Ending Poverty: Jobs, Not Welfare

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"The liberals' War on Poverty was born out of neo-classical *theory in which it is the poor— not the economy— that is to blame for poverty. The War on Poverty tried to change the poor, not the economy"* Minsky, 1971.

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 meet that responsibility.
  - Argument follows Minsky's writings.

A Decade of Contributions

- (1965) “Poverty: The ‘Aggregate Demand’ Solution and other Non-Welfare Approaches,” Institute of Government and Public Affairs, UCLA
- (1965) “The Role of Employment Policy,” Reprinted from Poverty in America, Chandler Publishing Co
- (1968) “Effects of Shifts of Aggregate Demand upon Income Distribution,” American Journal of Agricultural Economics, Vol. 50, No. 2
- (196?) “Where Did the American Economy – and Economics – Go Wrong?” Draft Manuscript.
- (196?) “Policy and Poverty,” Draft book manuscript
- (19??) “Minimum Wages”
- (1972) “Economic Issues in 1972: A Perspective,” Lecture given at Washington University, October 6, 1972. Draft.
- (1973) “The Strategy of Economic Policy and Income Distribution,” The Annals of the American Academy of Political and Social Science, Vol. 409
- (1975) “The Poverty of Economic Policy,” Draft Manuscript, Presented at the Graduate Institute of Cooperative Leadership

The War on Poverty After 40 Years

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*".

The critical missing component in 1964, and that remains AWOL today, is a government commitment to full employment.

Only a targeted jobs program, paying decent wages, will successfully fight poverty among the non-aged in a politically acceptable manner.

The CEA and JFK

The War on Poverty got its start under President Kennedy, with his CEA playing a significant role. The CEA’s primary beliefs:

*poverty is not inextricably linked to unemployment,

*unemployment can be sufficiently reduced through aggregate fiscal policies, however

*millions have to be maintained as an unemployed buffer stock to keep inflation in check.

These views still hold sway among economists (on right and left).

Minsky’s Contemporary Assessment

Minsky rejected these views and argued that without a jobs program that takes the poor as they are, the War on Poverty would not be successful.

Minsky considered the War on Poverty “a conservative rebuttal to an ancient challenge of the radicals, that capitalism necessarily generates ‘poverty in the midst of plenty’”

Instead of providing the impoverished with an *opportunity to work*, it provided them with the opportunity to *learn how to work*.

Minsky's Alternative

"*We have to reverse the thrust of policy of the past 40 years and move towards a system in which labor force attachment is encouraged. But to do that we must make jobs available; any policy strategy which does not take job creation as its first and primary objective is but a continuation of the impoverishing strategy of the past decade*".

"*A necessary ingredient of any war against poverty is a program of job creation; and it has never been shown that a thorough program of job creation, taking people as they are, will not by itself, eliminate a large part of the poverty that exists".*

Welfare vs Jobs?

Minsky did not reject the need for various kinds of welfare, but "this has little to do with the War on Poverty; it has mainly to do with our national conscience and affection for man".

Welfare would never eliminate much of the poverty problem, which is due to joblessness, insufficient hours of work, and low pay.

Jobs would eliminate up to two-thirds of poverty.

Growth, alone, cannot reduce poverty

- Problems with relying on growth:
  - Relying on Investment to stimulate leads to instability, and biases income toward capital
  - The growth “dividend” is not sufficient to redistribute
  - Favors high wage workers

The War on Poverty: A Retrospective Assessment

1940: 60% of all white males aged 25 to 64 had earnings insufficient to raise a family of four out of poverty. Black males: 90%.

1960: 25% of white males, black males: 50% .

1970: 10% of white males; 30% of black males.

1990: 20% of white males and more than 40% of black males —similar to the figures for 1965 when the WOP began.

