

Money, the State, and Employment as Anti- Poverty Policy: A Minskian Approach

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Bill Gross (summer 2011):

In the end, I hearken back to revered economist Hyman Minsky – a modern-day economic godfather who predicted the subprime crisis. “Big Government,” he wrote, should become the “employer of last resort” in a crisis, offering a job to anyone who wants one – for health care, street cleaning, or slum renovation. FDR had a program for it – the CCC, Civilian Conservation Corps, and Barack Obama can do the same. Economist David Rosenberg of Gluskin Sheff sums up my feelings rather well. “I’d have a shovel in the hands of the long-term unemployed from 8am to noon, and from 1pm to 5pm I’d have them studying algebra, physics, and geometry.”... **Jobs are today’s and tomorrow’s immediate problem.**

Minsky's approach to Poverty and Unemployment

- 3 points
 - a true war on poverty must include a commitment to full employment;
 - responsibility for full employment must fall to the state;
 - and the state as the sovereign currency issuer has the financial capacity to meet that responsibility.
- The approach follows Minsky's writings.

A Decade of Contributions

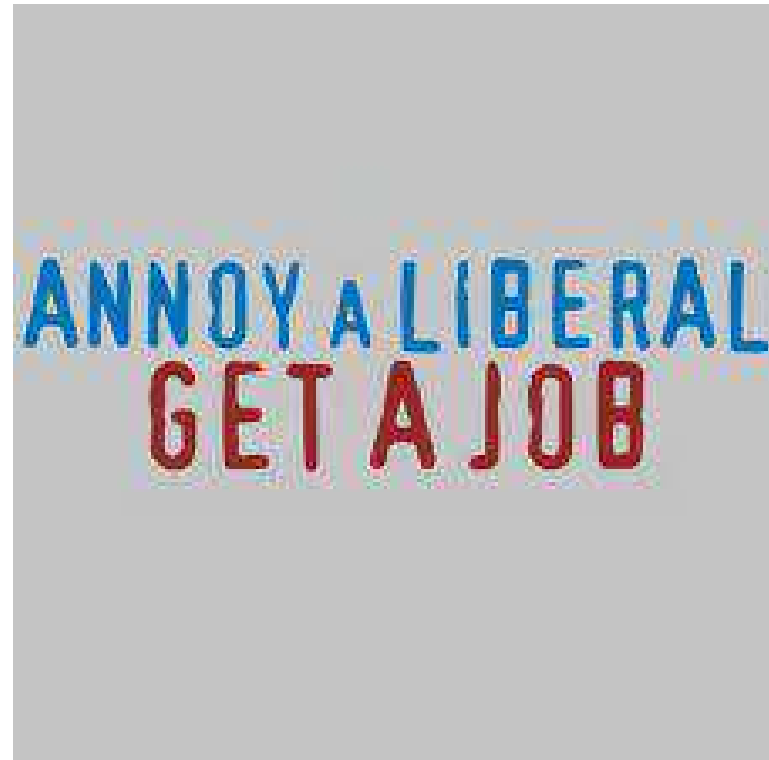
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Johnson's 3-Pronged Approach

- The day after Kennedy's assassination, President Johnson agreed to move "full speed ahead" with an anti-poverty agenda
- He declared an "unconditional war on poverty" in his first State of the Union address on January 8, 1964
- He signed the **Economic Opportunity Act** on August 20, 1964
- Johnson's approach relied on:
 - 1.) **Tax cuts** to spur economic growth
 - 2.) The **War on Poverty** to rehabilitate and train the poor for the jobs that #1 was expected to generate
 - 3.) New programs like **Medicare**, **Medicaid** and **Model Cities**, together with a beefing up of existing programs like **food stamps**, **welfare** and **Social Security**, were supposed to address any problems that #1 and #2 did not fix

