The State of the Economy: How the Federal Budget Surpluses Helped Drive the U.S. Economy Into a Recession

Last year the Center for Full Employment and Price Stability went on record stating that restrictive budgetary policy would drive the economy into a recession. We maintained at that time that:

1. The current U.S. policy of allowing a federal budget surplus is an extremely high risk strategy that will likely end in a severe and prolonged recession, and

2. Lowering interest rates (the most likely initial policy response to an economic slowdown) by itself cannot be relied upon to restore prosperity (as the Japanese economy has demonstrated).

During the last twelve months it became clear that our projections were beginning to materialize. The economy slowed down significantly and the Federal Reserve’s ten consecutive interest rates cuts to date have been unable to restore growth. The U.S. economy is officially in recession. What is still not acknowledged by most economists, however, is that the current policy of “fiscal prudence” is anything but prudent. In fact it is largely responsible for the current recession. While fiscal policy has relaxed somewhat since the events of September 11, some still see this as “emergency” behavior to be reversed as soon as the current crisis passes.

In last year’s petition statement (see C-FEPS Digest, Summer 2000, p. 3) we explained that budget surpluses reduce non-government nominal wealth by an amount equal to the size of the surplus. It has become recognized by some that the Clinton expansion was fully explained by unprecedented private sector deficits (private sector spending in excess of income). What has yet to be understood, however, is what is on the other side of this coin. And that is the fact that government budget surpluses have materialized only because the private sector has been willing to spend in excess of its income while reducing its net nominal wealth through a reduction in outstanding treasury debt. We warned: “For continued economic growth in the presence of government surpluses, the non-government sector must continue to spend beyond its income.”

And that trend, we suggested, cannot continue forever. Furthermore, the strong structural and cyclical imbalance of federal budgetary policy means that the recession will be severe. A close look at the last 150 years of U.S. history reveals that each of the six U.S. depressions were immediately preceded by several years of large surpluses and reductions in

continued on p. 4
A year has passed since the last issue of C-FEPS Digest. At that time, we put out an urgent warning that running budget surpluses would drive the U.S. economy into recession, with drastic implications for the global economy. We even petitioned economists and policy makers to sign their name to a warning about deflationary budgetary policies. We received many replies from prominent economists, some supportive but others politely dismissing our fears as unwarranted.

Since that time, many of our worries have materialized as real world crises. Credit-driven consumer expenditure is unable to continue to offset the trade deficit and government budget surpluses. Citing the Japanese experience, we warned that cutting interest rates would not only be ineffective, but even if such a policy held some promise, it could only prop up spending by pushing already debt-ridden households even deeper in debt—meaning increasing Minskian fragility! A tax cut has been passed, but as our Policy Notes and Special Reports have shown, it is way too little way too late. We urged a permanent cut at least three times as big as President Bush’s initial proposal (which recommended cuts higher than the current $1.35 trillion tax reduction over the next 10 years).

Key to our proposal is that the tax cut should be a future liability payable in $US dollars rather than a refundable tax reduction over the next 10 years). Key to our proposal is that the tax cut approach to avoiding an even deeper downturn requires going beyond just cutting income taxes. It means cutting payroll taxes—by far the greater burden on middle and lower income tax payers—as well as other cuts, such as expanding the earned income tax credit.

In the meantime, we have continued to promote the only way to true full employment—meaning zero involuntary unemployment—with price stability: public service employment assurance for every person ready and willing to work. Such a program serves as an institutional means of curbing downturns and preventing both inflation and deflation. It is the safest and most expedient measure for taming the business cycle. Whatever the cause of unemployment, government job assurance will eliminate it. This year we have again met with scholars, policy makers, and citizens around the world to discuss our ideas, including Martin Luther King III, William Julius Wilson, James K. Galbraith, Ridge Muñoz (Representative Richard Gephardt’s chief economic advisor), and Economic Counselor Tian Jun and other top delegates of the Chinese Embassy, among others.

This coming year we will again try to insert some common sense into discussions of economic policy. In the fall of 2001, we hosted a major conference at UMKC on Social Security, another topic where misunderstandings abound. The very fact that there is any discussion of the U.S. Federal Government “pre-funding” a future liability payable in $US underscores the lack of understanding at all levels of government and academia. In the spring of 2002, we will host a conference on “The State of the Economy” to discuss policies combating recession. In the fall of 2002, the C-FEPS Annual Interdisciplinary Social Science Conference at UMKC will examine the incarceration crisis in the U.S., and propose alternatives to “penal Keynesianism.”

Once again, we invite you to continue to participate in our campaign, and welcome your thoughts and ideas concerning our activities.

Mathew Forstater
For the Record: An Open Letter to the U.S. Congress

The following letter was signed by over 100 economists, including Nobel Laureates Kenneth Arrow and Lawrence R. Klein

We believe that the Interim Report approved by the President’s Commission on Social Security Reform is a biased and flawed report. It grossly exaggerates the financial problems that might be faced several decades from now. More importantly, it seriously overstates the increase of the burden of providing for future retirees that will be experienced through mid-century. Its claim that the program is “broken” and requires an “overhaul” before 2016 is tantamount to arguing that Congress will not put the full faith and credit of our government behind America’s most popular social program. The Report appears to have adopted a tone of urgency, and even scare tactics, in an attempt to push an agenda that favors privatization. We do not believe that privatization is necessary or prudent, nor do we believe that it can reduce tomorrow’s burden. Rather than looking to such a fundamental change to the nature of the Social Security program, we believe that relatively minor changes to be made at some point in the future will fully resolve any problems to be faced. We urge that Congress reject the arguments made in this report and that it refuse to take unnecessarily drastic action.

BACKGROUND AND ANALYSIS OF THE INTERIM REPORT

On July 24, the President’s Commission on Social Security Reform approved its interim report proclaiming that the Social Security system is unsustainable and requires a “fundamental restructuring.” While the Co-Chairs carefully avoided endorsing “privatization,” it is clear from the report as well as from committee discussion and the list of questions soliciting responses to the report that the Committee is predisposed toward “reforms” that include a substantial privatization component. Critics have rightly questioned the overall tone of the report, which exaggerates the program’s financial and demographic problems to be faced in the future. For their part, the Co-Chairs have labeled their critics “know-nothings” and “Luddites.” We believe the critics have pointed to real deficiencies in the report and urge that Congress seek a broad range of ideas and proposals, soliciting a more thorough analysis before it changes a popular and essential public program.

The Commissioners have attempted to move forward the date on which Social Security faces its first “funding gap,” from the previously accepted date of 2038 to 2016, contributing in great measure to the urgency apparent throughout the report. Much of the discussion of the report has centered around the program’s Trust Funds, with many Democrats objecting to the Commission’s claim that they are little more than an accounting gimmick that cannot really provide the Treasury with funds to pay retirees in the future. Even some economists have revived Candidate Gore’s proposal for “lock-boxes” to preserve the Trust Funds for use after 2016. We believe that it is unfortunate that discussion has become sidelined by the debate about the Trust Funds. While it is true that they cannot be a source of funding to the Treasury (and they were never designed to be a source of general revenue to the Treasury), the notion that the Treasury may not be able to make good on its promises to Social Security cannot be taken any more seriously than a claim that the Treasury will default on its debt held in private hands.

As the report makes clear, the entire Social Security program today absorbs about 5% of GDP, and this will rise to about 7% of GDP over the next 60 years. To achieve the necessary two percentage-point increase of GDP going to Social Security will require an increase of the payroll tax from today’s 12.4% to 19.3% in 2075. This is the “financial” half of the justification for claiming that Social Security is unsustainable. However, what the Commissioners fail to acknowledge is that over the past 60 years Social Security grew from zero percent of GDP to the present 5% (and from 0% of payroll to 12.4%) without engendering any crises. On this basis, it is surely an exaggeration to claim that our nation cannot devote 2% more of its GDP toward Social Security programs. The coming decades will provide plenty of time to discuss the appropriate manner of achieving such a shift—raising payroll taxes is not the only, and probably not the best, way to accomplish this. Given that the number of retirees relative to the number of workers will rise (and given a shrinking percent of national income that is subject to the payroll tax), the financial burden should probably be more widely shared. This can be achieved through a broadening of the Social Security tax base—for example by eliminating the wage cap subject to the tax, or by taxing nonwage income.

This brings us to the “real” burden of supporting future beneficiaries. Today, as the report emphasizes, we have three workers for every retiree; this will gradually fall to only two workers per retiree. Those are the “facts” of the unsustainability of Social Security with respect to the ability of tomorrow’s workers to bear a rising burden of producing real goods and services to be consumed by retirees. However, as the report also makes clear, in 1940 there were 42 workers per retiree, which fell to five workers per retiree by 1960 and to the current three workers per retiree. Thus, over the past 60 years that ratio has fallen from 42 to three, and over that span of time the real living standard of workers has increased significantly. Further, when one adds together the over-age-65
Large private sector deficits and large public sector surpluses are a sure recipe for disaster. In last year’s petition we recommended that “the federal government relax its fiscal stance by cutting taxes and/or increasing spending at the earliest sign of economic weakness.” President Bush’s tax cut proposal was somewhat timely but insufficient to fill the developing gap in aggregate demand. In fact, the U.S. budget policy is so skewed toward running surpluses that the current downturn may turn out to be very prolonged and very deep. In other words, the automatic reduction to the surplus (that occurs as the economy turns down and tax revenues decline) combined with the Bush tax cuts will still leave the budget too restrictive.

Where are we headed?

In March 2001, C-FEPS co-hosted a conference on “The Limits of Central Banking.” At the time, the Federal Reserve, in the face of troubled financial markets, had already cut interest rates three times. Analyzing Fed policy, session panelists echoed time and again one consistent message: interest rate cuts will be unable to revive growth. Furthermore, it was recognized that in order for interest rate reductions to
work, the private sector would have to increase its deficits, borrowing, and indebtedness. This may only perpetuate a Minskian type financial fragility and cause the present downturn to be that much worse. Fed policy since March has led to seven additional interest rate reductions, and still the economy gallops toward a deep recession—as most of the participants of our conference had expected.

Karim Basta, Senior Global Debt Strategist at Merrill Lynch, spoke of a possible path of the U.S. economy by drawing a scary comparison with the Japanese economy.

