



**22nd Annual Hyman P. Minsky Conference:
Building a Financial Structure for a More Stable and
Equitable Economy**

**MINSKY ON ENDING POVERTY:
JOBS, NOT WELFARE**

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U.S. Measures of Labor Underutilization



January 1994

March 2013

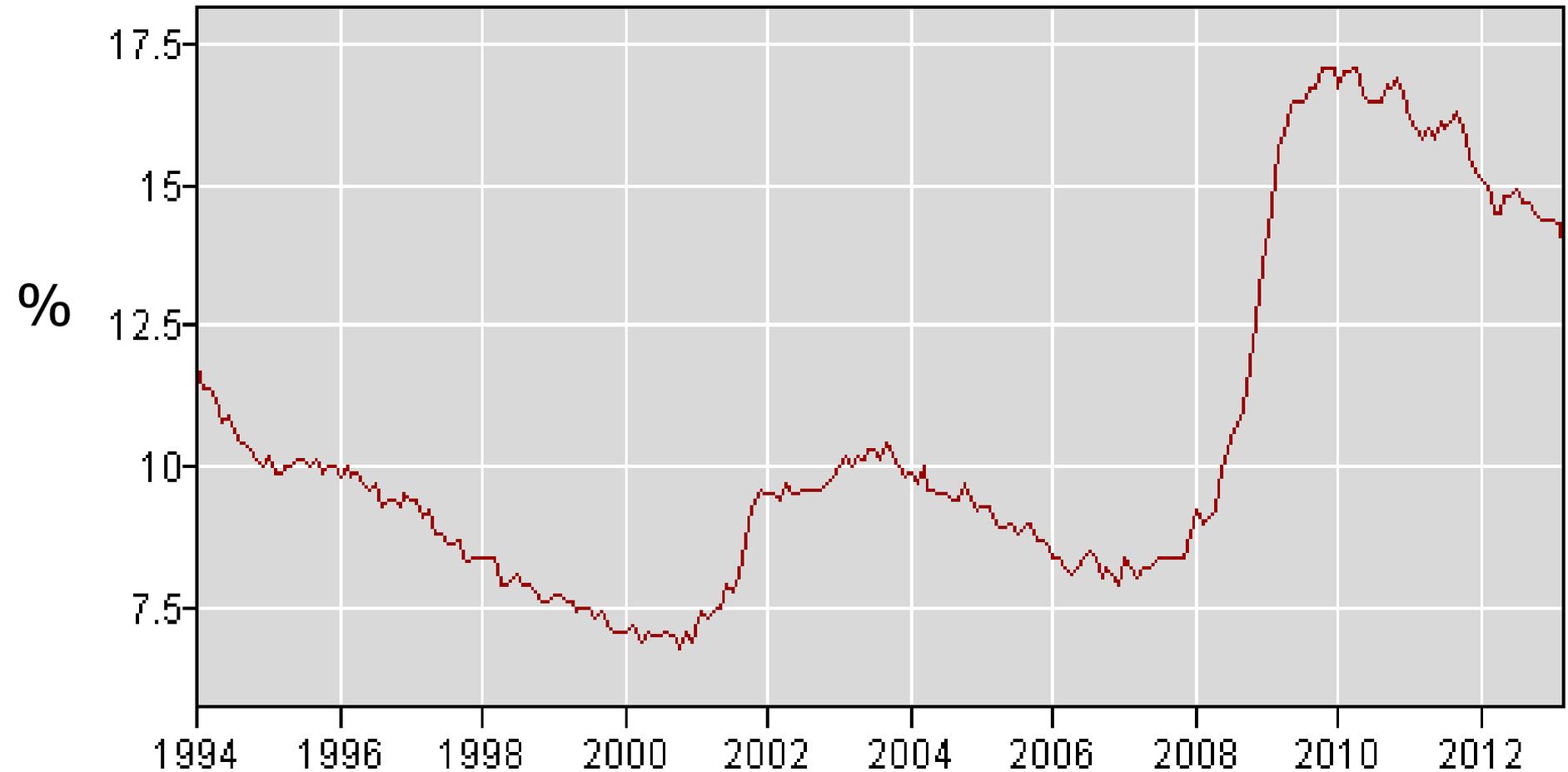
- Official Unemployment = **6.6**
 - + Discouraged workers = **7.0**
 - + Marginally attached = **8.1**
 - + Part-time for economics reasons = **11.8**
- Official Unemployment = **7.6**
 - + Discouraged workers = **8.1**
 - + Marginally attached = **8.9**
 - + Part-time for economics reasons = **13.8**

Source: BLS, all data seasonally adjusted

U.S. LABOR UNDERUTILIZATION RATE



U-6: Total unemployed, plus marginally attached workers, plus part-time for economic reasons



COMPLEMENTARITY BETWEEN FULL EMPLOYMENT AND FINANCIAL STABILITY



There is complementarity between full employment and financial stability. Two barriers to prosperity.