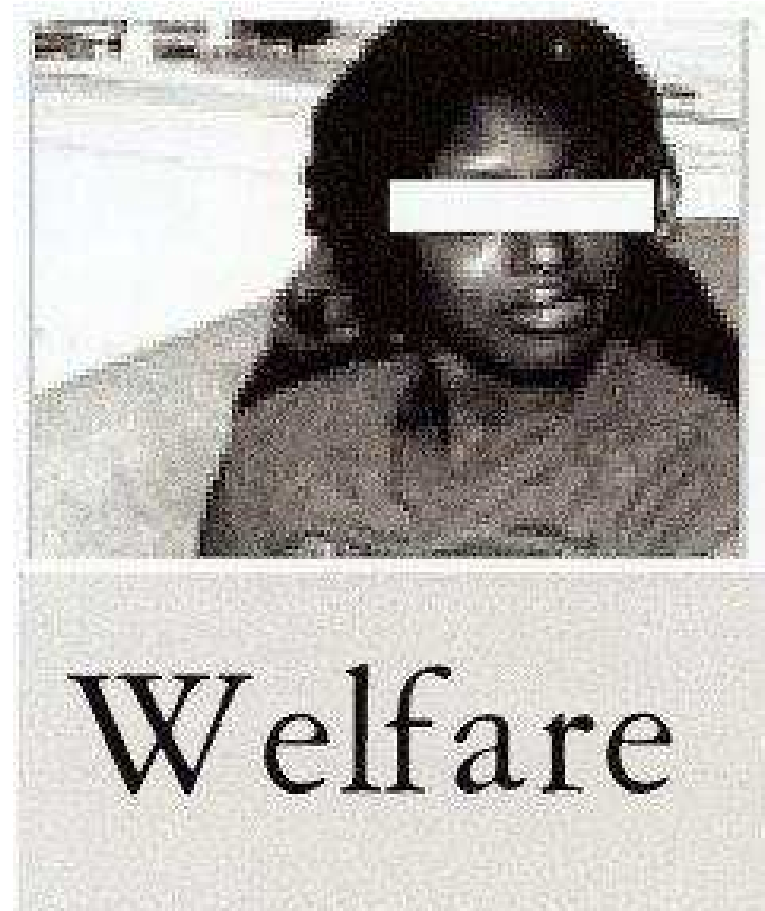
Political Shift

- By the late 1970s, the political **balance** had shifted against liberalism
- Conservatives **blamed** social programs for discouraging hard work and entrepreneurship



Ronald Reagan

- By the mid-1980s, conservatives began to shape **public debate** on poverty, welfare and unemployment
- Aggressive **campaign** to turn white workers against the poor person of color
- Led to **popular belief** that poor people were poor by choice



Bill Clinton

- During the so-called “Clinton boom,” the problem of unemployment **faded** from the radar
- Attention focused on the harmful effects of **welfare**
- A return to “**motivational rehabilitation**”
- End Welfare as We Know It; no entitlement to welfare



Was the WoP Successful?

- NO.
- Since the War on Poverty began:
 - **Unemployment** rates have trended **upward**
 - **Long-term unemployment** has become increasingly **concentrated** among the labor force's most **disadvantaged**
 - **Poverty rates** are the highest they've been since 1959
 - **Real wages** for most workers have **declined**
 - The gap between the "**haves**" and the "**have-nots**" has widened
- In the **Short Term**, conditions did improve
 - Poverty rates fell from 15% in 1965 to just under 12% before the start of the Nixon recession
 - Was it the WoP?

Poverty Rates for Seniors

- Only the elderly have sustained their improvements over the long term
- Poverty rate for those 65+ was nearly 30% in 1966
- Fell to about 15% by 1974
- Then fell to around 10% by the end of the 1990s
- People 65+ are only age group **not** to experience rising poverty rates 2009-2010
- But this was almost entirely due to expansions in Social Security -- had little to do with the WoP

Poverty Remains a Serious Problem

- In **each** of the last 50 years, at least 11% of the US population has been poor
- In 2010, the official poverty rate was 15.1%
- **46.2 million** poor, highest since estimates began
- Rising fastest among children
- Millions more in state of **near poverty** (not counted) with incomes that fail to provide for a decent standard of living

Inequality USA Style

- David DeGraw:
 - The US has the highest inequality rate in the industrialized world.
 - The top 1% now owns over 70% of all financial assets.
 - From 1980 to 2006 the richest 1% of Americans tripled their after-tax income while the bottom 90% lost 20%.
- CEOs in 1970 earned \$25 to 1 for the average worker. Today it is \$500 to 1.