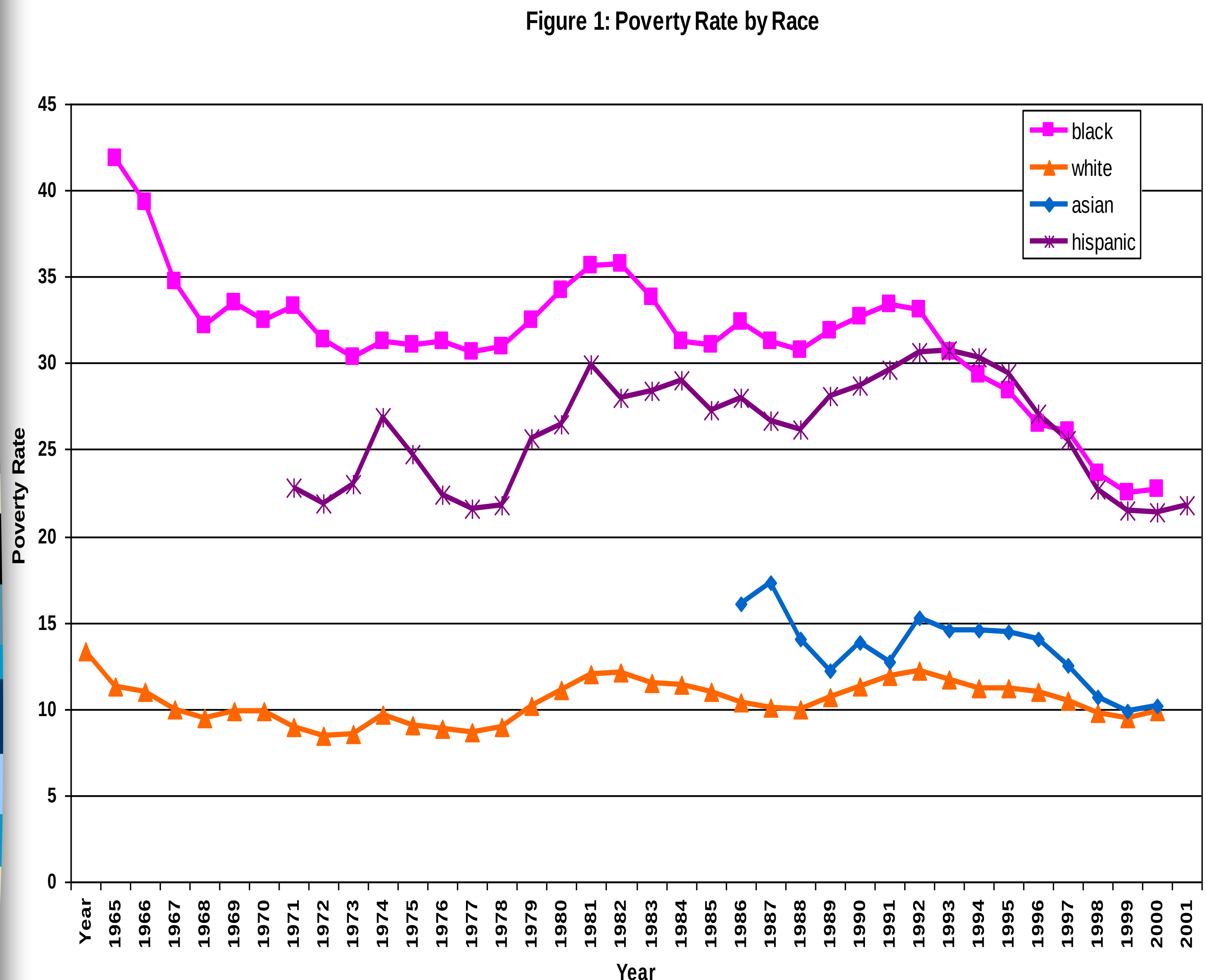
Figure 1: Poverty Rate by Race
black
white
asian
hispanic
Poverty Rate
Year
0
5
10
15
20
25
30
35
40
45
1965
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975