- **A weak financial system**
- **Limits to publicly financed demand policy**

Need of a system of private financial institutions that reflects the complexities of an advanced financial economy, which will be able to sustain prosperity together with a set of government agencies that will regulate, supervise and backstop the private institutions.

NEED FOR A NEW FINANCIAL ARCHITECTURE



Twenty years ago and now, a deep need for a new financial architecture exists. The need is not for the safety and convenience of the payments mechanism or minimizing the cost to the Treasury of any future need to refinance the financial system in the aftermath of a serious financial institutions malfunction, but rather for a financial structure that facilitates the capital development of the economy.

The shaky financial system then and now is not capable of financing prosperity based on private demand that will generate full employment.

It seems, the economy needs to have increased government deficits or government assisted private financing, if a close approximation to full employment is to be achieved.

AFTERMATH OF THE 2007-09 CRISIS



In the aftermath of the financial and economic crises of 2007-09, private financial institutions in evaluating propositions to finance, apply stricter standards.

Bankers and apologists for bankers may blame the changing approach of regulation or perhaps the Basel Agreement on capital absorption ratios for different classes of assets, but the main cause for the tightening of credit standards is the experience of institutions of the near collapse of the financial system with the securitization shenanigans and non-performing loans.

It will take several years before the balance sheets of financial institutions will be sufficiently robust and the agents who operate the financial institutions are convinced that the prospects of those they would finance are encouraging, so that the financed private demands of businesses and households will be sufficient to enable the economy to realize a close approximation to full employment.

POLICY RESPONSES TO THE 2007-09 CRISIS



Quantitative easing by the Federal Reserve has not thus far quickly translated into an increase in financed spending.

Moreover, banks and the monetary liabilities of banks are now much less important in financing prosperity than they were earlier in our economic history.

The current status of the financial structure means that publicly financed demand will have to make up for a deficiency in privately financed demand, if a close approximation to full employment is to be achieved.



PUBLICLY FINANCED DEMAND

Publicly financed demand takes two forms:

- 1. Private and state spending is financed either by the Treasury or by markets that accept debts endorsed or guaranteed by agencies of the federal government, and,**
- 2. Private classes of demand are financed directly by a government financing institution.**

Spending by the government has not been supportive of private productivity or the well-being of a very significant number of our citizens. To the contrary, the US continues a currently misguided policy of deficit reduction similar to some extent of the European-style austerity measures.

It is necessary to shift government spending towards productive activities – research and development, education and physical infrastructure.



GOVERNMENT'S ROLE FOR FULL EMPLOYMENT

High employment is a necessary ingredient for the population's well-being. A measured unemployment of 4% is a reasonable policy objective. This level of unemployment was achieved before and it can be achieved again.

The relationship between GDP growth and unemployment is the well known Okun's Law, which for the United States economy means a 3% increase in GDP leads to a decrease in unemployment of 1%.

IS THE LINK BETWEEN OUTPUT AND JOBS BROKEN?



Over the years, there has been a mutation in the link between growth and jobs.