Key Omissions in the WoP

- Minsky: the WoP will fail without Direct Job Creation through an ELR
- Although his Task Force pleaded with him to do so, Johnson **refused** to make **direct government job creation** part of the war against poverty
- Resulted from the CEA's belief that
 - Poverty is not inextricably linked to unemployment
 - Unemployment could be sufficiently reduced through AD policies (esp. JFK's tax cut of 1963)
 - A buffer stock of unemployed was necessary to keep inflation in check

Too Few Jobs

- Minsky insisted that “we **live** only as we **produce**”
- **Lamented** the growth of transfer payments for welfare
- Provide an income without adding to production; inflation
- Called the trend a “perversion of Roosevelt’s New Deal and Truman’s Fair Deal”
- Calculated: 1 full-time minW job per family would cut poverty rate by 2/3

Historical Trends in Transfer Payments¹ and Grants in Aid

(Expressed in millions of dollars)

Year	Federal, State, and Local Transfer Payments	Grants-in-Aid	National Income	Total Transfer Payments and Grants	Total Transfer Payments and Grants as Percentage of National Income
1947	13.1	1.7	195	14.8	7.6%
1950	18.0	2.3	236	20.3	8.6
1955	18.3	3.1	328	21.4	6.5
1960	28.8	6.5	412	35.3	8.7
1965	39.8	11.1	566	50.9	9.0
1970	78.1	24.4	798	102.5	12.4
1971	92.4	29.0	858	121.4	14.2
1972	102.1	37.5	952	139.6	14.7
1973	116.1	40.6	1065	156.7	14.7
1974	138.1	43.9	1136	182.0	16.0
1975	173.6	54.6	1215	228.2	18.8
1976	189.1	61.1	1360	250.2	18.4
1977	202.9	67.5	1526	270.4	17.7
1978	218.7	77.3	1724	296.0	17.2
1979	246.0	80.4	1926	326.4	17.0

1. Transfer payments are defined as direct payments by government to individuals, e.g., social security, pensions, veteran disability, welfare, and tax rebates.

Causes of Unemployment

- Short Run: Global Financial Crisis and Economic Downturn
- Long Run: Demand Gaps, Structural Unemployment, Jobless Growth
- Jobs program must be permanent

