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## THE WAR ON POVERTY AFTER 40 YEARS

### A Minskyan Assessment

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The War on Poverty turned 40 just a few short months ago. It is fitting, if embarrassing, that no national celebration marked the occasion. It is a war most Americans would like to forget, a war only halfheartedly embraced by Washington, a war decisively lost. As Hyman Minsky remarked barely one year into the battle, “The war against poverty is a conservative rebuttal. . . . It can spread poverty more fairly. . . . However, this approach, standing by itself, cannot end poverty” (1965, p. 175).

#### **Introduction**

Minsky characterized the original War on Poverty (WOP) as an attempt to “upgrade workers,” and any number of programs have been created since 1964 to improve education, skills, and incentives of the jobless to make them more appealing to private sector employers. Further, “Keynesian” policies to raise aggregate demand in order to stimulate private sector employment have also been adopted on the belief that economic growth would raise the demand for labor and thereby “lift the boats” of the poor. Still, unemployment rates have trended upward, long-term

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unemployment has become increasingly concentrated among the labor force's disadvantaged, poverty rates have remained stubbornly high, real wages for most workers have declined, and labor markets and residential neighborhoods have become increasingly segregated as the "haves" construct gated communities and the "have-nots" are left behind in the crumbling urban core.

### **Johnson Declares War: The Economic Opportunity Act**

In his first State of the Union address, on January 8, 1964, President Lyndon B. Johnson declared an "unconditional war on poverty," and the Economic Opportunity Act was submitted to Congress later that year. According to Johnson, the plan was designed to deal with the *causes* of poverty, rather than simply try to ameliorate its *consequences*. By expanding educational and training opportunities for the poor, Johnson believed it would be possible to end poverty forever. Specifically, his act:

1. called for the creation of Head Start, the Job Corps, a work-training program, and a work-study program;
2. sought recommendations from citizens throughout the country (CAPS—Community Action Programs) to design long-range proposals to fight poverty in their communities;
3. requested the authority to recruit and train thousands of citizens (VISTA—Volunteers in Service to America) for the war against poverty;
4. asked congress for funds to help those currently unemployed (through a new program of loans and guarantees) as well as struggling farmers (through the purchase of land, the organization of cooperatives, and the creation of new family farms);
5. created the Office of Economic Opportunity (OEO), through which Johnson proposed the implementation of a comprehensive plan to create opportunities for the underprivileged.

Johnson considered the Economic Opportunity Act "a total commitment . . . to pursue victory over the most ancient of mankind's enemies" (Papers of U.S. Presidents, p. 380). It hardly seems controversial to suggest that four decades later the enemy is still at large.

### **The CEA and President Kennedy**

It is perhaps not sufficiently recognized that the WOP got its start under President Kennedy, with his Council of Economic Advisers (CEA) playing a significant role in shaping the strategy that would be pursued. A recent book by Judith Russell (2004) documents those origins of the WOP. According to Russell, defeat of the WOP was foreordained largely because of the dominant role played by the CEA. The key program omission from the WOP was a massive job-creation program. This resulted from the CEA's belief that (a) poverty was not inextricably linked to unemployment, (b) unemployment could in any case be sufficiently reduced through aggregate fiscal policies (such as Kennedy's tax cut of 1963), and (c) millions of Americans would have to be maintained as an unemployed buffer stock to keep inflation in check. These views still hold sway among economists.

The CEA was able to turn the president and policy against the dominant "structuralist" views of unemployment held by many economists, most policymakers, and even most of Congress—and by Kennedy's close adviser, John Kenneth Galbraith—all of whom believed that unemployment above 2 percent was unacceptable. The structuralists argued that demand stimulus alone could never generate jobs where they were most needed—by low-skilled workers and by African Americans. Further, given that the CEA was prepared to accept 4 percent (or more) unemployment as "full employment," and as black unemployment rates ran two to three times higher than the overall unemployment rates, a WOP formulated by the CEA could never have made much of a dent in African-American poverty.

### **The War on Poverty: Minsky's Contemporary Assessment**

Minsky considered the WOP "a conservative rebuttal to an ancient challenge of the radicals, that capitalism necessarily generates 'poverty in the midst of plenty'" (1965, p. 175). As he saw it, Johnson's version of this "conservative rebuttal" was fundamentally flawed. Instead of providing the impoverished with an *opportunity to work*, it provided them with the opportunity to *learn how to work*.

Minsky blamed a great deal of American poverty on unemployment. And, since he blamed unemployment on our economic system rather than on the shortcomings of its workers,

he rejected supply-side “solutions” such as workfare, training, education, and so-called “incentives to work.” But he also rejected the kind of demand stimulus policies that have been called upon to stimulate employment since World War II. Since the postwar antipoverty strategy had proven ineffectual, Minsky believed that policymakers should return to the kind of strategy that characterized policy making prior to World War II, namely programs to provide public employment.