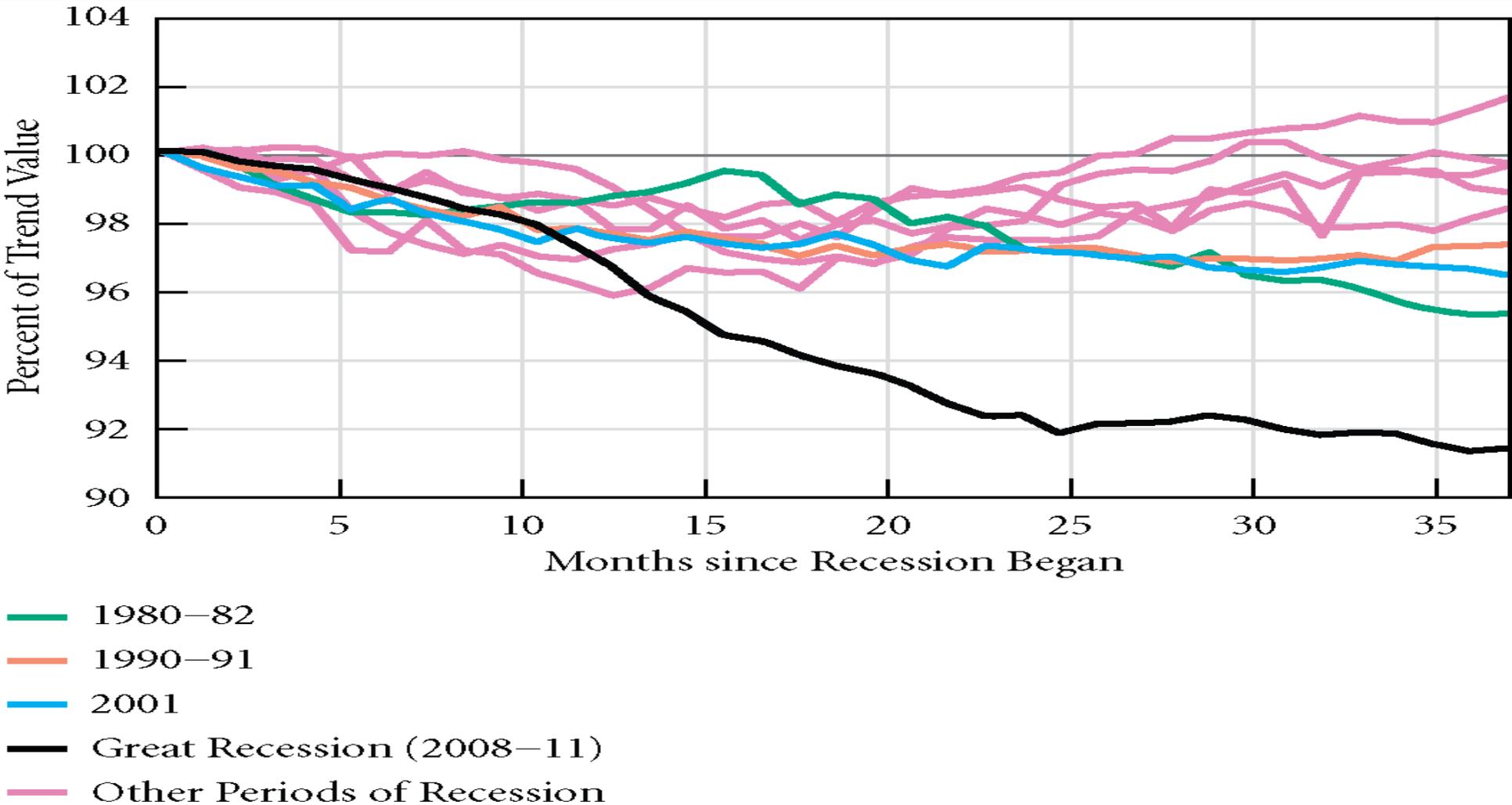
This slow job growth is a phenomenon that has been increasing over the last three decades, with jobs coming back more slowly after a downturn, even when GDP is increasing.

Faster growth or sustained recovery is needed to generate a higher number of jobs.

The newest Levy Institute macromodel estimates show that each 1% boost in GDP today will create, roughly, only a third as much improvement to the unemployment rate as the same 1% rise did in the late 1970s.

The traditional assumption that GDP growth would be followed by an employment surge no longer holds. The break in that link is now very clear.

Employment in Recessions (beginning of recession = 100)