Chart 2 shows that the U.S. budget situation through 2000 looks eerily similar to that of Japan through 1990. Japan has now struggled during more than a decade of recession. Just as the U.S. enjoyed a Goldilocks economy until this year, Japan enjoyed a miracle economy until its budget surpluses sucked the life out of the economy. Of course, it is true that Japan suffered from a euphoria in its real estate and stock markets similar to our own stock market’s “irrational exuberance” (in the words of Chairman Greenspan). While many might say “that can’t happen here” because Japan’s situation was much more precarious—with outrageous real estate prices, far too much industrial capacity, and a weak banking system–Japan also had several compensating strengths. First, Japan’s households have always been “thrifty”—with a household saving rate that approached 20% of GDP even during the boom (it now stands at close to 25%). Hence, households entered the recession without the heavy debt load that Americans have. Second, the Japanese economy runs large trade surpluses. This adds an injection to aggregate demand that the U.S.–with its large trade deficits—cannot count upon. Finally, Japan is traditionally a high employment society and its firms are more reluctant to lay-off workers. U.S. firms are used to downsizing the moment demand falls.

On the other hand, one can hope that U.S. economic policy will not make all the mistakes made in Japan—recall the consumption tax hike imposed in Japan in 1998 when it looked like Japan might be on the road to recovery. To be fair, Japan also instituted fiscal stimulus packages that included tax cuts: in May 1987 (1 trillion yen), April 1993 (0.2 trillion yen), February 1994 (5.9 trillion yen), April 1998 (4.6 trillion yen) and November 1998 (6 trillion yen). These were combined with more frequent and larger spending packages. However, these were too little and too late–early in the recession the typical package was one or two percent of GDP; only in November 1998 did a stimulus package approach 5% of GDP, perhaps a decade or more after a stimulus of that size had been required. Given that the Japanese budget deficit today hovers around 8% even with near-zero GDP growth, it is possible that a budget deficit of perhaps 10–12% of GDP will be required in the current environment to restore growth and consumer confidence. One can easily imagine the objections that would be raised to deficits of this magnitude, should they become necessary in the U.S. It seems far more prudent to move immediately toward sharp fiscal adjustment such that extraordinary deficits will not be required a decade into the future. It is possible that a five percent adjustment today can make an 8% or 10% deficit tomorrow unnecessary.

What is being done?

Apart from Mr. Greenspan toying with interest rates, the only other policy response in the face of the economic slowdown prior to the events of September 11 was President Bush’s tax cut plan. In C-FEPS Policy Note 01/01 Senior Research Associate L. Randall Wray and Associate Director Pavlina R. Tcherneva argue that the President’s fiscal package provides only a negligible stimulus to the economy. The authors propose to supplement President Bush’s program with a payroll tax cut that would provide significant relief for the bottom 87% of the population. This stimulus would be in addition to the current program of tax relief adopted in HR1836, which primarily benefits the wealthiest 13% of the
Table 1
CUMULATIVE INCOME CLASSES

<table>
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<th>size of adjusted gross income 1998</th>
<th>total income tax (thousands)</th>
<th>% of total income tax</th>
<th>% of total income tax returns</th>
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<td>All income earners................</td>
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Table 2
CUMULATIVE INCOME CLASSES

<table>
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<tr>
<th>size of adjusted gross income 1998</th>
<th>total OASDI tax (thousands)</th>
<th>% of total OASDI tax</th>
<th>% of total income tax returns</th>
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<tr>
<td>All income earners................</td>
<td>241,096,414</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Calculations based on I.R.S. data.

population. After the events of September 11, many have been willing to discuss additional stimulus, including help for struggling airlines and perhaps some infrastructure investment. However, the size of the stimulus discussed to date is still far below what is required.

Any significant tax relief in the form of an across the board rate reduction will provide most of the relief to high income brackets for the simple reason that high income tax payers pay most of the income tax.

Table 1 shows that only about 13% of all tax payers earned more than $75,000 but they paid almost 70% of all income taxes. Table 2, almost a mirror image, shows that 87% of all tax payers pay 70% of all payroll taxes. Authors Wray and Tcherneva argue that a payroll tax cut in addition to President Bush’s proposal would go a long way in closing the expected long-term demand gap of 5% of GDP. Wray has argued elsewhere that to meet this demand gap a tax cut package needs to be at least three times as large as Bush’s 10-year plan for $1.35 trillion in income tax reductions.

What can be done?

Federal Reserve interest rate policy will fail to restore private sector confidence; only an increase in aggregate demand will succeed. Therefore, the only response of consequence is a fiscal expansion. Wray and Tcherneva suggest that a larger fiscal stimulus through a Ridge Multop, Senior Economic Advisor to House Democratic Leader Richard Gephardt (D-MO), and C-EPFs co-founder Warren Mosler discuss economic policy in Washington, D.C., December 2000
1. Have all the major economies come closer to the dreaded recession from a mere slowdown?

Of course, Japan has been in a recession or depression for a decade. The United States probably entered recession around the turn of this year. I think that thus far this is the sharpest downturn in U.S. post-WWII history. The U.S. private sector is burdened with the highest debt-to-income ratio ever. It has been deficit spending (that is, spending in excess of its income) at a rate equal to nearly 7% of GDP—easily a record. Indeed, the U.S. private sector had never before had a deficit of much more than 1% of GDP, and never maintained deficits for more than 18 months. By contrast, the private sector has now been in deficit for nearly 5 years. As the economy slows, it becomes increasingly difficult to service the debt accumulated over the expansion; hence, solvency problems will grow at an accelerating pace. As the U.S. has been the “engine” of world growth, the slowing US economy will inevitably bring down other nations.

2. Is the European Union better placed in terms of the impact of the slowdown?

Not at all. The EU has only a central bank to deal with a slowing economy. There is nothing like the equivalent of a U.S. Treasury for Europe as a whole. This means that it will be very difficult to use fiscal policy to deal with the slowdown in Europe—each individual nation will have to “go it alone,” trying to run deficits to stimulate its economy. However, because the individual nations no longer have control over their currencies (they are “users” of the currency—the Euro—but are not “issuers” of it), they will be subject to market forces. Should markets decide that Italy, e.g., is a credit risk, she may have difficulty issuing bonds to finance deficits required to stimulate her economy. The U.S. (as well as any other nation that issues its own currency) is in a quite different position because it never needs to “borrow” its own currency from markets. Hence, when the time comes it will be able to deficit spend as necessary to stimulate the economy.

3. Is there a kind of contagion effect operational in spreading the slowdown across the globe?

Yes. The most important “contagion effect” is the one I mentioned above: as the U.S. slows, exporting nations will find their sales slowing. Unless they can substitute domestic demand (unlikely given a nearly universal reluctance to keep domestic demand sufficiently high to consume one’s own production), their economies will slow. There are also financial “contagions,” which are very important to some individual nations (as we saw in the “Asian Tiger” crisis). However, for the world as a whole, the greater danger lies in falling world demand for output.

4. In spite of the Fed coming up with a cut in the interest rate to the tune of another quarter point (that makes the total cut 2.75 percentage points in the last six months) revival is nowhere in sight. What in your opinion are the contributing factors?

I expect that the Fed will continue to push rates down. However, this could slow the downturn only by inducing private sector firms and/or households to increase indebtedness further—beyond what is already a record. Hence, this would only make the downfall that much worse. Falling interest rates cannot do much good. The real culprit in the U.S. downturn is the federal budget surplus, which is sucking income and wealth from the private sector. It is not a coincidence that household saving has been negative and that for the first time ever net household wealth has actually fallen. This results from the simple fact that the federal government is taxing (removing income and forcing the private sector to sell its government bonds) more than it is spending. Japan was in a very similar position at the end of the 1980s, running large budget surpluses that killed the economy—and we can see where Japan is today.

5. When do you think the American economy will revive from its current downturn?

If Japan is any example, it could be a very long time. What it will take is a very large movement of the federal budget—from surpluses to large deficits. Japan’s budget deficit has reached 8%, but its own deficit came “too little too late,” after six years of surpluses that destroyed the economy. With luck, President Bush’s tax cuts can be supplemented with very much larger tax cuts and with spending increases in order to discretionarily move the budget to deficit. This could allow the U.S. to recover and eventually to stimulate world growth.
C-FEPS continues to be an active host, sponsor, and participant in conferences around the U.S. and abroad. In the last two years C-FEPS scholars again attended the annual full employment conference sponsored by the Centre of Full Employment and Equity (CoFEE) at the University of Newcastle, Australia, as well as the Sixth International Post Keynesian Workshop at the University of Tennessee. The Center also co-sponsored and hosted at UMKC the Second AFEE (Association for Evolutionary Economics) Summer School. The AFEE Summer School will be held at UMKC every other time it meets (every fourth year). Beginning in 2002, the International Post Keynesian Workshop will also be held at UMKC, meeting every two years. UMKC will also host the first ICAPe (International Confederation of Associations for Pluralism in Economics) Conference in the summer of 2003. While not sponsoring that event, C-FEPS is a member and strong supporter of ICAPe. The summer schedule for the next five years is as follows:

**Summer 2002:** Seventh International Post Keynesian Workshop at UMKC

**Summer 2003:** First ICAPe Conference at UMKC
   (Third AFEE Summer School held elsewhere)

**Summer 2004:** Eighth International Post Keynesian Workshop at UMKC

**Summer 2005:** Fourth AFEE Summer School at UMKC

**Summer 2006:** Ninth International Post Keynesian Workshop at UMKC

In addition, the CoFEE Full Employment Conference will take place on an annual basis at the University of Newcastle, Australia, normally in December.

### Post Keynesian Workshop

At the Sixth International Post Keynesian Workshop at the University of Tennessee, June 23-28, 2000, organized as always by Paul Davidson, participants included William A. Darity, Jr., James K. Galbraith, Gary Dymski, Malcolm Sawyer, Barkley Rosser, David Dequech, Fernando Cavalho, David Colander, Marc Lavoie, Basil Moore, John McCombie, Stephen Dunn, and Giuseppe Fontana. C-FEPS participants included L. Randall Wray, Warren Mosler, Pavlina Tcherneva, and Mathew Forstater. Some of the conference papers, including one on effective demand by Luigi Pasinetti (who could not attend the conference, but whose paper was read), appeared in the *Journal of Post Keynesian Economics*. Other selected papers from the conference, including those by Forstater and Wray, will appear in a forthcoming volume edited by Paul Davidson, *A Post Keynesian Perspective on 21st Century Economic Problems* (Edward Elgar, 2001). At the Seventh International Post Keynesian Workshop, at UMKC in 2002, there will be a summer school component in addition to the regular conference. Sawyer, Dequech, Dymski, and Fontana will all be visiting scholars at UMKC during 2001-2002. Lavoie, along with his colleague Mario Seccareccia at the University of Ottawa, head a C-FEPS’ sponsored research program on monetary history, theory, and policy.