### **A Structuralist Interpretation of Relationships among Employment, Unemployment, and Poverty**

Minsky emphasized that joblessness, insufficient hours of work, and low pay combined to create poverty among the able-bodied. Structuralists tended to emphasize job mismatch: even at cyclical peaks when the aggregate number of jobs might be sufficient, the skills, education, and other characteristics of a substantial set of the unemployed would leave them without jobs. Minsky pointed out that even if the economy were not dynamically creating structurally displaced workers, labor market supply-side programs would have little effect for up to 20 years—the “gestation” period required to produce a worker (1965, p. 195). In a dynamic society that is always moving, and generally raising, the skills goalposts, that long gestation period almost guarantees that many individuals achieving the age of labor force entry will not be prepared for the jobs that then exist.

### **The War on Poverty: A Retrospective Assessment**

It is, of course, well established that poverty rates fell sharply over the early post–World War II period, which appears to cast some doubt on the structuralist position favored by Minsky. Perhaps rapid postwar growth combined with the supply-side policies of the WOP would be enough, after all, to eliminate poverty? But in 1990, about 20 percent of white males and more than 40 percent of black males aged 25 to 64 earned too little to bring a family of four out of poverty—similar to the figures for 1965, when the WOP began (Farley 2001).

For both whites and blacks, there was a decline of poverty rates in the mid-1960s, but no improvement subsequently—at least until the Clinton expansion, when black poverty rates improved. Overall, poverty rates finished the millennium at 12 percent, the level they had reached in 1968. From these data, it

is very hard to discern any positive effect from the WOP (U.S. Census Bureau 2004).

All age groups have not fared equally well. Poverty among the elderly fell quite remarkably, dropping by half in the first decade of the WOP, and by about two-thirds over the first quarter-century. This had little to do with the WOP—which was targeted to a younger population—but was due almost entirely to phasing in Social Security and indexing it for inflation. The contrast with younger age groups could not be more striking: poverty rates for children worsened significantly in the 1970s and early 1980s and have not improved much since then, while poverty among the 18 to 64 age group has hardly budged in 40 years.

Our analysis here has focused primarily on employment and earnings of males. Women have increased their employment rates, and have managed to close the pay gap to some extent. To a very large degree, however, poverty has become “feminized” among female-headed households. This expanding group has fallen victim to a number of unfavorable circumstances. Among the culprits for the poverty of single-parent (usually mother-only) families are: gender inequity in wages; inadequate and poorly enforced child support; extremely low (and now disappearing) welfare benefits; and a lack of affordable child care. Nevertheless, even in the absence of the feminization of poverty, the WOP would not have succeeded because—as we have shown—it has had little effect on male earnings.

### **The Strategy of Growth through Private Investment**

As discussed, the CEA pushed the notion of pump priming to generate growth. In the postwar era, with the exception of defense spending, “the preferred instrument for generating fiscal expansion has been some type of tax cut or loophole, i.e., the shifting of resources to private consumption and investment” (Minsky 1971, p. 15). Various tax incentives, including accelerated depreciation and investment tax credits, were a common feature of the postwar investment strategy (Tobin 1966).

However, Minsky (1973) argued that there were four problems with the high-investment strategy. First, tax incentives to shift income to capital exacerbate inequality between ordinary workers and those who have money to invest. Second, high capital incomes would lead to opulent consumption by the rich

and emulative consumption by the less affluent, creating the potential for demand-pull inflation. Third, contracts granted to sophisticated, high-tech industries generate demand for skilled, high-wage labor, thereby increasing income inequality *within* the labor force. Finally, by targeting the size and surety of capital income, tax-cut programs would increase business confidence and debt financing, and borrowers' margins of safety would decline. Thus, a private investment strategy can lead to a debt-financed investment boom, thereby undermining the stability of the financial system.<sup>1</sup>

Even as the WOP got under way, the Johnson administration demonstrated its preference for private sector spending strategies, passing tax cuts in 1964, 1965, and 1966. But these strategies did little to improve the conditions of lower-middle-income workers (e.g., factory workers), whose real incomes *declined* by 2.5 percent over the period 1965–70 (Minsky 1971). Worse, the private investment strategies tended to exacerbate income inequality, generate inflation, and undermine financial stability.