Sources: BLS; authors' calculations

EVOLUTION OF EMPLOYMENT - WORKING AGE POPULATION RATIO

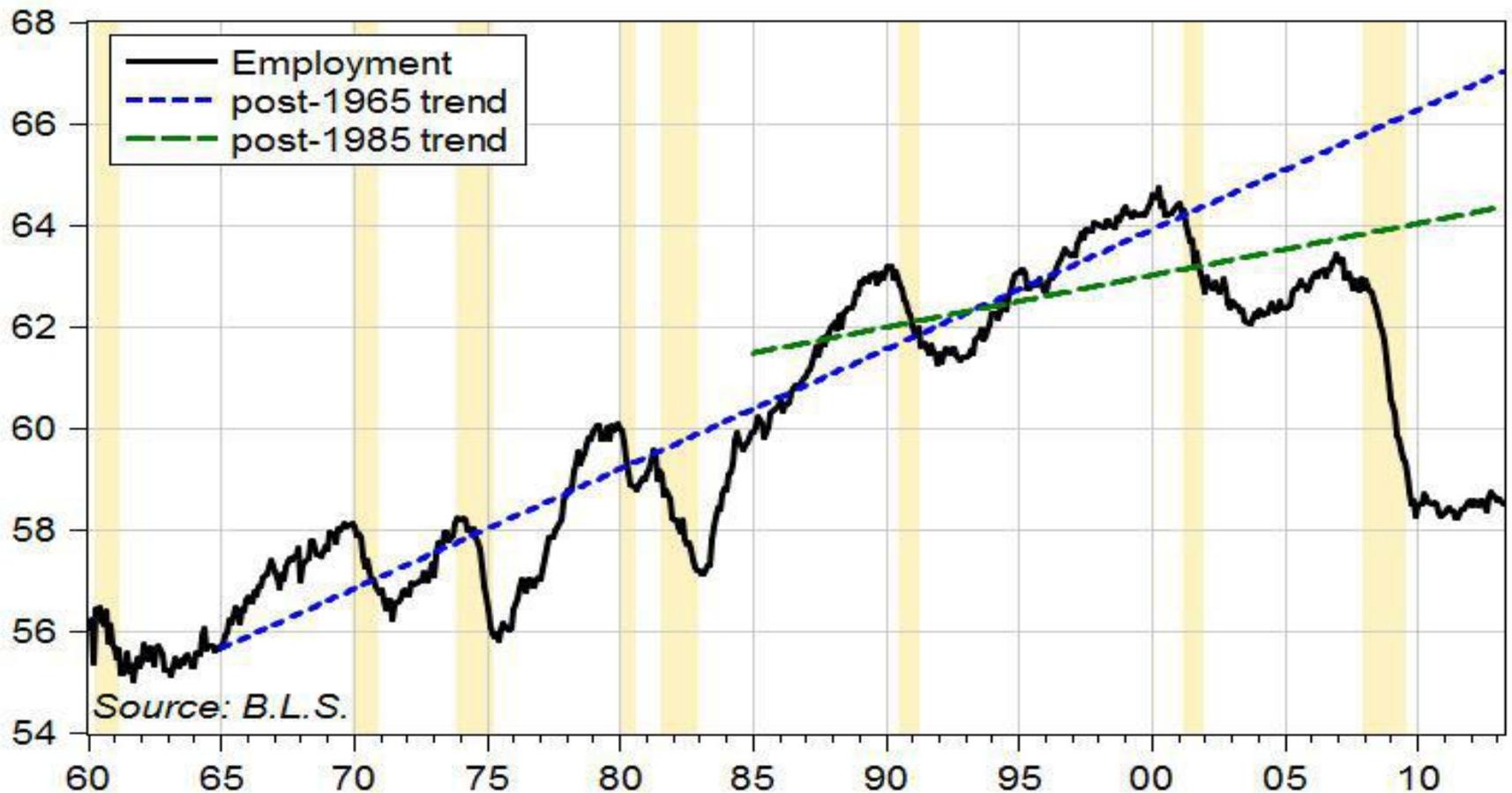


What we have been observing, especially since the Great Recession of 2007, is the steady decline of the employment-population ratio. Before the Great Recession began, employment peaked at 146 million people or 63.3 % of the working age population.

Employment for March 2013 was reported at 143 million people or 58.5% of the working age population.

That is, 3 million jobs are still missing, and, if the economy were to reach the same pre-crisis employment rate, taking into account the growth in population, it will need to create 12 million jobs.

Employment as a share of working-age population



GOVERNMENT FINANCES



Putting the banking and financial structure in order and designing a fiscal policy stance that gets the public revenues and spending at a full employment balanced budget may be reachable in the very, very long run.

There are measures, however, that have quicker effects on employment that are economically sound and socially desirable.

To achieve a serious improvement in the employment picture in the near term and a close approximation to full employment as a permanent feature of our economy, we need to construct modern equivalents of work-based programs of the New Deal: Civilian Conservation Corps (CCC), Works Progress Administration (WPA) and National Youth Administration (NYA).

IMPORTANCE OF WORK-BASED PROGRAMS



Two principles motivate work-based programs:

- **An abhorrence of being on the dole,**
- **The importance of income from work supporting the dignity of individuals.**

An employment program would assure that every American has a job that pays at least the minimum wage.