### Annual CoFEE Conference

C-FEPS Scholars once again participated in the Centre of Full Employment and Equity (CoFEE) “Path to Full Employment” Conference at the University of Newcastle, Australia, June 14-15, 2001. CoFEE Director William F. Mitchell again organized a brilliant program, with the able assistance of Deputy Director Martin Watts, Ellen Carlson, and the entire CoFEE and University of Newcastle Economics Department Staff. Participants in the conference, which was streamed live on the internet, included Sumner Rosen, Nancy Rose, Michael Keating, John Neville, Peter Kriesler, Raja Junankar, John Burgess, Fiona Sawyer, and Malcolm Sawyer. C-FEPS Scholars in attendance included Jan Kregel, Warren Mosler, L Randall Wray, Mathew Forstater, and Pavlina Tcherneva. The papers are being reviewed for publication. Selected papers from the past two CoFEE Conferences have appeared in Supplements to *Economic and Labour Relations Review*. Kregel will again offer a course at UMKC in the Spring of 2002.

### AFEE Summer School

The Second Association for Evolutionary Economics (AFEE) Summer School took place at UMKC, June 23-28, 2001. Students from around the world came to immerse themselves in Institutional Economics. Lecturers included Anne Mayhew, Ron Stanfield, continued on p. 31
C-FEPS Lecture Series 2000-2001

Public lectures and graduate seminars featuring distinguished scholars from around the globe explored new directions in interdisciplinary social science, debates in economic theory and innovative approaches to public policy.

JAMES K. GALBRAITH analyzes Unemployment and Inequality

Early in the Fall Semester, C-FEPS invited James K. Galbraith to address the UMKC academic community on “The Evolution of Inequality in the Age of Globalization.” Galbraith is Professor of Public Affairs and Government at the LBJ School of Public Affairs at the University of Texas at Austin. He is the author of Created Unequal: The Crisis in American Pay and has served in several positions on the staff of the U.S. Congress, including Executive Director of the Joint Economic Committee. Presently, he is Director of the University of Texas Inequality Project.

In his talk, Galbraith argued that an alternative to the commonly used World Bank measure of inequality can be designed by focusing on manufacturing pay dispersion. The new measure is preferable, he argued, as it provides long, dense, and accurate time-series. Analysis using Galbraith’s data set yields vastly different conclusions on the relationship between inequality and unemployment. Years of declining GDP per capita are associated with a sharp rise in inequality. For industrial countries, there is a very strong positive relationship between unemployment and inequality, and even between their magnitudes! High unemployment is strongly linked to significant inequality. Galbraith concluded that the sharp increase in world inequality is due to the failure of the global economic system to secure strong and reliable growth.

ALAIN PARGUEZ discusses Federal Budget Surpluses and the Monetary Circuit

In October 2000, C-FEPS welcomed Professor Alain Parguez of the University of Franche-Comté, Besançon, France. In his UMKC public lecture, Parguez spoke on “The Economic Consequences of the Fiscal Surplus.” He argued that, contrary to conventional wisdom, government surpluses—not deficits—crowd out private-sector activity. Surpluses do not represent a stockpiling of money available for financing government expenditures. In fact, surplus revenue represents a destruction of money and thus cannot be recycled. Parguez argued that the economic consequences of large surpluses can be quite catastrophic, as they represent a withdrawal of wealth from the private sector. This wealth destruction can trigger a fall in investment, consumption expenditures, employment and economic growth.

Parguez also presided over a graduate seminar on “The Theory of the Monetary Circuit in Understanding the Role of Modern Money.” One of the originators of the French Circuitiste tradition, he has written extensively on crisis theory, money and economic policy. In the seminar, Parguez emphasized that the monetary circuit must begin with the State, as it possesses the powers to tax, declare public receivability, create the unit of account, and administer the prices it pays for key goods and services. Parguez is writing a book on The General Theory of the Monetary Circuit.

GARY DYMSKI examines Urban Political Economy

Later in the fall of 2000, C-FEPS invited Professor Gary Dymski to UMKC to share his research and expertise on Urban Economic Development. Dymski’s background and scholarship dovetail perfectly with UMKC’s emphases on urban engagement and innovative interdisciplinary studies.

Dymski’s public lecture on “The American City at the Turn of the Century: New Directions in Public Policy and Interdisciplinary Research” was a sweeping historical overview of the challenges facing urban America and he highlighted specific proposals for progressive social change. His graduate seminars addressed various issues ranging from urban sprawl and access to credit to racial inequality and labor markets in urban areas. His economics lecture, “Is there Equal Opportunity in the Credit Market? Racial Discrimination and Bank Consolidation in the U.S.,” dealt with the discriminatory lending practices of credit institutions in response to the unmet credit needs of many communities. Dymski’s third lecture provided empirical evidence for this unequal treatment and concluded with a proposal for reparations. The talk was entitled “Empirical Studies of Racial Inequality in Access to Credit as a Benchmark for Policy Responses to America’s
“Jobs for All”: Another Dream of the Rev. Dr. Martin Luther King, Jr.

Few recall that the 1963 “March on Washington” was officially named the “March on Washington for Jobs and Freedom.” It is a detail that often gets lost amid the important celebration of the general achievement and highlights such as the Rev. Dr. Martin Luther King, Jr.’s “I Have a Dream” oration. In celebration of Dr. King’s vision, C-FEPS issued a Special Report during this year’s King holiday entitled, “Jobs for All: Another Dream of the Rev. Dr. Martin Luther King, Jr.” The Report was subsequently shared with Martin Luther King III during his visit to UMKC, as well as others focusing on the problems of African American poverty and unemployment—especially in the inner cities—including William Julius Wilson of Harvard University. C-FEPS Staff and Scholars met with Professor Wilson during his visit to Kansas City to speak at the Greater Kansas City Civil Rights Consortium. Both King, who was recently elected President of the Southern Christian Leadership Conference (SCLC), and Wilson were enthusiastic about C-FEPS’ support of federally funded, locally administered public service employment assurance, without means tests or time limits. Wilson explicitly supports such a plan in his 1996 book, *When Work Disappears*. The theme of job creation runs through Dr. King’s writings.

In an article in *Look* published just after his assassination, Dr. King wrote that: “We call our demonstration a campaign for jobs and income because we feel that the economic question is the most crucial that black people, and poor people generally, are confronting.” Thirty-three years later, at the peak of the peacetime economic expansion heralded as the longest and strongest in recent history, not only was the African American unemployment rate stuck at twice that of whites, but at around 8%, that figure remained at a rate that would be considered evidence of a deep recession were it to hold for society as a whole:

> There is a literal depression in the Negro community. When you have mass unemployment in the Negro community, it’s called a social problem; when you have mass unemployment in the white community, it’s called a depression. The fact is, there is a major depression in the Negro community. The unemployment rate is extremely high, and among Negro youth, it goes up as high as forty percent in some cities. (King, 1968)

Yet another generation has had to witness the inability of a ‘booming’ economy to provide gainful employment for every person willing and able to work, a point well understood by Dr. King:

Economic expansion alone cannot do the job of improving the employment situation of Negroes. It provides the base for improvement but other things must be constructed upon it, especially if the tragic situation of youth is to be solved. In a booming economy Negro youth are afflicted with unemployment as though in an economic crisis. They are the explosive outsiders of the American expansion. (King, 1967)

As politicians and media figures laud the relatively lower aggregate unemployment rates and the ‘success’ of ‘welfare reform,’ more careful observers note the hidden unemployment official numbers do not account for and caution the optimists that the real test of the ‘Personal Responsibility Act’ will be as the economy goes into recession. Official unemployment figures go down not only when the unemployed find work, but when ‘discouraged workers’ drop out of the labor force, a process with harsh consequences:

> The expansion of private employment and nonprofessional opportunities cannot, however, provide full employment for Negroes. Many youths are not listed as unemployed because in despair they have left the labor market completely. They are psychologically disabled and cannot be rescued by conventional employment. (King, 1967)

Those in prison are also disproportionately young, black, and male and are also not included in official unemployment figures. Combined with other recent developments such as the exploding homicide rates for young, Black men (itself linked to the ‘war on drugs’) and the return of the death penalty (which are disproportionately young, Black, male death row), this explains the decline in marriageable-age Black men—unlike ‘welfare incentives’ a factor with some explanatory power in understanding the decline of the two-parent family among African Americans (see Darity and Myers, 1994). As Dr. King well-understood, what emerges is a system that excludes many young African American women and men from participating, and creative policy measures are required to respond effectively and fairly to this challenge:

> There are also some Negro youth who have faced so many closed doors and so many crippling defeats that they have lost motivation. For those youth who are alienated from the routines of work, there should be…
work situations which permit flexibility… until they can manage the demands of the typical workplace. (King, 1967, p. 126)

The private sector, even in the ‘best of times’ is unable to provide jobs for all. Moreover, racial wage and employment gaps are not fully explained by human capital, i.e., differences in skill and education levels. Dr. King’s alternative explanation points to the functional role of racial economic inequality in modern capitalism:

Depressed living standards for Negroes are not simply the consequence of neglect. Nor can they be explained by the myth of the Negro’s innate incapacities, or by more sophisticated rationalization of his acquired infirmities (family disorganization, poor education, etc.). They are a structural part of the economic system in the United States. Certain industries are based on a supply of low-paid, under-skilled and immobile nonwhite labor. (King, 1967, p. 7)

Now we realize that economic dislocations in the market operations of our economy and the prevalence of discrimination thrust people into idleness and bind them in constant or frequent unemployment against their will. Today the poor are less often dismissed, I hope, from our consciences by being branded as inferior or incompetent. We also know that no matter how dynamically the economy develops and expands, it does not eliminate all poverty. (King, 1972 [1968])

Unfortunately, Dr. King’s hope has not been realized, as ‘culture of poverty’ and even bio-genetic theories continue to rear their ugly heads. The resurrection of these frameworks by authors such as Dinesh D’Souza, Thomas Sowell, and Charles Murray is in part a response to the failure of human capital theory. But their reemergence is also part of the trend toward greater discrimination as the racial education and skills gaps are closed—evidence further supporting the functional theory of racial economic inequality (Darity and Hamilton, 2001). Speaking of Black men, but of a process also relevant to the African American female experience, Dr. King wrote that:

The quest of the Negro male for employment was always frustrating. If he lacked skill, he was only occasionally wanted because such employment as he could find had little regularity and even less remuneration. If he had a skill, he also had his black skin, and discrimination locked doors against him. In the competition for scarce jobs he was a loser because he was born that way. (King, 1967, pp. 106-07)

In addressing these tremendous challenges, Dr. King’s writings have a laser-like focus on job creation as addressing multiple concerns and carrying multiple benefits:

The nation will also have to find the answer to full employment, including a more imaginative approach than has yet been conceived for neutralizing the perils of automation. Today, as the skilled and semiskilled Negro attempts to mount the ladder of economic security, he finds himself in competition with the white working man at the very time when automation is scrapping forty thousand jobs a week. Though this is perhaps the inevitable product of social and economic upheaval, it is an intolerable situation, and Negroes will not long permit themselves to be pitted against white workers for an ever-decreasing supply of jobs. The energetic and creative expansion of work opportunities, in both the public and private sectors of our economy, is an imperative worthy of the richest nation on earth, whose abundance is an embarrassment as long as millions of poor are imprisoned and constantly self-renewed within an expanding population. (King, 1963)