1976
1977
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1982
1983
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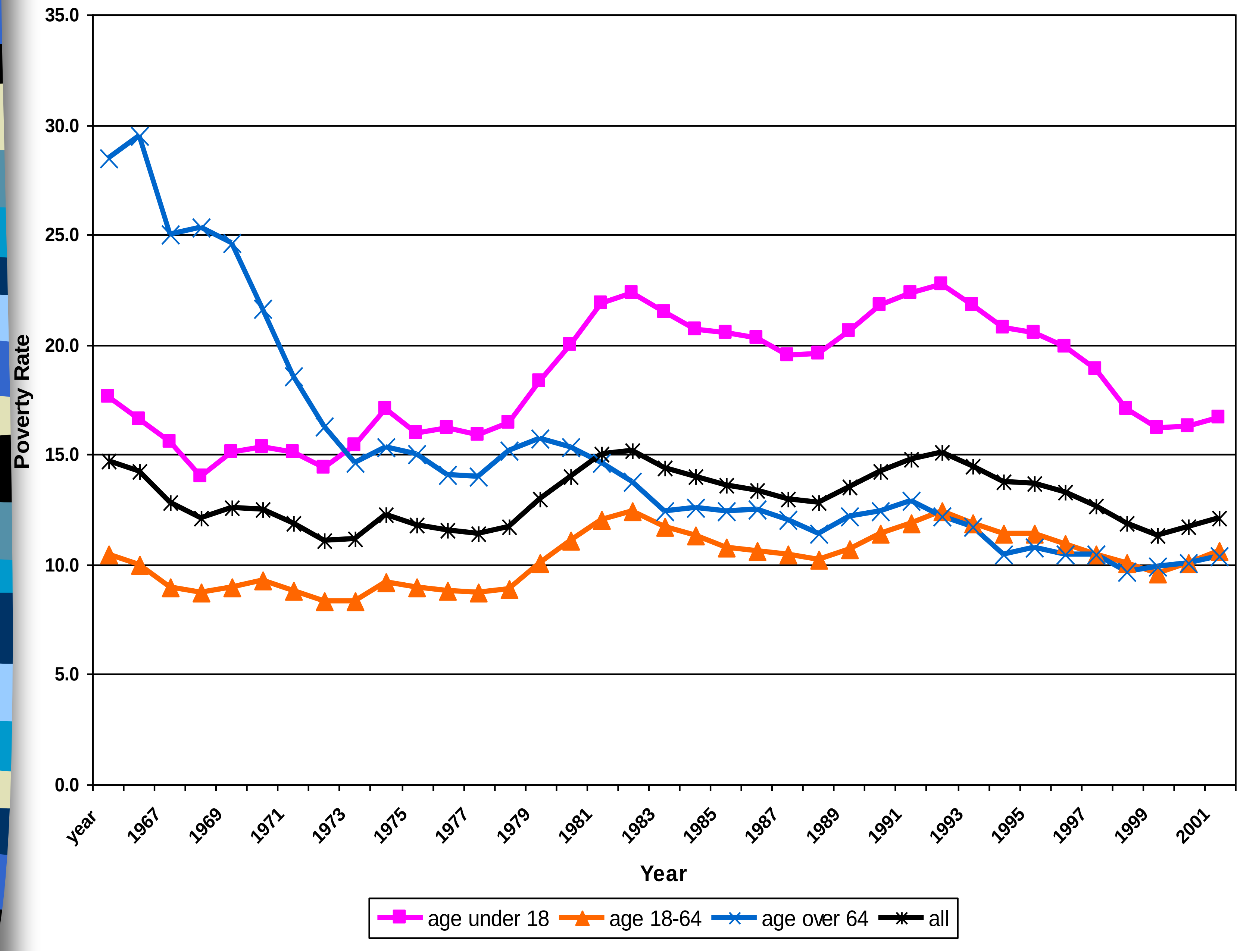
A Retrospective Assessment

