

The Employer of Last Resort: *the second reinterpretation of Keynes*

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Outline

- Minsky's reinterpretation of *The General Theory*: the 2-price system model and the Financial Instability Hypothesis
- The reinterpretation of Keynes's policy approach to full employment (Minsky, KC school): Employer of Last Resort
- Keynes's approach to fiscal policy: "on the spot" employment
- Minsky's Employer of Last Resort (ELR)
- Problems with the aggregate demand model
- Modern formulation of the ELR: key characteristics
- An example: Plan *Jefes* in Argentina
- Reform of *Jefes* and consequences for its beneficiaries (esp. gender effects)

The second reinterpretation

- Keynes's own approach mistaken for Aggregate Demand management/boosting different components of GDP by various means to close the output gap
- More appropriate to call it a “targeted demand” approach (Tcherneva 2008)
 - ELR proposal more closely resembles what Keynes himself had in mind than what today passes for Keynesian policy
- Deficient demand for output vs. deficient demand for labor
- Orthodox or heterodox work that attempts to close output gap inconsistent with Keynes on theoretical, methodological and policy grounds

Keynes's approach: Theory

- Identifying the missing second 'Keynes Plan'
- Rarely spoke of 'fiscal policy'; public works instead
- Key theoretical reason: *principle of effective demand*
 - Unemployment not a consequence of deficient *aggregate* demand but deficient *effective* demand
 - There is only one way to fix the point of effective demand at full employment—direct job creation (policy cannot exogenously control expectations)
- Direct job creation irrespective of the stage of the business cycle
- Boosting Aggregate Demand cannot do the job (more later)

Keynes's approach: Method

OBJECTIVE: As close an approximation to full employment as is practically possible

- What is full employment? Choice of units in the *General Theory*
- Demand gap analysis of a particular type: potential output measured in terms of unemployed men and women
- Plugging the demand gap makes sense only if you are directly increasing the demand for labor
- Output cannot be measured adequately in terms of current/real prices, except for an instantaneous, brief period of time
- Potential output: *impostor*
- Okun's law?

Keynes's approach: Policy

- Fiscal policy effectiveness = f (employment-creation effects)
- Macro-stability cannot be divorced from the goal of full employment (unemployment: a “special” problem)
- Public Works are essential for the short and long run: *prevention, not just a cure.*
- We need to fluctuate public works with needs of business cycle (somewhat clumsy); larger socialization of investment, experimentation when needed
- ‘Take the contract to the worker’ to special or distressed areas
- Do not discontinue public works at the peak of the cycle
- Rejection of income support/consumption stimuli; objections to cost/supply price reducing policies

Keynes's approach: Policy

- “man hours worked can be employed on the spot without a problem”
- To employ that 95 to 100 percent of national resources, including labor, we would be “more in need ... of a rightly distributed demand than of greater aggregate demand” (Keynes 1982: 395)
- The job was to produce “a reduction of the unemployed to the sort of level we are experiencing in wartime, that is to say, an unemployed level of 120,000... or less than 1 per cent unemployed at the present time.” (Keynes 1980: 303) Thus, policy makers had a responsibility to ensure that “everything that could humanly be done has been done by the state” (ibid.).

Features of the Second Keynes Plan

- A permanent plan for direct job creation, that employs workers at the margin
- Provides employment to all who want work
- Flexible policy to target special and distressed areas that cannot generate enough employment even in expansions.
- Does not discontinue public works at or near full employment
- Does not sacrifice jobs in the name of preserving price stability.
- Has a permanent component that represents a considerable socialization of investment for stability and a flexible component that absorbs the unemployed from private enterprise in downturns for the maintenance of full employment.
- Minsky's reinterpretation of the missing Keynes Plan: *The Employer of Last Resort*

Problems with Aggregate Demand: Keynes

- [I]f the increase in demand is directed to products with a relatively low elasticity of employment, a larger proportion of it will go to swell the incomes of entrepreneurs and a smaller proportion to swell the incomes of wage earners and other price cost factors. (Keynes 1964 [1936]: 287)
- In slumps: lavishness to put floor on demand, but not as a solution to Nf
- Aggregate demand does not solve structural unemployment
- Problem with boosting aggregate demand in expansions
 - it causes prices to rise *before* it produces full employment.
 - Near full employment it creates more unequal income distribution between capital and labor, favoring the latter.
- The closer we are to full employment, the more troublesome it becomes to secure a further given increase in employment via an increase in aggregate real income (Keynes 1964 [1936]: 118).
- But we don't abandon goal of full employment once we approach it