Dr. King reiterated over and over again his proposal that “government… become an employer of last resort” (King, 1971 [1963]): “We need an economic bill of rights. This would guarantee a job to all people who want to work and are able to work… It would mean creating certain public-service jobs.” (King, 1968):

We must develop a federal program of public works, retraining, and jobs for all—so that none, white or black, will have cause to feel threatened. At the present time, thousands of jobs a week are disappearing in the wake of automation and other production efficiency techniques. (King, 1965)

Dr. King’s proposal was that anyone ready and willing to work would be assured a public service job. His vision thus extended to all those left behind, including unemployed and poor whites:

While Negroes form the vast majority of America’s disadvantaged, there are millions of white poor who would also benefit from such a bill. The moral justification for special measures for Negroes is rooted in the robberies inherent in the institution of slavery. Many poor whites, however, were the derivative victims of slavery. As long as labor was cheapened by the involuntary servitude of the black man, the freedom of white labor, especially in the South, was little more than a myth. It was free only to bargain from the depressed base imposed by slavery upon the whole of the labor market.
Nor did this derivative bondage end when formal slavery gave way to the de-facto slavery of discrimination. To this day the white poor also suffer deprivation and the humiliation of poverty if not of color. They are chained by the weight of discrimination, though its badge of degradation does not mark them. It corrupts their lives, frustrates their opportunities and withers their education. In one sense it is more evil for them, because it has confused so many by prejudice that they have supported their own oppressors. (King, 1963)

Black and white, we will all be harmed unless something grand and imaginative is done. The unemployed, poverty-stricken white man must be made to realize that he is in the very same boat with the Negro. Together, they could exert massive pressure on the government to get jobs for all. Together they could form a grand alliance. Together, they could merge all people for the good of all. (King, 1965)

Dr. King clearly distinguished Public Service Job Assurance from ‘training programs’. Too often, he wrote, “‘training’ becomes a way of avoiding the issue of unemployment” (King, 1967):

The orientation… should be “Jobs First, Training Later.” Unfortunately, the job policy of the federal programs has largely been the reverse, with the result that people are being trained for nonexistent jobs. (King, 1967)

While the development of skills and support of educational experiences are important characteristics of Public Service Job Assurance, “The jobs should nevertheless be jobs and understood as such, not given the false label of ‘training’” (King, 1967, pp. 196-199).

Referring to the historical and structural socioeconomic experience of some of the young and long-time discouraged, Dr. King envisioned Public Service Jobs as providing them with “special work places where their irregularity as workers can be accepted until they have restored their habits of discipline” (1967). At the same time, he insisted that “we need to be concerned that the potential of the individual is not wasted” (King, 1967). For Dr. King, Public Service Job Assurance is capable of reconciling these various requirements, as it is conceived around the idea that “New forms of work that enhance the social good will have to be devised for those for whom traditional jobs are not available” (King, 1967).

In Where Do We Go From Here? (1967), Dr. King elaborated his vision of Public Service Job Assurance. First, development of skills and education are outcomes, not prerequisites, of the program. Second, the jobs are producing community and public services that are in short supply and that benefit the neediest communities. Third, the program generates incomes for individuals and families that have unmet needs. Fourth, there are numerous social-psychological benefits for individuals, families, communities, and the nation:

The big, new, attractive thrust of Negro employment is in the nonprofessional services. A high percentage of these jobs is in public employment. The human services—medical attention, social services, neighborhood amenities of various kinds—are in scarce supply in this country, especially in localities of poverty. The traditional way of providing manpower for these jobs—degree-granting programs—cannot fill all the niches that are opening up. The traditional job requirements are a barrier to attaining an adequate supply of personnel, especially if the number of jobs expands to meet existing need.

The expansion of the human services can be the missing industry that will soak up the unemployment that persists in the United States. [It can be the] the missing industry that would change the employment scene in America. The expansion of human services is that industry—it is labor intensive, requiring manpower immediately rather than heavy capital investment as in construction or other fields; it fills a great need not met by private enterprise; it involves labor that can be trained and developed on the job.

The growth of the human services should be rapid. It should be developed in a manner insuring that the jobs that will be generated will not primarily be for professionals with college and postgraduate diplomas but for people from the neighborhoods who can perform important functions for their neighbors. As with private enterprise, rigid credentials have monopolized the entry routes into human services employment. But… less educated people can do many of the tasks now performed by the highly educated as well as many other new and necessary tasks. (King, 1967, original emphasis, pp. 197-98)

Public Service Job Assurance provides the framework for income maintenance, skill development, and community service provisioning. Dr. King also believed that it could support goals in other areas, such as housing and education:

Work of this sort could be enormously increased, and we are likely to find that the problems of housing and education, instead of preceding the elimination of poverty, will themselves be affected if poverty is first abolished. The poor transformed into purchasers will do a great deal on their own to alter housing decay. (King, 1972 [1968])

Health and childcare are other areas where Public Service
Job Assurance may serve as the vehicle for progressive social policies. If the Public Service wage-benefits package included medical coverage and childcare, not only would this guarantee Public Service workers and their families coverage, but it also could pressure firms in the private sector to match such benefits. Failure to do so could leave firms unable to attract workers to their places of employment.

Individuals develop skills and work habits and provide community service, with the effects reverberating throughout the social fabric of society. The benefits of Job Assurance are potentially widespread and all-pervasive:

Beyond these advantages, a host of positive psychological changes inevitably will result from widespread economic security. The dignity of the individual will flourish when the decisions concerning his life are in his own hands, when he has the means to seek self-improvement. Personal conflicts... will diminish when the unjust measurement of human worth on a scale of dollars is eliminated. (King, 1972 [1968])

I am positive, moreover, that the money spent would be more than amply justified by the benefits that would accrue to the nation through the spectacular decline in school dropouts, family breakups, crime rates, illegitimacy, swollen relief rolls, rioting and other social evils. (King, 1965)

Of course, Dr. King recognized that Public Service Job Assurance could not take the place of all social programs. He therefore supported comprehensive legislation that would “guarantee an income to all who are not able to work. Some people are too young, some are too old, some are physically disabled, and yet in order to live, they need an income” (King, 1968).

The Rev. Dr. Martin Luther King, Jr. supported Public Service Job Assurance throughout his life. It was a concrete part of his Dream, but he did not view it as utopian or overly idealistic: “This country has the resources to solve any problem once that problem is accepted as national policy” (King, 1965). By supporting the provision of community services, “it raises the possibility of rebuilding America so that private affluence is not accompanied by public squalor of slums and distress” (King, 1968). In 1963, he wrote: “I would challenge skeptics to give such a bold new approach a test for the next decade” (King, 1963). We know that unfortunately we did not take up his challenge at that time, but it is not too late to take up that challenge now, as we enter the new millennium.

What better way to celebrate the Dream and the Vision of Dr. King? ♦

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C-FEPS Presents Top Chinese Officials with a Proposal for Eliminating Unemployment in China

In most countries an unemployment rate of 4% is not deemed to be a cause for alarm. But when it comes to China, a country with 1.26 billion people, 4% unemployment means that 50.4 million are unemployed. While the reported numbers are much lower, that is because (as in most places) there are numerous problems with the official statistics. China’s government data reports urban unemployment only, leaving out jobless rates in the large rural areas. With the addition of widespread under-employment, the numbers become even more extraordinary and difficult to grasp.

China’s officials are acutely aware that the economic reforms have left the country with a looming unemployment problem and are working to address the issue.


The meeting at the Embassy was arranged by Henry Liu, Chairman of Liu Investment Group, who has had a long-standing relationship with China and who is committed to the promotion of full employment and price stability. The C-FEPS delegation included Director Mathew Forstater, Associate Director Pavlina Tcherneva and Senior Research Associate L. Randall Wray. In addition, United Nations Financial

Expert Jan Kregel and C-FEPS co-founder Warren Mosler also took part in the high-level talks at the Embassy. The Chinese delegates included Economic Counselor Tian Jun, First Secretaries Zhang Jianping and Huang Dizhong, Second Secretary Wang Zhijun and Third Secretary Wang Qi.

During an afternoon-long presentation, C-FEPS members laid out a comprehensive proposal for a Job Guarantee Program that would ensure the elimination of unemployment while preserving price stability in China. The presentation covered four main topics. The first part elucidated the workings of modern financial systems using the example of the UMKC Pilot Community Service Program. The second part applied the analysis of modern money to the specific proposal for Public Service Employment. The third part focused on two specific features of the program: price stability and the automatic stabilizer. Lastly, the issue of currency stability was addressed.

Modern Monetary Systems

The C-FEPS presentation began with the argument that in all modern economies, money is a creature of the State. The State defines money as that which it accepts at public pay offices (mainly, in payment of taxes). Taxes create a demand for currency, and government spending provides the supply. This is clearly demonstrated by the UMKC Pilot Monetary System. In this system, UMKC has instituted a community service program paid in UMKC “currency.” The program demonstrates how modern monetary systems operate in the presence of state money. (For a detailed account of this program, see C-FEPS Digest, Summer 2000, p. 14.) The program shows that modern governments do not need the public’s money in order to spend; rather, the public needs the government’s money in order to pay taxes. This means that the government can buy whatever is for sale in terms of its money merely by providing it. The purpose of explaining this was to demonstrate that China can afford to hire its unemployed—without fear that this might result in deficit spending and “borrowing” from the public.

Because the public will normally wish to hold some extra money, the government will have to spend more than it taxes; in other words, the normal requirement is for a government deficit. Government deficits do not require “borrowing” by the government (bond sales); rather, the government provides bonds to allow the public to hold interest-bearing alternatives to non-interest-bearing government money. Further, markets cannot dictate to the government the interest rate it must pay on its debt; rather, the government...
determines the interest rate it will pay as an alternative to non-interest-earning government money. This stands conventional analysis on its head: fiscal policy is the primary determinant of the quantity of money issued, while monetary policy has to do primarily with maintaining positive interest rates through bond sales—at the interest rate the government chooses.

There are four major inferences:

1. The government cannot collect before it spends.
2. The government cannot collect more than it spends, at least on a sustained basis.
3. There are no inherent “financial constraints” on the government’s ability to spend. Any existing constraints are self-imposed.
4. Government spending is independent from taxation. Taxes create the demand for money; they do not finance expenditures.

In summary, governments issue money to buy what they need; they tax to generate a demand for that money and then accept the same money in payment of taxes. Any resulting deficits allow the population to hoard some of the money. It could be said that deficits “finance” savings of the private sector. The deficit is of no consequence to the government. If the government wants to, it can let the population trade the money for interest earning bonds, but the government never needs to borrow its own money from the public.