The Civilian Conservation Corps (CCC) was one of the great successes of the New Deal and was managed by the Army. We can use AmeriCorps to help train young people for work and manage projects. AmeriCorps will give opportunity to many who are now trapped in a cycle of poverty.

The National Youth Administration (NYA) was a campus and community work program for youths in secondary schools, colleges and universities. The jobs were only loosely need based.

IMPORTANCE OF WORK-BASED PROGRAMS



A modern version of Works Progress Administration (WPA) will not only put those who are now on welfare to work, it can be structured to provide much in the way of improved goods and services to the poor.

It can provide supplementary labor to schools, hospitals, park systems and other services.

It can build public facilities.

It can provide pre-and after school care and care for the elderly.

COST OF WORK-BASED PROGRAMS



In today's costs, the annual income for a participant at the minimum wage is about \$20,000 per year. If 50% is added for material and administration the total cost of a million-worker program will cost \$30 billion.

The youth programs, especially the in school and summer programs can be at a subminimum wage where one million participants might cost \$20 billion.

If a total of five million participants were to be in a combination of programs the total cost in crude numbers might be around \$130 billion representing less than 1% of GDP.

International Experience of Government Job Creation: Selected Programs

Country	Year	Program Description
Argentina	2002 onwards	Head of households plan (<i>Jefes de Hogar</i>): offered households with children under 18 up to 20 hours of work per week.
Australia	1940–1970	Keynesian Commonwealth Employment Service: delivered an average of 2% unemployment; in contrast to unemployment hovering near 9% in the 1990s and over 4% presently.
Bolivia	1986–90	Emergency Social Fund: engaging beneficiaries in public works and infrastructure.
Botswana	1980s onwards	Labor-Based Relief Programme and Labor-Intensive Rural Public Works Programme.
Chile	1975–1987	The minimum employment program was a public works programs developed to combat 30% unemployment and employed up to 13% of the workforce.
France	Conceptualized in 1984, piloted in 2005	“Professional Transaction Contracts” first proposed by Jacques Attali in 1984. Pilot programs began in six districts (2005) and are currently being evaluated before being officially adopted nationwide.
Ghana	1988 onwards	Program of action to mitigate the social costs of adjustment, largely involving labor-intensive construction.
India	1972, 2005	Maharashtra Employment Guarantee Scheme: guarantee manual work to any applicant. National Rural Employment Guarantee Act: offers 100 days of employment to rural households.
Indonesia	Relaunched in 1998	<i>Padat Karya</i> : programs involving poverty alleviation and emergency job creation measures in response to Asian crisis; small-scale infrastructure projects.
Korea	1997–1998	Master plan for tackling unemployment: emergency public works programs for low-skill workers following the East-Asian crisis.

(continued)

Country	Year	Program Description
Mexico	1995 onwards	<i>Programa de Empleo Temporal</i> : community development through intensive use of unskilled labor for social and productive infrastructure. By 2000, the program had increased to one million beneficiaries.
Morocco	Since 1961	The <i>Promotion Nationale</i> has been successfully operating for over 45 years. The program focuses on the development of rural communities, the Saharan and South Provinces, and has had consistent annual increases in working days.
Nepal	1989	Dhaulagiri irrigation development project.
Peru	1991–1995	<i>Programa de apoyo al ingreso temporal</i> : a public works program focusing primarily on women (at one time employed 500,000).
South Africa	2004 onwards	The expanded public works program seeks to reorient existing departmental expenditure in ways that maximize jobs creation in environmental, infrastructure, and social sectors.
Sri Lanka	1985 onwards	National housing development authority: engages urban communities in housing and infrastructure development.
Sweden	1938–1970	Program focused on the “socialization of investment” and offered an alternative to welfareism by emphasizing the “right to work” rather than the “right to income.” Unemployment rates remained below 3 percent until the late 1980s, when the program was dismantled.
United States	1933–1936	New Deal public works programs (WPA, PWA, CWA).
Zambia	1991 onwards	Microproject unit targeted the poor and focused on the maintenance of existing infrastructure.

Sources: Antonopoulos (2007) and author’s analysis

PUBLIC BENEFIT EMPLOYMENT PROGRAM IN GREECE



A program in Greece funded by European structural funds to employ 55,000 unemployed individuals for public benefit work was announced in 2011.

Greece had, at that time, an overall unemployment rate of 16.2%, or 810,000 unemployed persons.