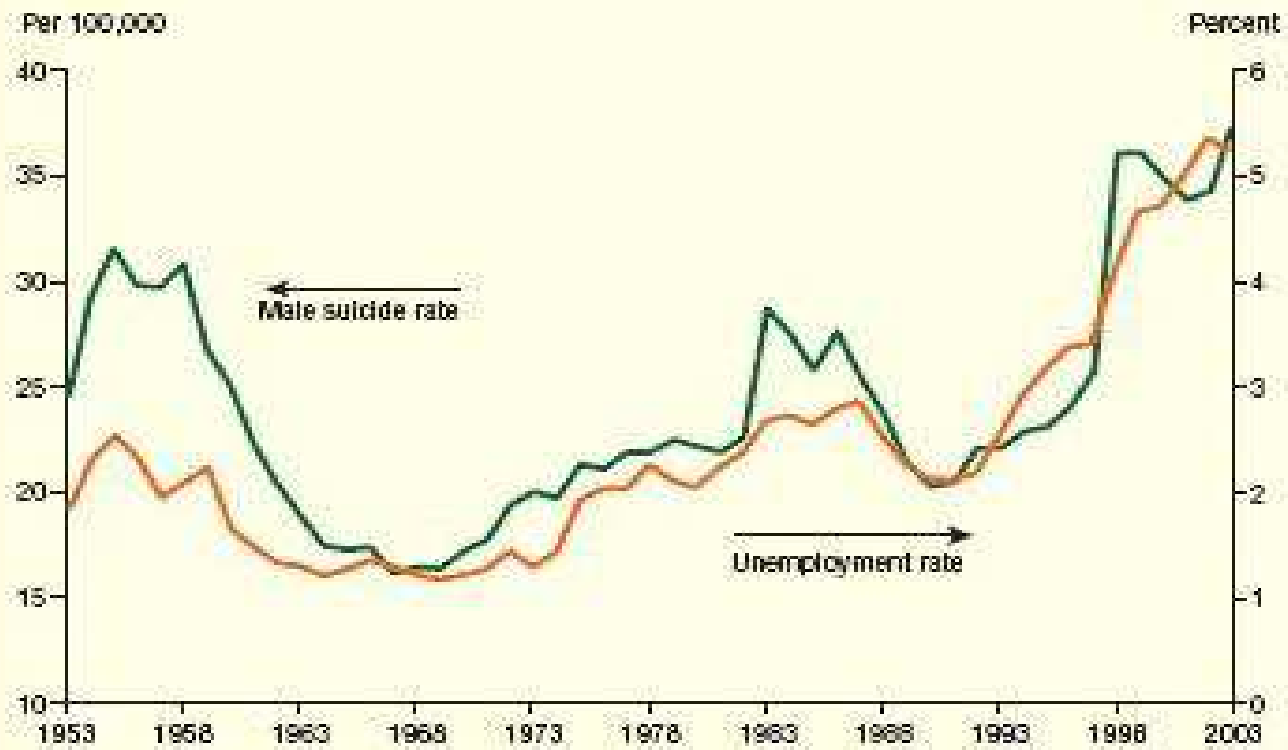
Costs of Unemployment

- Labour underutilisation (unemployment + underemployment) creates **huge net income losses**.
- The **social costs** are even larger:
 - poverty, social isolation, crime
 - regional deterioration
 - health issues, family breakdown, school dropouts
 - social, political and economic instability
 - promotes violence, ethnic hostility, even terrorism
 - loss of human capital
 - terrorist responses
 - hysteresis: long term unemployed become unemployable

Unemp and Inequality Matter

- Sullivan and Wachter: death rate increases 50-100% following job loss - > a male worker displaced in midcareer lives one and a half years less than a worker who keeps his job
- Unemployed men face a 25% higher risk of dying of cancer
- Charles and Stephens: 18% increase in probability of divorce following a husband's job loss and 13% after a wife's
- Children whose fathers lose a job have reduced earnings as adults — about 9% lower annually than children whose fathers do not experience unemployment
- Wilkinson and Pickett (2009), two epidemiologists, argued data are clear: More Equal Societies Almost Always Do Better
 - five sets of data illustrating that, whether you classify people by education, social class or income, people are healthier if they are in a more equal society than people in the same category of income, education or class in a less equal society
 - inequality damages social relationships. Measures of trust and social cohesion are higher and violence is lower in more equal societies.

Suicide and Unemployment in Japan



SOURCE: Japanese Ministry of Health, Labor and Welfare.

Benefits of full employment

- Full employment provides
 - Production of goods and services
 - On-the-job training and skill development
 - poverty alleviation
 - community building, social networking
 - intergenerational stability
 - Social, political, and economic stability
 - Multipliers: Positive feedbacks and reinforcing dynamics create a virtuous cycle of socioeconomic benefits. The total impact exceeds the sum of the individual benefits.

Unemployment and Crisis Response: Fiscal Constraints

- President Obama: government is running out of money
- Unsustainable debt path
- Look at Euroland!
 - Sovereign debt crisis
 - Default risk
 - Bond vigilantes
 - US is the next Greece!

Wrong. US cannot become the next Greece. And it is NOT because the US issues the international reserve currency.

St. Louis Fed

"As the sole manufacturer of dollars, whose debt is denominated in dollars, the U.S. government can never become insolvent, i.e., unable to pay its bills. In this sense, the government is not dependent on credit markets to remain operational. Moreover, there will always be a market for U.S. government debt at home because the U.S. government has the only means of creating risk-free dollar-denominated assets."

Sovereign Government can **NEVER** run out of Dollars; It can **NEVER** be forced to default; It can **NEVER** be forced to miss a payment; It is **NEVER** subject to whims of "bond vigilantes".

Correct Paradigm: Modern Money

- Govt-issued sovereign currency
- Floating exchange rate → policy space
- Govt spends by crediting reserves; taxes by debiting reserves
- CB sets overnight rate target
 - CB adds/drains reserves as needed to hit target
- Bank money is endogenous
- Should remove self imposed constraints
 - Balanced budgets, debt limits, “mkt-det’d” interest rates, fixed exchange rates
- The real constraint is full employment

How Government Spends its Own Currency: Keystrokes

- Spending → credits
 - Government credits bank's reserves; bank credits account of recipient
- Taxes → debits
 - Government debits bank's reserves; bank debits account of taxpayer
- Deficits → net credits
 - Government net credits bank's reserves; bank net credits account of recipient

Money as Scorekeeping



Bond Sales by Government: Why the Bond Vigilantes Cannot Dictate Terms

- Deficit spending → net credits reserves
- Excess Reserves → bid overnight rate down
 - To CB' s support rate (fed funds rate in US)
- Bonds: Interest earning alternative (IRMA)
 - Part of Monetary Policy, whether new issues or open market sales
 - (NB: Surpluses → net debits → OMP or Redemptions)

Conclusions on Affordability

- Currency-issuing Government spends by crediting bank accts, taxes by debiting
- Can always “afford” to spend more
 - Issues: inflation, exchange rate effects, interest rate effects
- Sovereign (floating) currency gives more policy space
 - No default risk
 - Can control interest rates
 - Can use policy to achieve full employment