This does not mean that the deficit cannot be too big and hence, inflationary, but it can also be too small and deflationary. When the deficit is too small (when the government has restricted the monetary issue and does not accommodate the private sector’s desire to net save), unemployment results. The fear, of course, is that government deficits might generate inflation before full employment can be reached.

**Public Service Employment**

C-FEPS presented the Chinese Economic Counselor Tian with a proposal that can achieve full employment while actually enhancing price stability. The idea behind the proposal is that the national government can provide funding for a program that guarantees a job offer for anyone who is ready, willing and able to work. This is referred to as the Public Service Employment program, or PSE. For reasons discussed later, a fixed and uniform wage-benefit package for all workers in the program is preferred. The program should be as decentralized as possible, with program workers primarily performing tasks that are not currently done—or at least, are in short supply. However, each individual country needs to come up with a program that suits its own economic and political situation.

**What is the PSE program? What are its goals?**

1. It should offer a job to anyone who is ready, willing and able to work, regardless of race, gender, education, work experience, or immigration status, and regardless of the performance of the economy. Just listing those conditions makes it clear why private firms cannot possibly offer an infinitely elastic demand for labor. The government must play a role. At a minimum, the national government must provide the wages and benefits for the program, although this does not actually mean that PSE must be a government-run program.

2. PSE hires off the bottom. It is an employment safety net. It should not compete with the private sector or even with non-PSE employment in the public sector. It is not a program that operates by “priming the pump,” that is, by raising aggregate demand. Trying to get to full employment simply by priming the pump with, e.g., military spending could generate inflation. That is because military Keynesianism hires off the top. By definition, PSE hires off the bottom; it is a buffer-stock program and as such, it must stabilize the price of the buffer-stock—in this case, wages at the bottom.

3. The goal is full employment, but with loose labor markets. This is virtually guaranteed if PSE hires off the bottom. With PSE, labor markets are loose because there is always a pool of labor available to be hired out of PSE and into private firms. Right now, loose labor markets can only be maintained by keeping people out of work—the old reserve army of the unemployed approach.

4. The PSE compensation package should provide a decent standard of living even as it helps to maintain wage and price stability. It has been suggested that the wage be set at $6.25/hr in the U.S. to start. A

continued on p. 26
In recent years there has been growing concern about the future of America’s social security program. On July 18, 2001 the President’s Commission on Social Security Reform released its draft report, claiming that Social Security is “unsustainable.” Many analysts believe that the report is biased toward privatization schemes. In order to assure that a true diversity of common sense views are available to the public, the Ruth A. Bergmann, University of Maryland and American University, on “Seven Good Reasons not to Privatize Social Security,” UMKC, November 2001 Center for Full Employment and Price Stability hosted a major conference on social security at UMKC in November 2001. Conference speakers included Stephanie Bell, Barbara R. Bergmann, Ellen Frank, Michael Hudson, Daniel J. B. Mitchell Christopher Niggle, Thomas I. Palley, Christopher Niggle, Max J. Skidmore, Sanford F. Schram, and L. Randall Wray.

According to several presenters, the most important question concerning the future of Social Security is whether the economy will be able to produce a sufficient quantity of real goods and services to provide for both workers and dependents in the future. If it cannot, then regardless of Social Security’s finances, the real living standards of Americans in the future will have to be lower than they are today. Those who take this approach argue that any reforms to Social Security made today should focus on increasing the economy’s capacity to produce real goods and services, rather than on ensuring positive actuarial balances. For example, policies that might encourage public and private infrastructure investment will ease the future burden of providing for growing numbers of retirees. In a sense, this would be a real reform rather than a financial reform, although it is possible that financial reforms might encourage greater investment. Indeed, some advocates of privatization argue this will encourage more investment by entrepreneurs. Note, however, that even with the Trustees’ rather pessimistic economic and demographic assumptions, real living standards are projected to rise substantially for both workers and retirees throughout the 75-year long-range period. Accordingly, Social Security does not face a real crisis even though it may face a financial crisis. Still, this may not be sufficiently comforting to future workers because although they will enjoy a growing real economic pie, the share of the pie going to retirees will grow. In fact, the share of GDP going to OASDI will grow from about 5 percent in 2000 to 7 percent for the period between 2030 and 2075. On one hand, this is a significant increase, but on the other, similar shifts have occurred in the past without generating economic crisis.

While the President’s commission favors privatization, opponents of privatization have raised several objections. First, there will be a costly transition period as the system becomes privatized, during which current workers must finance the cost of the existing Social Security system (paying taxes to finance the benefits going to current retirees), plus the costs of building up their own retirement funds. Thus, a fairly large, immediate, tax increase will be required, and must remain in place for several decades until all those covered under the old system have died. Second, many doubt the privatizers’ claims that the stock market will grow at a high rate even as economic growth stagnates. It is probably inconsistent to argue that real GDP growth will slow (to 1.3% per year, little over one-third its long-term average) without affecting growth of equity prices, presumed to grow at seven percent per year. Critics have shown that this implies either that the share of distribution of national income going to profits must grow to implausibly high levels (indeed, Dean Baker has calculated that wages must be negative by 2070), or that price-earnings ratios (already at all-time highs in 2000) must rise to truly astronomical levels (on Baker’s calculation, to 485-to-1 by 2070). Third, privatization might place unacceptable levels of risk on workers. Even if the stock market were to grow at an average rate of over 7% per year, there could be relatively long periods of below-normal growth. In the past, equity prices have been fairly flat for decades at a time. Unlucky workers whose retirement happened to come after such a period could face deprivation during retirement. Furthermore, if workers are given individual control over their retirement accounts, they might do poorly even if the markets as a whole are doing well. Fourth, numerous small retirement accounts can be very costly to administer and supervise. Current costs of administering Social Security are exceedingly small—well under one percent of revenues. Privatizers often...
have increased the size of the Trust Fund by an amount equal to just under two-thirds of annual budget surpluses. The larger Trust Fund would then earn more interest and would have more treasury securities to sell when program revenues fall below expenditures. However, when the Trust Fund sells securities, the Treasury will have to cut other spending, raise taxes, or let its deficit expand. This is precisely what the Treasury would do even in the absence of a Social Security Trust Fund. Furthermore, like most financial fixes, this reform will not necessarily increase future productive capacity. Indeed, it is not necessary for the federal government to run surpluses for it to credit the Trust Fund with more securities—the Treasury can add securities worth any amount to the Trust Fund at any time (in principle, it can add an amount equal to the entire Social Security shortfall today). Alternatively, the Treasury could simply agree to pay a higher interest rate on Trust Fund assets—paying whatever interest rate that would eliminate the actuarial gap. While somewhat ludicrous, these alternatives emphasize that accumulating a Trust Fund of Treasury securities really cannot resolve future annual deficits in the Social Security program.

Furthermore, as emphasized above, what really matters is the economy’s capacity to produce real goods and services in the future. Hence, if the amount that can be produced will not be sufficient to provide the level of consumption desired by all generations in the future, it will be necessary to either boost production or to ration consumption. Extending the normal retirement age (which is essentially a benefit cut) will keep workers in the labor force longer, and will reduce the number of years they must be supported during retirement. Increasing taxes on future workers will leave them with lower purchasing power, ensuring more of the nation’s output can go to retirees. Cutting future OASDI benefits will do the opposite—allocating more output toward workers and others with incomes that are not dependent on Social Security. Fortunately, given increases to worker productivity that reasonably can be expected to occur, plus increases to production facilities that are likely to take place as a result of public and private investment, it appears quite likely that future workers and future retirees will enjoy higher living standards than do their counterparts today—in spite of the aging of America.

The conference, hosted by the Center for Full Employment and Price Stability at UMKC in the fall of 2001, took up these and many other issues overlooked or under-emphasized by the Commission’s Report. By inviting speakers that represent a true diversity of views on the challenges facing the U.S., C-FEPS helped provide the public with more and better information with which to make the tough decisions. For now, the biggest crisis may be that of failing to fully consider the problem from all its sides, and with all its ramifications.

For Further Reading


Incarceration

Third Annual C-FEPS Interdisciplinary Social Science Conference to Examine “Incarceration, Penal Keynesianism and Unemployment: Social Crisis and Potential Solutions”

The Third Annual C-FEPS Interdisciplinary Social Science Conference at UMKC will take place in the Fall of 2002 and will focus on “Incarceration, Penal Keynesianism, and Unemployment: Social Crisis and Potential Solutions.” The program will include a number of guest speakers from around the U.S., representing a variety of disciplines and utilizing innovative interdisciplinary approaches to tackling these most pressing problems.

In 2000, the U.S. prison and jail population reached two million inmates—most of whom are males of prime working age. Incarceration rates and spending on prisons have been rising rapidly (see chart 1, page 19). Indeed, the number of prime age males in prison now approaches the number of officially unemployed adult males, while prisons have become a major growth industry in at least some regions of the country. Further, there is a movement to increase employment and production of goods and services within prison walls. Two bills were introduced in Congress that would encourage this while at the same time subjecting prison labor to greater market discipline.

Will “penal Keynesianism” replace the “military Keynesianism” of days gone by? On the supply side, imprisonment acts as a substantial outlet for excess labor supply, essentially drawing from among the same population that used to find its way into the armed forces. And while the prison system used to be low-tech, it is increasingly relying on fairly high-tech products and services of private industry. In addition, and unlike the military sector, the prison sector actually produces goods and services that can be purchased in markets by consumers. Furthermore, penal Keynesianism increases demand directly and through a multiplier; and spending on prisons is growing rapidly—much faster than spending on the military or GDP.

What are the characteristics of today’s prisoners? The vast majority have low educational attainment: three-fourths are functionally illiterate; almost half have not graduated from high school (versus 17% of the U.S. population as a whole); and only 13.5% attended college (versus half of all Americans). Employment rates for adults who do not graduate from high school are low and falling: in 1970, nearly 65% of Americans aged 25-64 without a high school degree were employed, but that fell to just over 50% by the mid-1990s. Given the low employment rates of Americans without a high school degree, and the very low educational status of prisoners, it is likely that the vast majority of U.S. prisoners were not employed at the time of arrest. Indeed, data from California show that only 35% of inmates were employed prior to arrest.

While we now have over 2 million in the U.S. prison and jail population, there are currently over 5.4 million adults over age 25 counted as officially unemployed. In fact there are more adults without a high school degree in prison than there are who are officially unemployed. While precise data are hard to obtain, we estimate that 10% of all prime-age males without a high school degree are currently in jail or prison; for prime-age black males without a high school degree, that figure is close to 30%. Note also that the number in prison significantly understates the number of people who have served time. Another 4 million (mostly males) are on probation or parole. Thus, at any point in time, almost 3 million of the 9.5 million adult males without a high school degree are being supervised within the correction system.