Full Employment Abandoned

- Rise of “free market” ideology
- Reagan: “Welfare Queens”; “Government is the problem”; “Trickle-down”
- Clinton: “End welfare as we know it”, “Deserving Poor”
- Bush: “Ownership society”, “Compassionate conservatism”
- Democrats become “fiscally responsible”—Clinton/Rubin budget surpluses → fiscal tightening
- Rise of “Predator State”, “Financialization”, “Neoconservatism” or “Neoliberalism”, “Money Manager Capitalism” → Bubbleonia, rising debt, inequality, crises, disappearing middle class

Problems with Aggregate Demand: Minsky

- Two reforms from the New Deal era:
 - Finance downsized and constrained
 - Direct job creation: 13 million jobs (WPA 8M, CCC 2.75M, NYA 2+M, etc)
 - Unfortunately, the first was gradually eroded; the second abandoned in the Postwar boom (belief: growth is enough)
- Minsky observed 2-3 decades of pro-growth, pro-investment fiscal policies and concluded:
 - No financial crises
 - Highest sustained growth and rise of the middle class
 - But employment not as strong as during Wartime
 - (recall Keynes's full employment <1% unemployment)
 - Gradual increase in income inequality
 - Stability planting the seeds for destabilization
 - US economy is incapable of producing tight full employment
 - There is no tendency toward narrowing the income distribution
- Minsky: War on Poverty will fail
 - Demoralizing: reform yourself first
 - No significant jobs component; 1 minimum wage job per family would eliminate 2/3 of poverty
 - Americans will not support generous welfare

Problems with Aggregate Demand: Minsky

- Undirected Aggregate Demand is a problem
- Economic structure produces varied particular/regional demands for factors of production
- Does not address unemployment from technological or institutional change
- Demand is normally directed to high tech sectors that utilize high skilled labor/a 'Keynesian' kind of trickle down
- Expectation is that demand trickles down to the unskilled
 - Targeting high-skilled sectors is problematic
 - Training, education, investment in human capital has long lead times
 - Wages at the bottom must rise faster than those at the top
- Intrinsic heterogeneity of labor markets. How much demand is “adequate demand”?

Minsky's reinterpretation of Keynes's policy approach to full employment

- We need directed labor demand for all who want to work, not just those who are considered 'employable' by the private sector
- ELR: Provides infinitely elastic demand for labor (Keynes's fixing the point of effective demand)
- ELR: permanent direct job creation in the short and long run
- Inherently heterogeneous labor market (Keynes's regional approach)

ELR and poverty

- Tight full employment goes a long way to resolving the problem of poverty
- Keynes: “The real problems of the future are ...the profound moral and social problems of how to organize material abundance to yield up the fruits of a good life.” (Keynes 1980: 261)
- Minsky: “capitalism necessarily generates ‘poverty in the midst of plenty’” (1965, p. 175).
- Abandon the current method of dealing with poverty: welfare, income and in-kind support, pro-growth aggregate demand management, supply side policies, which try to “fix the poor not the economy” (Minsky)
- Minsky: take the workers as they are, fit the contract to the worker
- Most obvious effect of an ELR at a decent wage: it lifts the unemployed and underemployed above poverty but also those who work full time at below poverty wages

ELR: key features

- “Bubble up” policy, not “trickle down” economics
 - hires off the bottom
- Operates with loose labor markets via a buffer-stock mechanism
- Has a permanent and flexible components that address cyclical, structural, seasonal, unemployment, new entrants in labor market
- Creates an employable pool of labor
 - maintains and enhances human capital
- Targets distressed areas; takes the contract to the worker; takes workers as they are
- Sets a floor to all wages via a public sector living wage level: effective minimum wage
- Employees perform valuable work

ELR: key features

- The fixed Job Guarantee wage provides an in-built inflation control mechanism.
- It is a **high quality anchor** – maintains an effective labour supply at minimum wage.
- It is not the panacea for all labour market problems.
- But it is better than the unemployment buffer stock option.