Half of the unemployed workers were out of work for over a year. The then projections by the Troika (EC/ECB/IMF) were pointing to further faltering of the economy. The risks of further deterioration of labor demand were clearly visible.

The dismal predictions not only came to pass, but were proven to be underestimating the consequences of fiscal consolidation.

GREECE:



Selection Criteria of PBE Beneficiary

Domain	Criteria	Score (points)	Means of Verification
Unemployment related characteristics	Unemployed for > 12 months	20	Unemployment certification card
	Unemployed < 30 years old	25	Unemployment certification card
	Unemployed < 12 months but no unemployment benefits	15	Unemployment certification card
	Farmer with annual income < 10.500€ (for 2009)	10	Special certification by the Un/Employment Department of the Ministry of Labor (O.A.E.Δ.)
Household structure	Single-headed household	15	+single head of hh certification
	Married, both spouses unemployed	8	+unemployment certification card of spouse
	Presence of depends	5 per dependent	+Tax return for 2010
Household income	0-6.900€ (2009)	15	Tax return for 2010
	6901-12.000€ (2009)	10	Tax return for 2010
	12.001-16.000€ (2009)	8	Tax return for 2010
	16.001-22.000€ (2009)	6	Tax return for 2010
	22.001-??	0	Tax return for 2010
Disability	35-50%	6	Health Department certification