Averages, of course, can be quite misleading. While Blacks account for about 12% of the U.S. population, they make up over 40% of the prison population. Indeed, 42% of all Black men in Washington, D.C. between the ages of 18 and 35 are under the control of the correctional system; as many as 85% of all Black men in the city face arrest at some time in their lives. In California in 1994, 40% of all Black males in their twenties were in jail or prison, or on parole or probation (the similar figures were 5% for white males and 11% for Hispanic males). It is likely that in some cities, a greater number of high school dropouts are behind bars than are employed.
The number of prisoners is growing rapidly—from under 200,000 in 1971 to 600,000 in 1981, 1.8 million in 1998, and to 2 million by 2000. The incarceration rate (number incarcerated per 100,000 population) reached 668 in mid-year 1998 and over 700 by 2000. At current rates of growth, it will reach 1900 by 2025. Total justice system expenditure grew from under $36 billion in 1982 to $120 billion by 1996. Per capita justice spending has increased from about $150 per year in 1982 to nearly $450 in 1995. The fastest rising component of justice spending is expenditure on corrections. The direct cost of incarceration now runs at about $25,000 per year per inmate, but indirect costs (including support of the prisoner’s family) raise that substantially.

Prisons and jails remove 2 million mostly young, and mostly male, individuals from the potential labor supply—the same population that used to go into the military, but is now excluded because of downsizing and because educational standards for the military have been raised considerably (virtually everyone in military service has at least a high school degree). However, while military service probably enhanced the employability of many (perhaps most) recruits, it is doubtful that imprisonment changes the behavior of prisoners in a positive manner. On average, prisoners commit 12-15 crimes per year after release from prison, with an estimated cost to society of $80,000 per year per releasee. With the near abandonment of attempts to rehabilitate or educate prisoners, it is unlikely that most prisoners leave prison better prepared for employment.

It is true that there is a growing movement to increase employment in prisons and jails—which would presumably enhance employability after release. Currently, little more than 6% of prisoners work in jobs other than those directly related to prison support. About 75,000 prisoners produce goods for use in the public sector while another 2500 work for the private sector producing marketable goods and services. In contrast, in 1889 90% of prisoners worked, with many leased to private firms and farms—and many would like to return to the good old days of use of prison labor for profit. We are moving in that direction.

Prison employment is seen as a means to enable prisoners to earn wages to compensate victims, support families, and pay for prison room and board. Others emphasize that employment in prison will help prisoners to obtain jobs after release, thereby reducing recidivism. Unfortunately, most studies find that prison employment only reduces recidivism by 3-8% (although at least one study shows a 20% reduction). Furthermore, on implausible assumptions of elasticities, employing prison labor could result in net costs to society because the benefits resulting from slight reductions of recidivism and greater prison output would be more than offset by higher unemployment and increased crime rates compete with imports from low wage countries. Indeed, HR2558 (introduced in Congress in 1999) would have specifically exempted prison labor from minimum wage laws if it competes directly with “foreign made products.” This is a rather surprising turn of U.S. policy, given objections to alleged use by China of convict labor to increase its international competitiveness.

One of the most important benefits of penal Keynesianism is that new prisons bring new infrastructure to host towns—roads, businesses serving guards, prisons, and prisoner families, and new homes. While prison and related infrastructure construction is not yet nationally significant, it is already locally and even regionally important. For example, prison construction and operation is the most important growth industry in upstate New York.

Similarly, prison construction and operation provides an important stimulus to aggregate demand in many areas, but is still too small to add much to our nation’s GDP. Indeed, it is not clear that prisons add net demand at all. Prisoners cost society $25,000 per year while incarcerated, but $80,000 per year when released (primarily due to costs of crime)—which means they add more to demand when they are out of prisons and busy committing crimes. Whether the net effect of our penal system on aggregate demand is positive probably cannot be determined.

On the other hand, it is clear that penal Keynesianism is an important source of demand at the local level. The new supermax in Malone, N.Y. will create 510 sorely needed jobs...
(guards, administrators, and clerical workers) to help replace the 750 Tru-Stitch Footwear jobs lost to downsizing. New prisons also create significant numbers of jobs in local businesses. Note, also, that penal Keynesianism tends to promote hiring off the bottom (guards, convenience store clerks)—which is good for the supply side (creating jobs for the low skilled) but less beneficial for the demand side (relatively low wages) when compared with military Keynesianism.

Turning to world aggregate demand, increased prison labor that produces goods and services for market will almost certainly lower demand by displacing higher wage labor. Even at the level of U.S. states, prison construction and operation probably adds little to demand because it merely displaces other types of spending. Both California and New York, which long had two of the best systems of higher education, now spend more on prisons than on higher education and it is likely that justice spending has displaced education funding. Unlike military Keynesianism—which was largely federally financed (thus, only loosely constrained by government revenues)—penal Keynesianism is mainly state and local government financed (thus, subject to balanced budget requirements). In sum, it appears that penal Keynesianism is a poor substitute for military Keynesianism on either the supply side or demand side.

Is there an alternative to penal Keynesianism (and to military Keynesianism)? In recent years there has been growing support for a nationwide program of Public Service Employment (PSE) that would guarantee jobs for all who are ready, willing, and able to work. In our favored version of the plan, the federal government would establish a fixed, universal wage and benefit package for PSE workers. All state and local governments as well as approved nonprofit agencies could hire as many PSE workers as desired, with the federal government paying the wage and benefit package.

The target population for the PSE program would be the low-skilled, poorly educated population that used to be recruited into the military, but now remains out of the labor force and in prison. It is somewhat ironic that there is a movement to employ high school dropouts who are incarcerated, yet, there is no concerted effort to provide jobs for the portion of high school dropouts who are not (yet) in prison. If it is true that prison employment reduces recidivism, increases chances of obtaining jobs after release, and reduces probability of committing crimes upon release in spite of all the negative influences on character (actual and perceived) of serving time in prison, then employment outside prison should be even more effective at producing such social benefits.

Further, employing prisoners in the absence of a universal PSE program may simply reduce employment opportunities of the non-imprisoned. At the very least, we should offer the same employment opportunities to those who are not imprisoned as we offer to inmates. Why not simply offer a job to all who are ready, willing, and able to work?

These and other related issues will be explored at our Third Annual C-FEPS Interdisciplinary Social Science Conference at UMKC, in the fall of 2002. C-FEPS invites those working on related areas to submit paper proposals and recommend potential speakers, and welcomes those interested to attend the conference. More specific information about exact dates and times, as well as the program will be available at the C-FEPS website.

For Further Reading


C-FEPS Collaborates with New School in Russell Sage Foundation Grant Research

Collaboration with the New School for Social Research continued this year, with C-FEPS receiving and administering a Presidential Grant from the Russell Sage Foundation that facilitated research conducted by Edward J. Nell and Raymond Majewski. The two principal investigators produced several studies, two of which are published in the C-FEPS Working Paper Series and deal with designing an Employer of Last Resort (ELR) policy in pursuit of true full employment.

The research entailed running simulations using a slightly modified Fair Model to analyze the actual impact of an ELR program. Nell analyzed the macro effects of the program, while Majewski concentrated on developing the simulations, making modifications and developing a methodology for incorporating an ELR into the Fair Model. The authors obtained very positive results. One unanticipated finding was that the program more or less paid for itself: automatic stabilizers eliminated the budget deficits initially run to fund the ELR. The program was large, but not excessive, and successfully reduced unemployment and increased output. In addition, the authors found ELR to be non-inflationary, with a significant stabilizing effect.

Apart from the numerous papers and presentations that have resulted from the Russell Sage project, all findings will be summarized in a forthcoming book, *Maintaining Full Employment*. This research constitutes a valuable contribution to the policy debates in which C-FEPS is active.

For Further Reading


Social Security Petition continued from p. 3

...population and the under-age-18 population, the average worker in 1965 supported more “ dependents” than a worker will support through the next 75 years. Again, the rising “real” burden on workers does not appear to approach crisis proportions. So long as worker productivity rises— even at the relatively low average growth rates seen since 1973— workers of the future will enjoy higher real living standards even as they support more retirees.

Finally, while it should be apparent that a Trust Fund cannot help to reduce future financial burdens or real burdens, it should be just as obvious that privatization cannot help either. Even leaving aside the obvious questions about volatility of financial markets as well as substantial management fees that reduce returns, society does not and cannot provide for its future through such financial means. Tomorrow’s workers will have to provide the goods and services required by tomorrow’s retirees. Note that no amount of privatization can reduce the amount of GDP that will need to be shifted. Even if tomorrow’s retirees were to hold financial assets that provide greater monthly income than retirees would have had in the absence of Social Security “reform,” this will not directly reduce the burden on tomorrow’s workers. Indeed, it will increase the burden if it succeeds in raising real living standards of future retirees. Of course, some claim that privatization today will lead to a higher growth path by leading to more saving and investing, thereby reducing the real burden tomorrow. However, economists are divided on the best ways to encourage such investment, with many doubting that reforms centered around privatization could lead to a net increase of national saving. In any case, the government has at its disposal a wide variety of other methods of encouraging saving and investment—from favorable tax treatment of personal savings accounts and capital purchases to direct support of investment (for example, through provision of funding for R&D and for public infrastructure). There is no need to change the basic structure of Social Security to achieve such national macroeconomic goals.

For the past six decades Social Security has served us well, providing a system of social assurance that guarantees a minimum standard of living for the retired, survivors, and disabled workers. Social Security is one of the most effective and comprehensive social assurance programs in history. It is a bulwark of our economy, providing strong and stable sources of employment in meeting the needs of our elderly population, while relieving younger families of much of the financial burden that private care of the elderly would otherwise impose. With only comparatively small adjustments that might be required in the future, Social Security will serve us well for another six decades and more.
C-FEPS Conference Examines and Celebrates “The Promise of Public Work”

The Center for Full Employment and Price Stability supports Public Service Employment Assurance, meaning a guaranteed job for any individual ready and willing to work, with no means tests or time limits and with health care. While the Center believes that increasing the aggregate number of jobs is crucial and that a paycheck is important, we are also committed to the idea that employment is far from solely, or even primarily, an economic issue. Work is central to self-identity, social relationships, and the bonds among members of any community. Work has meaning with regard to the income generated for the employed and the services that employment provides, but also for what Nobel Prize winning economist Amartya Sen has called the “recognition aspect” of work—of “being engaged in something worthwhile.” To explore these multiple qualitative and social dimensions of work, employment, income, and development, the Center brought together scholars, policy makers, educators, and community activists representing a variety of perspectives on the theory and practice of public work for its Second Annual Interdisciplinary Social Science Conference held at the University of Missouri – Kansas City, “The Promise of Public Work – Public Service Employment and Community Development” on October 18, 2000.