ELR: key features

- It is voluntary
- Spending is always at the 'right' level
- It has a transformative impact on:
 - **WORKERS:** employment vs. unemployment
 - **FIRMS:** Replaces the unemployed with an employable pool of labor, reduces training costs
 - **COMMUNITIES:** urban renewal, fills social services gap
 - **THE ECONOMY:** Sets a floor to wages and benefits, formalizes the gray economy, deals with poverty
- It is permanent
 - **guarantees full employment:** more demand or better distributed demand

Direct Job Creation in Practice: Argentina's Plan *Jefes*

- Voluntary
 - 4 hrs of community work for unemployed heads of household at the minimum hourly wage
 - 2 million *jobs* in less than a year; 13% of the labor force showed up for work
 - Considerable impact on the poor, esp. women and minorities
- Countercyclical
 - Stabilized output, prices, and currency
 - 'cost' <1% of GDP, launched 8-12% GDP/yr growth
 - government budget moved into surplus (note, sovereign finance, no inherent financing constraints as during Currency Board)
 - *many program participants transitioned into private sector jobs*

The Job Guarantee in Practice: Argentina's Plan *Jefes*

- Transformative impact on:
 - **WORKERS:** *Jefes* reduced unemployment/poverty rapidly; moved workers to formal sector; empowered, provided on-the-job-training, education, a new form of micro-finance
 - **EMPLOYERS:** benefited from strong demand and multiplier effect, employable workers, database of skill and experience of workers from which to choose, private-public partnerships
 - *As economy recovered, firms hired from pool*
 - **ECONOMY:** social, political and economic stability; formalized informal sector, *wage floor*, useful output-some marketed, some freely distributed to participants and neighbors
 - **COMMUNITIES:** urban renewal, participatory democracy (federally funded, locally administered); Projects filled a big gap in social services

Examples of Projects

Landfill cleanup, recycling, daycare/elderly care, public lunchrooms, libraries, irrigation, reforestation, small and large infrastructure projects, mom-and-pop shops, subsistence farming, health promotion programs, GED completion, literacy training, etc.



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



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



The toys produced in this shop were finely made, with intricate detail, beautifully-knitted ornamentation and a solid dose of creativity.



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.



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



The sewing cooperative was another very small operation.

Jefes and reform

- Women: unproductive, unemployable, responsible for child rearing
- *Jefes* ‘activates’ them artificially, takes them away from their homes and children
- Men: productive employable, need training, employment placement
- *Familias* is welfare, which has 3 components:
 - a non-wage (higher) income to poor and uneducated mothers
 - Funds for educational opportunities and seminars
 - funds for “communication and information strategy” to explain the benefits to women, inform them of the available training, improve public opinion of the program, administrative oversight, program management, and to implement the easy and efficient transfer of *Jefes* participants into *Familias*.

Jefes vs. Familias and Women

- How do women benefit from job guarantees vs. cash support programs?
- Sen/Nussbaum: Humanist approach, Substantive Freedoms/Capabilities Approach (3 conditions of freedom)
 - Want individuals want (paid work)
 - Provide opportunities (job guarantee)
 - Remove obstacles (socialize care burden)

Jefes vs. Familias and Women

- Expand, enhance female agency: patients of development, agents of development
- Erode paternalistic views of women's place in society and women's jobs, meaning of work
- Dignity, Empowerment, Respect
- Escape from domesticity, forced inactivity
- Double shift?
- Tcherneva and Wray 2005a,b,c; Pastoret and Tepepa 2006, and Garzón de la Roza 2006 surveys of poor women's experience with *Jefes*

Problematic reform

- *Santa Fe* test run study by World Bank poor results
- Stepped up PR efforts to convince people to transition
- Reinforces paternalistic views
- *Jefes* provides control over income, output and assets (micro-coops). *Familias* does not.
- Makes them dependent on social services
- Removes tangible opportunities that empower

- Keynesian warning of the fate of programs that are implemented as emergency measures and temporary fixes to short term cyclical instability.
 - Unemployment is a long term problem

Full Employment and Growth

- Minsky: we have not had a meaningful debate on whether growth by itself is an appropriate policy goal
 - It does not create enough jobs
 - It can promote rising inequality
 - It can harm the environment
- Full Employment through ELR promotes:
 - Shared prosperity
 - Environmentally sustainable development path
 - Growth with price stability