	50% or more	8	Health Department certification
Residency	Applicant is a permanent resident of the region where PKE jobs are advertised	10	Certificate of Permanent Residency

GREECE:



Distribution of Applicants by Beneficiary Status and Gender

Status	Number			Percent		
	Men	Women	Total	Men	Women	Total
Beneficiaries	8,251	10,196	18,447	23.6	19.9	21.4
Non-Beneficiaries	26,772	41,048	67,820	76.4	80.1	78.6
Total	35,023	51,244	86,267	100	100	100

Source: Authors' calculations

GREECE:

Distribution of Applicants



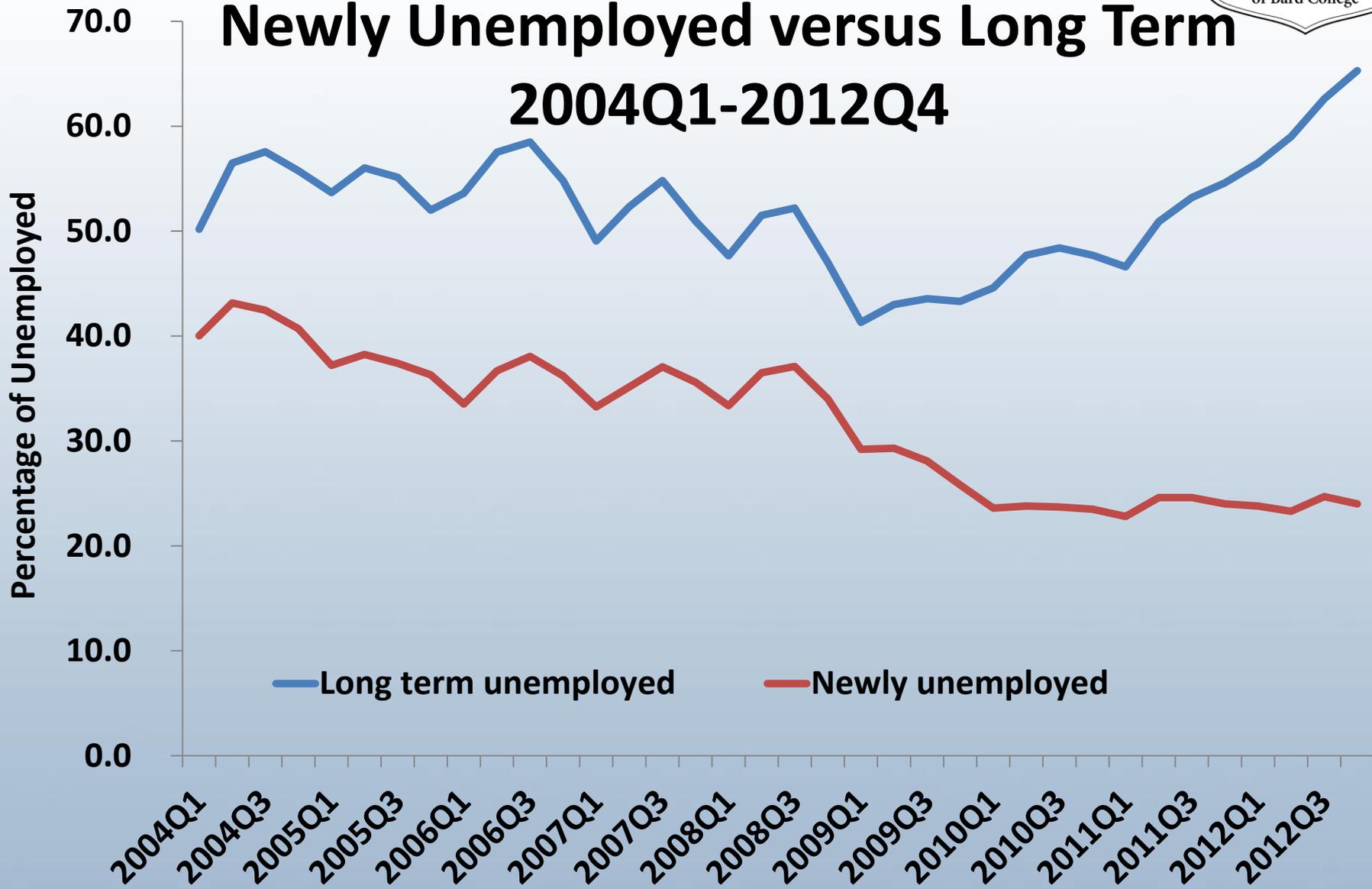
	Number			Percent	
	Men	Women	Total	Men	Women
Long-Term Unemployment	9,687	16,910	26,597	36.4	63.6
Youth Unemployment (less than 30 years old)*	11,877	21,140	33,017	36.0	64.0
Short-term UE without Unemployment Benefits	10,384	10,057	20,441	50.8	49.2
Single head household	56	673	729	7.7	92.3
Married with unemployed spouse	4,494	3,974	8,468	53.1	46.9
Residency	30,349	42,717	73,066	41.5	58.5
Household Income					
Less than €6,900	18,331	25,674	44,005	41.7	58.3
Between €6,900 and €12,000	6,057	7,174	13,231	45.8	54.2
Between €12,001 and €16,000	3,012	3,976	6,988	43.1	56.9
Between €16,001 and €22,000	2,227	4,274	6,501	34.3	65.7
Over €22,000	0	1	1	0.0	100.0
Disability, between 30% and 50%	197	174	371	53.1	46.9
Disability, over 50%	695	611	1,306	53.2	46.8