In his “Welcoming Remarks,” C-FEPS Director Mathew Forstater proposed that the day be thought of as a dialogue right from the start, with as much time as possible being devoted to interactive exchange between speakers, participants, and those in the audience. Forstater said that as he reflected on the day’s program, the topics covered and the participants’ backgrounds, he was struck by the ways in which there is “a shared intellectual and practical commitment to going beyond the false dichotomies: the false dichotomy of theory and policy; of public and private; of individual and community; and so on. With the freedom from the constraints of such dichotomies come opportunities for creative problem-solving that can contribute to constructive social transformation.” Forstater then introduced the first speaker for the morning, Dr. Harry C. Boyte, whose presentation served as the Keynote Address for the conference. Boyte is a Senior Fellow and Co-Director of the Center for Democracy and Citizenship at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota. He is also the co-author with Nanci N. Kari of Building America: The Democratic Promise of Public Work (Temple University Press, 1992), the sub-title of which served as the inspiration for the conference theme.

Dr. Boyte’s presentation was entitled, “Beyond a Paycheck: Meaningful Work and the Rebirth of Democracy.” He began by citing the recent “growth industry” of articles, books, and commentaries concerning the crisis in American democracy. Here he referred to such trends as increased cynicism regarding government, civic disaffection, declining participation in voluntary organizations, and the kinds of developments highlighted in Robert Putnam’s book, Bowling Alone. In virtually all of these analyses, Boyte noted, the topic of work is neglected. Many even cite “overwork” as one of the causes of the crisis. “Citizenship” is somehow separated from work, places of work, and people’s identities as workers. Work, Boyte emphasized, is not beside the point: “It is at the center of citizenship. Returning work to the center of the discussion about citizenship opens up enormous new possibilities for democratic renewal.” In particular, Boyte stated that the term “public work” provides a vehicle and means for reintroducing the civic overtones and meanings of labor.

Bringing public work back into the discussion of the civic crisis and the potential for civic renewal also unearths a history that has been largely overlooked or forgotten. In the eighteenth and nineteenth centuries, for example, the term “commonwealth” had vibrant power. It conveyed a down-to-earth notion of “the commons,” those basic public goods in which all had a stake and which all needed to help build and preserve. “Commonwealth” meant what was taken care of collectively. It also provided the basis for groups like the poor, slaves, immigrants, and women which a healthy private sector is possible only with a strong public sector and the community basis on which it rests and depends. Perhaps no era was as redolent with the images, themes, and language of public work as the 1930s and 40s. With the WPA (Works Progress Administration), CCC (Civilian Conservation Corps), and the PWA (Public Works Administration), public work came to the fore in rebuilding and maintaining not only America’s
economy, in shambles from the Great Depression, but American democracy and civic life itself.

Boyte emphasized that producing tangible, useful and functional products is only one of the many benefits of public work. It must also be recognized that public work produces tremendous capacities and capabilities in the people who participate; brings to the forefront new resources for problem-solving; and provides lessons that may be integrated into the collective memory of the community. For Boyte, public work offers a different strategy for overcoming divisions among diverse groups of Americans than what is conventionally put forward today. Public work allows groups to put aside divisions for the sake of combined effort toward common ends. “We can recognize the need to work with others whom we do not like, whom we do not agree with, and whom we see as far different than those in our own community when there are larger public purposes.” Public work generates new sources of energy. It brings together people, resources, and groups who may never have imagined working together. By creating new working relationships, it also changes the dynamics of power, often in significant ways.

Public work promotes public spaces. These locations in turn encourage public conversations, central to democracy. Communal networks develop, which are key to the kinds of mutual aid and social support systems that ensure quality of life for the citizenry. The working relationships of respect that develop are primary institutions of conflict resolution and community building across ethnic and other divisions in a multicultural society. New Deal programs like the WPA and the CCC demonstrate the unlimited potential of public work. From the arts to history to environmental protection, these programs did more than just provide a paycheck. Individuals excluded from work in the private sector found the space where they not only could earn a living, but where they realized their human potential and contributed to society. But the post-WWII era, with its increasing suburbanization and consumerism, became a time in which there was a great loss in public space. Now is the time when it is more important than ever to find ways of creating, expanding, and nurturing public work and the commonwealth.

Two discussants led off the conversation following Boyte’s presentation: Herman Wallace, Director of the Regional Office of the U.S. Department of Labor Employment and Training Administration; and Peter Eaton, Professor of Economics and Director of the Center for Economic Information, Department of Economics, University of Missouri – Kansas City.

Wallace affirmed the consistency of the main points of Boyte’s speech with the outlook of the Department of Labor. Individuals want to be doing, and want to be seen doing, good works. But Wallace cautioned against government programs that would be “make-work” and wanted to see more emphasis on creating jobs in the private sector. Eaton, who has long-time experience in community development, also expressed agreement with the themes of Boyte’s remarks. He reiterated the point that any community development initiative that does not include a job creation component will have limited success.

The second morning session was led by Kansas City Councilman Troy Nash, who spoke on the Prospect Corridor Initiative. Nash began with a brief history of residential segregation and discrimination in housing and credit markets in the Kansas City region. These historical practices severely limited African American opportunities in home buying and community building, and resulted in the “doughnut hole” or “urban core”—the depressed, poor and predominantly African American inner city neighborhoods in and around the Prospect Corridor. In order to bring attention to the development needs of this region, Nash borrowed an idea from Newark, N.J. City Councilman Cory Booker, who had slept out at one of the most crime ridden and economically depressed areas of his city. Nash camped out at the corner of 39th and Prospect, inspiring the neighborhood and receiving significant media attention. Community organizations, churches, neighborhood groups, and individual citizens became enthused about the idea and became involved in developing the plan. The City Councilman then used this momentum to push legislation through earmarking development funds for the Corridor. The project is now in full swing.

Lunch included a video entitled “We the Young People,” by Public Achievement, a program of Boyte’s Center for Democracy and Citizenship. The goal of Public Achievement is to redefine politics as the everyday public work of citizens. They do this by developing practical concepts related to people’s on-going work within organizations and institutions. Collectively, the concepts are called “citizen politics,” which refers to the on-going, active work of citizens based on a broad set of principles—respect for diversity, an awareness of the “big picture,” and the expectation that people can learn to negotiate a public world that is linked but distinct from private and community life. Citizen politics is not a specific ideology or set of “correct opinions.” The principles of citizen politics provide the conceptual framework for the work of Public Achievement.

Public Achievement is an exciting opportunity for young people to become
UMKC Professor Peter Eaton of the Center for Economic Information at the “Promise of Public Work” Conference, October 2000

effective players in our democracy. Working in existing youth organizations with trained coaches and organizational leaders, young people address issues that directly affect their lives in year-long projects. In the process they learn that politics is found in the day-to-day action people take to solve problems around them and to make changes in their communities and their lives, while seeing the connections to larger issues and arenas.

Through Public Achievement, young people learn to become serious, life-long citizens by defining a community or school problem and identifying their stake around that problem; mapping their environments in order to understand the relationships they need to develop to solve the problem; working with a diversity of other interested participants to solve the problem; developing strategies to take public action and following through with their plans; evaluating their work and roles to further develop their capacity for political action. Also through this process, youth organizations like schools, religious congregations, and community groups learn to integrate a citizenship approach into their work with young people. Furthermore, coaches—usually teams of college students and organizational leaders—learn the concepts and skills of serious citizenship. They not only teach these ideas to their teams, but also practice them in working with their teams and institutions.

Following lunch, there was an impromptu presentation by Community Activist Ron Macmillan, a frequent participant in C-FEPS activities. Macmillan spoke of the importance of community networks and how they provide resources that are often invisible until a crisis emerges. At that time, the strength and resilience of the commonwealth is tested. Macmillan cited several examples of recent crises in the Kansas City area where diverse groups were able to come together and provide solutions for families and communities in need. He also spoke of his own life experience, coming to Kansas City from New York, and expressed enthusiastic support for The Prospect Corridor Initiative, Public Achievement, and the Center for Full Employment and Price Stability.

The first afternoon session included three presentations. C-FEPS Senior Scholar L. Randall Wray presented his proposal for a Public Service Employment program that could ensure full employment without inflation or deflation. In his plan, federal government would pay the wage-benefits package for anyone ready, willing, and able to work, but local not-for-profit organizations and local government would administer the program. Wray explained how the government-set wage would guarantee price stability by defining the value of the currency. In this presentation, he emphasized how the program would provide the unemployed with opportunities for skills development, while the services performed would provide greatly needed community services and public goods.

Clyde McQueen, Director of the Full Employment Council of Greater Kansas City, shared insights from his three decades of experience in job creation. From the Carter era to Reagan-Bush to Clinton, he spoke of the changes in programs over the years, including CETA and other jobs programs. Whatever the administration, there are always needs and there are always opportunities. His challenge has been to try to navigate through the changing institutional matrices to find jobs for those in need. So many lives have been transformed when individuals are given a chance to demonstrate and develop their abilities. The positive impact on both the individual and the community that benefits from their contribution has been the reward for his commitment to full employment for many years.

The final presentation of the first afternoon session was by Terry Ward, Assistant Vice President for Facilities and Community Relations, H & R Block, Inc., Chair of the State of Missouri Welfare Coordinating Committee, and volunteer with LINC (Local Investment Commission). Ward spoke of the success of H & R Block in locating in poor neighborhoods, creating jobs and contributing to community. In his vision, private companies are not just businesses; they and their employees are also citizens of the communities in which they are located. Ward also spoke of his experience with LINC, seeing the long-time unemployed move into jobs.

The last session of the day was a roundtable on “The Civic Role of Higher Education—Higher Education as Public Work.” Moderated by C-FEPS Director Mathew Forstater, the panel included Boyte; Laurence Kaptain, Professor and Assistant Provost at UMKC; Morteza Ardebili, Professor and Vice President for Executive Services and Director of the Center for Research in Community Development, Kansas City Kansas Community College (KCKCC), Adjunct Professor with the Social Science Consortium in UMKC’s Interdisciplinary Ph.D. Program, and frequent participant in C-FEPS activities; and Charles Reitz, Professor and Director of the Public Achievement Program at KCKCC.

The Roundtable began with a discussion of the relationship between the individual and the community, and the university and its community. Ardebili and Forstater proposed that these relationships be viewed ecologically. Ecology focuses on relationships. Organisms are not only mutually related and interdependent; they are mutually defining. A species is internally related to its habitat. Its network of relationships determines its completely unique and identifying characteristics. It is not only located in its context or related to its context; it is literally constituted by its context.
A Proposal for Development in the Palestinian West Bank

Lack of full employment, economic security, requisite public services, and a stable currency most often characterize underperforming economic systems. Perhaps this is nowhere more apparent than in those economies and societies that for historical, political and economic reasons have yet to benefit from the increases in living standards and supporting institutional transformations associated with modern economic development. Many nations in Asia, Africa, and Latin America immediately come to mind. And perhaps no region has been more disadvantaged as a result of geopolitical strife than the Palestinian West Bank. Unemployment has long been beyond Great Depression levels, and public infrastructure is absent or minimal.