For both whites and blacks, declining poverty rates in the mid-1960s, but no improvement afterward—until the Clinton expansion, when black poverty rates improved.

Overall, poverty rates finished the millennium back at 12%, the level they had reached in 1968. From this data, it is very hard to discern any positive effect from the WOP.

*Figure 2 offers additional detail--poverty rates by age.

Figure 2: Poverty Rate By Age: 1966 to 2002



Poverty Reduction through Growth Strategy

- According to Minsky, "*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*".

- These "Keynesian" policies to promote full employment relied on a favorable business environment to stimulate spending.

- However, Minsky argued that there are four problems with the strategy.

Growth through Private Investment Strategy

- 1. Tax incentives to shift income to capital exacerbate inequality between wage and profit incomes.

- 2. High capital incomes lead to conspicuous consumption by the rich and emulation by the less affluent.

Growth Through Private Investment Strategy

- 3. Contracts granted to sophisticated, high-tech industries generate demand for skilled, high wage labor, thereby exacerbating income inequality *within* the labor force.

- 4. Policies to promote investment increase business confidence and debt financing, so borrowers’ margins of safety declines, thereby undermining the stability of the financial system.

Financial Instability

- Furthermore, an expansion led by the private sector increases private indebtedness and financial fragility as debt-service payment commitments rise.
- In contrast, an expansion led by public sector actually enhances stability, by providing safe assets and generating income flows.
- This is interesting in light of the problems created during the recent booms—expansions led by private sector borrowing, with a federal budget that moved to large surpluses.

Minsky's Alternative

- Minsky argued that "*policy weapons which are sufficient to move an economy from slack to full employment are not sufficient to sustain full employment*".

- Private investment strategies cannot make sustained strides in the war against poverty *across* the business cycle.

- Minsky's alternative favors high consumption fueled by policies that increase jobs, wages and incomes at the bottom of the distribution.

- Further, government spending should play a major role in generating growth.

- Hence, Minsky's policies favor greater equality and greater stability.

Government's Role and the Full Employment Alternative

- "*How*, *can the distribution of income be improved?*". He answered: "*First of all by full employment*".

- This requires a "*bolder, more imaginative, and more consistent use of expansionary monetary and fiscal policy to create jobs than we have witnessed to date. The achievement and sustaining of tight full employment could do almost all of the job of eliminating poverty*".

- "*A suggestion of real merit is that the government become an employer of last resort*".

Employer of Last Resort

- The federal government funds a job guarantee program, setting the wage and offering elastic supply of jobs.
- Advantages of this program:

1. Eliminates the kind of poverty that is due solely to joblessness.
2. Whereas the investment strategy raises demand for specialized labor, hoping jobs trickle-down for the low-skilled, the employment strategy "*takes the unemployed as they are and tailor makes jobs to their skills*".
3. If tight labor market draws additional workers into the labor force, the number of workers per family increases, moving some families who are in or near poverty away from it.

Employer of Last Resort

4. Tight labor markets improve distribution of income among workers, as market processes raise the wages of low-income workers faster than the wages of high-income workers.

5. Minsky believed that it is possible to "*decrease [labor-profit] inequality by decreasing capital's share of income*".

6. De-emphasizing investment-led growth lowers likelihood of financial fragility.

7. Finally, a public employment strategy frees policymakers from the overriding need to induce investment through tax incentives.

ELR In Theory

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

ELR and Macro Stability

- The set ELR wage provides an in-built inflation control mechanism.
- Spending in the 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 ELR

- 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.

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 ELR promotes:
  - Shared prosperity
  - Environmentally sustainable development path
  - Growth with price and currency stability

Barriers to Attaining and Sustaining Full Employment

- Minsky anticipated "pie-in-the-sky" objections countering that "*irrational prejudices . . . against spending, deficits and easy money*" must be ignored.
- In fact ELR is less inflationary than the current system--which relies on unemployment to fight inflation, and welfare to deal with poverty.
- Three additional points on the "inflation barrier":

Barriers to Attaining and Sustaining Full Employment

1) The wage and price dynamics involved in getting to full employment are different from those that exist when full employment is maintained.
2) If pressures on prices and wages do result, these should be offset by constraints on wages at the high end, and by constraints on prices set by oligopolists.
3) The inflation constraint is much less of a concern, with the “global” economy, with “mercantilist” nations, with low wage competition, with fiscal conservatism, etc.

The Cross of Gold

- The final institutional barrier is the exchange rate regime. Minsky argued:
  - *To a considerable extent, ever since 1958 the needs of the dollar standard have acted as a constraint upon domestic income. We have not had tight labor markets because of the peculiar bind that the dollar is in internationally. It is apparently appropriate to allude to William Jennings Bryan by saying that, in part, the cross that the American poor bear is made of gold . . . The solution to the gold standard barrier is simple: get rid of the gold standard.*

- Today, the dollar is a floating currency so that policy is not constrained by the need to protect foreign reserves.

Conclusions

(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.

- "*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*".

- “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)