjoy, I never asked for?" But note that my argument differs in an important respect from classic *Fair Play Arguments*. While I *do* think we all (or, nearly all) benefit from the "service" the unemployed provide, it's not the fact that I enjoy these important benefits that obligates me to offer compensation. Rather, it's that the *objection* to paying such compensation—i.e., that compulsory UI compromises my autonomy—is undermined. It's not obvious that one's autonomy *is* compromised—or at least, objectionably so—by being made to do what is required to maintain one's autonomy.

gram that ought to be revised? As I'll briefly argue in the next section, the answer is: 'no'. The fact that UI is only made available to those who are willing to work (and actively seeking) plays an essential role in its justification.

5 Worry from the Left: UI's work requirements are objectionable

UI can be criticized on the left for being conditioned on the basis of willingness and ability to work. Some object, in particular, to the *paternalistic* nature of such conditions.

Here's the idea. By providing income support, UI makes being unemployed less bad than it would otherwise be. There's a worry that receiving unemployment benefits will powerfully disincentivize recipients from reentering the workforce.[13] But, because it's better to be employed than unemployed, that would ultimately be bad for them. And so, in order to counteract the unavoidable disincentive that unemployment benefits create, a work-test must be required to best serve the recipient's interests.

Opponents of work-testing object that this justification is objectionably paternalistic: it undermines the autonomy of the beneficiaries (by making it not possible to collect the benefits without being willing to work) in order to promote their interests.[14] This might be objectionable for several reasons. For example, some worry that the rationale rest on a kind of perfectionism that is inappropriate in liberal societies (e.g., Wolff, 2003, who worries that the justification for 'welfare-to-work' policies relies on the claim that work is an essential component of living a good life).[15] Indeed, it's far from obvious that, for any person, being employed—no matter the job!—is better for them than being unemployed.

[13] This is obviously an empirical question. One that has been taken up by Chetty (2006), Acemoglu and Shimer (1999), Fabre et al. (2014), among others.

[14] This is, by no means, the *only* objection to making unemployment benefit conditional on the willingness to work. For example, left-libertarians might argue that, because we are all entitled to our fair share of the social and technological value that we've inherited from the past, the unemployed are entitled to a basic income—without qualifications. To make receipt of those benefits conditional on the willingness to work, we deprive individuals of something they are entitled to. There are serious reasons to doubt that such an argument will be successful, however (see White, 2004, for discussion). Goodin (2004) mentions that workfare might involve immoral coercion, and worries that it might be an improper exercise of power for public officials to tack conditions onto a social program that's justified on other grounds. As we'll see, my defense of work-testing UI benefits attempts to surmount Goodin's worry by demonstrating that, in fact, the condition isn't "tacked on" to a program justified on other grounds—but that the justification for each part flow from the same consideration.

[15] Although, also see Anderson (2004, p. 249), who worries that such worries concede "the premise that the poor have alien values," and points out that survey data suggests that most welfare recipients endorse the work ethic—at least aspirationally.

But even supposing that were true, it's objectionably paternalistic nonetheless—in particular, there is something *disrespectful* about treating UI recipients like objects to be strategically managed.

Not all justification of work-testing are paternalistic, however. Given the macroeconomic stabilizing effect of UI, one could attempt to offer a non-paternalistic, other-regarding justification instead. But doing so doesn't satisfactorily address the root of the worry—that it is disrespectful to use the recipients of UI benefits in accomplishing other goals. It's not implausible to think that whatever makes work requirements disrespectful when they are implemented for someone's *own* sake will continue to be disrespectful when they are implemented for someone else's sake instead.

But let me offer a different kind of justification entirely.[16] Recall my earlier qualified defense of UI. The idea was that there is a sense in which the unemployed work for all us, and to our collective advantage. Given their service, we owe them payment. But what is the service they are providing, exactly? The idea was that if the unemployment rate fell below some threshold, we'd face damaging accelerative inflation. We all have an interest in there being a sufficient number in the 'army of reserved labor'. But what are they doing exactly? Members of the 'army of reserved labor' are, by actively seeking employment, creating competition in the job market. This creates downward pressure on wages, which restrains inflationary forces. Unemployed individuals who are *not* willing to work, and so who are not actively seeking employment, *aren't* contributing to a more competitive—and thus less inflationary—job market. So, on my account, the work requirement plays arguably the central role. It is each unemployed individual's *willingness to work* that we are compensating them for. In a sense, the very thing we are paying them to do is to be willing to work. And there's nothing paternalistic—or even particularly *disrespectful*—about that.

6 Conclusion

This paper offers a novel, and qualified, justification for a conditional form of unemployment insurance. By examining the relationship between unemployment and inflation, the paper argues that a certain level of unemployment is necessary to avoid runaway inflation, which can be disastrous for everyone. Because unemployment can have a deflationary effect, it is necessary for market capitalist soci-

[16] This isn't the *only* justification for making unemployment benefits conditional on the willingness to work. For example, liberals in the social contract tradition, who think that we must fairly share the benefits and burdens of cooperation, could argue that being willing to work is required by a norm of *reciprocity* (although, see Anderson, 2004, who argues that these considerations are not conclusive—in particular, because such requirements threaten to undermine the social bases of self-respect for the unemployed).

eties to tolerate a certain amount of unemployment to avoid inflation. Because the unemployed are, often at great cost to themselves, providing an important service for the rest of us, we owe them compensation. I argued that, for this reason, coercively collecting contributions, via taxation, to fund UI doesn't objectionably compromise individual autonomy.

Furthermore, because unemployment has a deflationary effect only when the unemployed are actively searching for work, attaching a work requirement to UI programs can be defended against the objection that doing so is either objectionably paternalistic or *ad hoc* (or both). To maintain a competitive labor market and attenuate the prospect of runaway inflation, we need the unemployed to actively seek work and it is on this understanding that compensation is due. Properly understood, unemployment benefits are not benefits, welfare, or workfare but compensation for performing a critical social function.

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