### Public Employment Strategy

Minsky's alternative would stress high consumption fueled by policies that would increase wages and incomes at the bottom of the distribution. Further, government spending should play a major role in generating growth. Hence, Minsky's policies would favor both greater equality and greater stability. To improve the lot of the poor permanently, Minsky believed that policymakers needed to address the question of income distribution (1968, p. 328).

"How," he asked, "can the distribution of income be improved?" (Minsky 1972, p. 5). He answered: "First of all by full employment." By this, Minsky meant that it was necessary to achieve and sustain "tight full employment," which he defined as "[the situation that] exists when over a broad cross-section of occupations, industries, and locations, employers, at going wages and salaries, would prefer to employ more workers than they in fact do" (1965, p. 177).

This would require a "bolder, more imaginative, and more consistent use of expansionary monetary and fiscal policy to create jobs than we have witnessed to date" (Minsky 1965, p. 175). "The achievement and sustaining of tight full employment could do almost all of the job of eliminating poverty" (1968, p. 329).

Minsky believed that "a suggestion of real merit is that the government become an employer of last resort" (1968, p. 338). The employer-of-last-resort (ELR) proposal, which has recently been taken up by a number of analysts (Wray 1998; Forstater 1999; Kregel 1999; Harvey 1989), calls upon the federal government to institute a job-assurance program similar to the New Deal's Works Projects Administration (WPA), Civilian Conservation Corps (CCC), and National Youth Administration (NYA) programs. The federal government would fund a job-guarantee program, setting the price of (unskilled) labor and adjusting the number of jobs to the number in need of work.<sup>2</sup>

Minsky saw clear advantages to this program. First, he expected it to eliminate the kind of poverty resulting solely from joblessness. Whereas the investment strategy begins with demand increases for specialized labor, hoping for the trickle-down creation of low-skilled jobs, the employment strategy "takes the unemployed as they are and tailor-makes jobs to their skills" (Minsky 1972, p. 6). Second, if the existence of tight labor markets draws additional workers into the labor force, the number of workers per family will increase, moving some families who are in or near poverty away from it.

### Barriers to Attaining and Sustaining Tight Full Employment

Minsky seemed to anticipate the kinds of "pie in the sky" objections that might be raised, cautioning that "irrational prejudices . . . against spending, deficits, and easy money" must be ignored (1965, p. 176). But he recognized that legitimate barriers must be taken into account.

One such frustrating force is inflation. "The policy problem," he argued, is to achieve and sustain tight full employment "without an inflationary rise in prices and wages" (Minsky 1972, p. 5). He recognized that there might be an inflationary bias in an economic policy geared to massive job creation. Thus, he argued that "effective profit and price constraints would have to accompany tight full employment" (Minsky 1972, p. 6). If inflationary pressures were not contained, Minsky feared that the "political popularity of full employment" would be undermined (undated, p. 55). The inflation constraint is, however, much less of a concern in today's global economy, with its somewhat deflationary bias.

The other institutional barrier we wish to take up concerns the exchange-rate regime. Most of Minsky's papers on

antipoverty policy were written in the 1960s or early 1970s, when U.S. policy was constrained by an international monetary system with fixed exchange rates. Today, the dollar is a floating currency, so that policy is not constrained by the need to protect foreign reserves. Thus, the primary barrier to attaining and sustaining tight full employment is political will.

## Conclusion

Minsky's fundamental argument is simple: (1) poverty is largely an employment problem; (2) tight full employment improves income at the bottom of the wage spectrum; and (3) a program of direct job creation is necessary to sustain tight full employment. Thus, he argued that a program of direct job creation was "a necessary ingredient of any war against poverty" (Minsky 1965, p. 175). As Minsky put it: "The New Deal, with its WPA, NYA, and CCC, took workers as they were and generated jobs for them. . . . The resurrection of WPA and allied projects should be a major weapon of the War on Poverty" (1965, p. 195).

Unfortunately, Johnson's Economic Opportunity Act did not provide for significant job creation. Instead, the WOP aimed to improve the skills and knowledge of the impoverished, hoping to "end poverty forever" by offering education and training to those living in or near poverty. Improving the education and skill sets of the workforce is certainly desirable, but Minsky believed that a reordering of policy objectives was required: "Once tight full employment is achieved, the second step is to generate programs to upgrade workers. I am afraid that in the poverty campaign we have taken the second step without the first; and perhaps this is analogous to the great error-producing sin of infields—throwing the ball before you have it" (1965, p. 200).

## Notes

1. For more on this, see Minsky (1986).
2. The details of the program can get quite complex (e.g., the inclusion of health benefits, child care, pensions, etc.). For more on the intricacies of the program, readers should consult Wray (1998). For our purposes, it is sufficient to note that the program may be administered locally (indeed, this is probably preferable), but it must be funded federally.

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