Source: Authors' calculations.

GREECE:

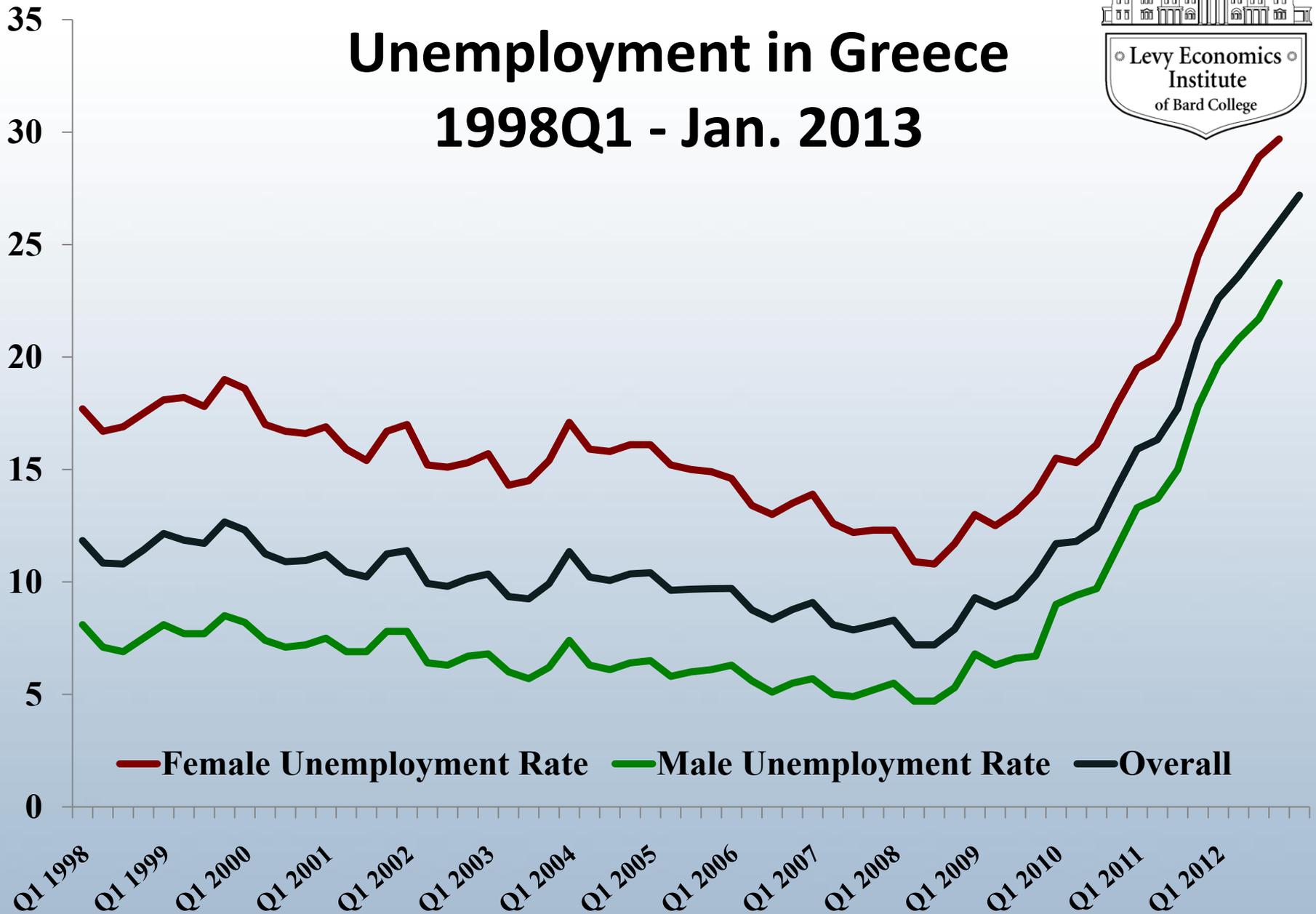


Newly Unemployed versus Long Term 2004Q1-2012Q4



Unemployment in Greece 1998Q1 - Jan. 2013

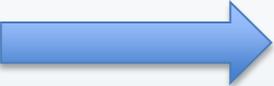
Percentage of Unemployed



— Female Unemployment Rate — Male Unemployment Rate — Overall

GREECE: Only the Beginning



- 55,000 announced jobs  270,000 qualified.
- Greatest demand from women and female youth.
- Program approved at 16.2% unemployment in 2011; 30% predicted unemployment by the end of 2013.
- Scaling up is necessary, both in number of jobs and length of employment.
- Austerity has tightened other benefits and banking to small business remains thin.

SOCIAL AND ECONOMIC IMPACTS OF UNEMPLOYMENT



- **Long-term unemployment eventually becomes structural.**
- **The loss of output is permanent.**
- **Workers' skills deteriorate and become outdated making the labor pool unattractive to potential employers.**
- **Informal work swells at the expense of the formal economy.**
- **Inequality increases and social cohesion disintegrates rapidly. Poverty, homelessness and crime go up, along with poor health, depression and countless personal tragedies.**

CONCLUSIONS



- **If full employment is ever to become operational, some instrument like the WPA that in effect hires all who want to work is necessary. Such a program brings income and increases demand in the impoverished communities.**
- **These programs have a substantial multiplier effect.**
- **Chronic and systemic unemployment, that relegates all too many to the dark side of the economy, is the true measure of the failure of the American economy. The crime of our times is that millions of people be they Americans, Spaniards or Greeks are agonizingly jobless and discouraged.**

CONCLUSIONS



- **The free market system in its present form is unable to guarantee that a close approximation to full employment is the normal condition of the economy.**
- **Aggregate demand for labor often and systematically falls below that which is sufficient to ensure full employment.**
- **There is a need for permanent instruments of policy that generate an infinitely elastic demand for work that is useful and necessary.**

CONCLUSIONS



- **The desirable condition is that the number of unfilled jobs is greater than the number of unemployed.**
- **This can only be guaranteed, if the government acts as an employer who has a very large number of projects that need to be done and is willing and able to pay to get this job done.**

CONCLUSIONS



- **There is a complementarity between the needed measures to reconstitute the financial system and the proper design of fiscal policy that provides for fallback work-based government employment programs.**
- **With our new understanding of the fraying tie between GDP growth and jobs, the nature of slumps and recoveries has changed, and the policies to manage them must change too.**



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