What I did and did NOT say

- I did say: Sovereign Government faces no financial constraints; cannot become insolvent in its own nonconvertible currency
 - But it can only buy what is for sale
- I did NOT say that Government ought to buy everything for sale
 - Size of Government is a political decision with economic effects
- I did NOT say that deficits cannot be inflationary:
 - Deficits that are too big can cause inflation
- I did NOT say that deficits cannot affect exchange rates:
 - Sovereign Governments let currency float; float means currency can go up and down

Job Guarantee In Theory

- There is an alternative to NAIRU unemployment buffer stock to maintain price stability: an **employment buffer stock** program.
- This is called the Job Guarantee or ELR.
- It is an **unconditional offer of a public job** at the minimum wage to anyone who wants to work.
- Maintains continuous full employment—resolves both short term and long term unemployment problems

JG and Macro Stability

- The fixed JG wage provides an in-built inflation control mechanism.
- Full employment and price stability promotes currency stability
- Spending in the JG program is countercyclical—an automatic stabilizer.
- It is a **high quality anchor** – maintains an effective labor supply at program wage.
- Fluctuation of wage income and thus consumption is reduced.

Additional Benefits of JG

- It provides a framework to reduce hiring costs for private business.
- It provides on-the-job training.
- It is not the panacea for all labour market problems.
- But it is better than the unemployment buffer stock option.

The JG in Practice: *Jefes*

- Argentina created *Jefes* to quell crisis
- Created 2 million jobs, employed 14% of labour force
- Stabilized output, prices, and currency
- Reduced unemployment and poverty and moved workers to formal sector
- Community-based projects
- Enhanced social, political and economic stability
- Produced useful output, some marketed, some freely distributed to participants and neighbors
- *As economy recovered, firms hired from pool*

Examples of Projects



Half of this previously fallow plot was now dedicated to growing vegetables and other crops to feed the people from this agro-cooperative and their children.



Women at work at the Mataderos bakery



All women we interviewed reported that they are happy to be working, to be involved in the community and to have jobs close to their children



This micro-enterprise also had various posters pointing to local resources for family planning, training and education.



The rest of the plot was used to prepare food using an outdoor oven and to care for the children in a mini-daycare center.

JG for Finland

- Currently no sovereign currency; current capacity to fund is limited
 - Can implement limited program (ie targeted)
- Options for universal program:
 - Sovereign Currency
 - ECB funded
 - EU Budget
 - Distributed on per capita basis

JG for Finland (final)

- Project proposals will be evaluated on the following criteria:
 - a) value to the community;
 - b) value to the participants;
 - c) likelihood of successful implementation of project;
 - d) contribution to preparing workers for nonprogram employment
- Takes workers as they are, where they are, creates jobs in every community

Full Employment and Development

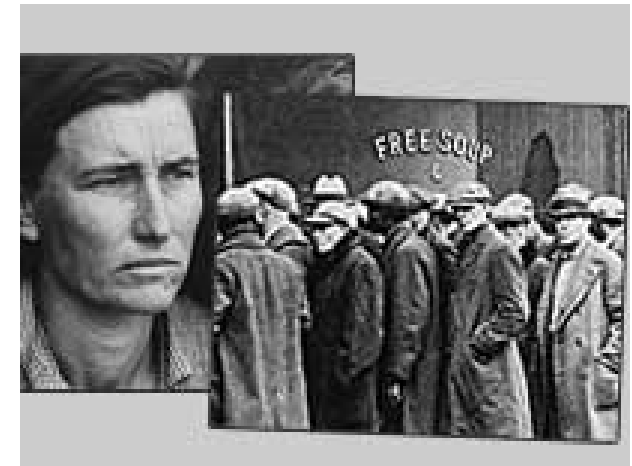
- Is the Job Guarantee applicable to developing countries?
 - Yes, where the developing country has a sovereign currency the JG approach is available.
- JG as development strategy:
 - Puts labor resources to work
 - Enhances skills and experience
 - Can be used to improve infrastructure
 - Inclusive development through community projects

Full Employment and Growth

- Growth by itself is not an appropriate goal
 - It does not create enough jobs
 - It can promote rising inequality
 - It can harm environment
- Full Employment through JG promotes:
 - Shared prosperity
 - Environmentally sustainable development path
 - Growth with price and currency stability

Full Employment versus Nonsense

- “The Conservative belief that there is some law of nature which prevents men from being employed, that it is 'rash' to employ men, and that it is financially 'sound' to maintain a tenth of the population in idleness is crazily improbable--the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years....” (J. M. Keynes)



THANK YOU

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