The Center for Full Employment and Price Stability has developed a proposal that has been presented to a number of individuals and groups with an interest in the Middle East Peace Process and development in Palestine. In C-FEPS Special Report 00/04, Associate Director Pavlina Tcherneva discusses an institutional framework for implementing a public service program that will enhance growth and development in the private sector, improve social services and public infrastructure, and foster economic performance in Palestine.

Tcherneva points to the fact that the Palestinian National Authority (PNA) was designed, established and approved by Israel and the Palestine Liberation Organization in the 1993 Oslo Accords as a governing body that performs the functions of a State. The primary goal in its institution-building efforts is to provide the Palestinian people living in the West Bank and Gaza with a quality of life that is desirable and indispensable. The proposal allows the PNA to step up to the challenge and perform its functions as a state, not only in theory, but also in practice, by implementing a meaningful program that will change the economic reality in the Palestinian West Bank.

In the June-July, 2001 issue of the Middle East Insight, C-FEPS co-founder Warren Mosler argues that the backbone of all societies is public service. In his article “Building a Palestinian Economy,” Mosler advances a similar blueprint for Palestinian development. He argues that a program of Public Service Employment instituted by the PNA will be internally stable and promote self-reliant development without the pitfalls of external debt. A financially independent authority can provide impetus for private-sector activity, a stable currency, and full employment.

Individuals and social institutions are not elemental units that bear only external relation to one another, as in classical liberal and neoclassical economic conceptions.

A vigorous dialogue ensued. The university must not ignore the community. But neither must the university look down paternalistically at the community, not only because it is condescending, but also because doing so perpetuates the view of the university as outside the community. Until we begin to view the relationship ecologically—that is, as interdependent, synergistic, and dynamic—we will not have earned the right to refer to the university as an institution of higher education. Kaptain spoke of the Blueprint process going on at UMKC, and how it has the potential for being a democratic public space, the basis for a thriving university and university-community relationship.

Public Work is the basis for a healthy society. C-FEPS supports the idea that a Public Service Employment program can do much more than provide a paycheck. Such a program can serve as the foundation for the kind of public space articulated in Boyte’s vision, providing public goods and expanding people’s capacities and capabilities.

For Further Reading


Meeting with Chinese Officials continued from p. 15

package of benefits could include healthcare, childcare, sick leave, vacation, and contributions to Social Security, so that years spent in PSE would count toward retirement.

5. PSE experience prepares workers for post-PSE work—whether in the private sector or in government. Thus, PSE workers should learn useful work habits and skills. Training and retraining should be an important component of every PSE job.

6. Finally, PSE workers are engaged in useful activities. For the U.S., it is proposed that they focus on provision of public services; however, a developing nation like China may have much greater need for public infrastructure—for roads, public utilities, health services, and education. PSE workers should do something useful, but they should not do things that are already being done, and especially should not compete with the private sector.

These six features determine what a PSE program ought to look like. This different nations might take different approaches.

Cost of the Program

C-FEPS also addresses questions concerning costs of the program. First, can we afford full employment? To answer this, we must distinguish between real costs and financial expenditures. Unemployment has a real cost—the output that is lost when some of the labor force is involuntarily unemployed, the burdens placed on workers who must produce output to be consumed by the unemployed, the suffering of the unemployed, and all the social ills that are generated by unemployment and poverty. From this perspective, providing jobs for the unemployed will almost certainly reduce real costs and generate net real benefits for society. Indeed, in a real sense it is best to argue that society cannot afford unemployment, rather than to suppose that it cannot afford full employment!

On the other hand, most people are probably concerned with the financial cost of full employment, or, more specifically, with the impact on the government’s budget. However, the idea that a nation cannot financially afford to put unemployed people to work is flawed. How will the government pay for the program? It will write checks just like it does for any other program. This is why it is so important to understand how the modern money system works. Any nation that issues its own currency can financially afford to hire the unemployed. A deficit will result only if the population desires to save in the form of government-issued money and interest-paying government debt. In other words, the size of the deficit will be market-demand determined by the population’s desired net saving.

Price Stability and the Automatic Stabilizer

Economists usually fear that providing jobs to people who want to work will cause wages to increase. Thus, it was necessary to explain how the proposed program will actually contribute to wage stability, and thus promote price stability. The key is that the program is designed to operate like a “buffer stock” program, in which the buffer stock commodity is sold when there is upward pressure on its price, or bought when there are deflationary pressures. The proposal is to use labor as the buffer stock commodity, and as is the case with any buffer stock commodity, the program will stabilize the commodity’s price. The government’s spending on the program is based on a “fixed price/float- ing quantity” model, and hence it cannot contribute to inflation.

Currency Stability

Finally, C-FEPS examined the possible effects on exchange rates. People tend to raise two objections: if PSE increases employment, that will increase income, thus increase imports and worsen the trade balance, causing the currency to fall. Second, it is feared that the increase of government spending will worsen the budget deficit, causing financial markets to react and flee the currency. In reality, exchange rates are complexly determined, and it is clear that the trade balance alone does not determine
exchange rates. Furthermore, counter-measures can be taken to prevent a trade deficit from occurring, or to prevent a trade deficit from leading to depreciation of the currency. However, for the sake of argument, suppose that after implementation of PSE, a trade deficit does result which causes the currency to depreciate. That means that the currency was previously being propped up by keeping people unemployed. Is it really worth that cost? Think of all the negative implications—from emigration to illegal activity—and contrast that with the benefits of a PSE program that provides public infrastructure, gives people job experience and training, and generally improves the welfare of the population—all at the cost of a possible depreciation of the currency.

Most likely, however, PSE will have the opposite effect on the currency. Firstly, increasing the productivity and the quality of the PSE pool will actually increase the purchasing power of the currency. Secondly, PSE keeps the price level internally stable, so any fluctuations with respect to foreign currencies will be evidence of fluctuations of the other currencies. Finally, over time, most of the world’s currencies experience inflation, thus an internally stable currency can be expected to gradually appreciate. With respect to international financial markets, PSE will attract foreign direct investment as it promotes maximum output and consumer demand by keeping everyone gainfully employed. Foreign direct investment will be further encouraged by the fact that PSE maintains a large, visible, productive pool of labor for hire at a stable compensation package. Since PSE strengthens the economy, it also strengthens and stabilizes the currency. The long-run path for the currency should actually be higher, not lower; this path would be “bought” by lowering unemployment. The notion that a country is made weaker by reducing unemployment makes no sense. It is perverse to argue that keeping a portion of the labor force unemployed is necessary to keep the currency strong.

The response from the Chinese officials was very positive. They expressed interest in continuing the dialogue further and suggested the possibility of moving the discourse to the next level by making a formal presentation to officials in mainland China.

Overall, the delegates seemed to be mostly interested in the aspects of the program that deal with stable prices. Chinese Economic Counselor Tian Jun raised several questions about what traditional economic theory describes as a trade-off between unemployment and inflation. In orthodox analysis full employment is considered to be inflationary, while price stability is attained at the expense of some unemployment. In response to Counselor Tian’s concerns, C-FEPS Director Mathew Forstater prepared a memorandum outlining ten features of the PSE proposal that ensure stable prices.

Why PSE Is Not Inflationary

1. The operation of the PSE program ensures that budget deficits will never be too large or too small.

As discussed earlier, a budget deficit is normal and a budget surplus should be generated only in unusually strong expansions. Inflation can occur when aggregate demand is too large relative to aggregate production or productive capacity, and deflation may occur when aggregate demand is too low relative to total production or productive capacity. If there is unemployment in the economy, this is evidence that aggregate demand is too low. Under PSE, the unemployed will be hired at the basic PSE wage, increasing the budget deficit. Income and thus spending will rise, increasing aggregate demand. When aggregate demand has risen to just that level sufficient to purchase the entirety of the full employment level of output, there will be no more unemployment, and budget deficit will cease expanding. Thus PSE serves as a powerful automatic stabilizer, increasing the budget deficit and thus aggregate output, income, expenditure, and employment when these are too small, providing an built-in guard against deflation. Once unemployment drops to zero, there will be no additional hiring into PSE, so the budget deficit will cease to grow, ensuring that aggregate demand will not grow beyond the full employment level of output (at current prices). If the budget deficit were to grow beyond that point, this could push up prices, but the automatic stabilizing feature of the PSE program ensures that this will not happen. Note that PSE serves these important functions without any need to estimate or predict national income data: spending automatically increases when it is too low, and automatically stops when it reaches the appropriate level. Note also that, under PSE, traditional fiscal and monetary policies remain available to ‘fine-tune’ aggregate demand, as well as the size of PSE relative to private sector activity.

2. PSE may be directed toward public works and other infrastructure development and improvement that will promote private sector productivity growth.

The private sector depends on goods and services produced and provided by the government. An adequate supply of quality public resources is key to the
smooth and efficient functioning of the private sector. For example, distribution requires quality transportation networks. Good roads enable firms to save time, get good gas mileage, and experience minimal wear and tear on their vehicles. Well-developed and well-maintained infrastructure thus contributes to private sector efficiency, meaning lower costs. If PSE is directed toward the development and maintenance of infrastructure and other public resources then this can have a positive impact on private sector productivity. Such productivity enhancement helps ward off inflationary pressures. This is an additional way in which PSE supports a non-inflationary environment.

3. The maintenance and appreciation of human capital will result from PSE.

Unemployment is associated with the depreciation of skills and work habits. By employing those who would otherwise be unemployed, PSE helps maintain and even appreciate human capital. Workers ‘learn by doing,’ and knowledge is maintained when they remain employed. PSE gives workers the opportunity to get additional experience with familiar tasks, and even the chance to engage in new kinds of activities. PSE can also include education and training, and thus additionally contribute to worker productivity. Inflation can occur when real wages rise faster than labor productivity. By enhancing labor productivity through the maintenance and appreciation of human capital, PSE ensures this sort of inflation will not occur.

4. PSE results in a reduction in the social and economic costs of unemployment.

Unemployment imposes huge social and economic costs on society. For example, studies have shown that unemployment results in crime, poor mental and physical health, family disruption, ethnic and racial division, and other social problems. By guaranteeing full employment, PSE reduces the social and economic costs of unemployment society otherwise has to bear. PSE is thus likely to significantly reduce expenditures on prisons and the criminal justice system, health care, social work, and other expenditures necessitated by the effects of unemployment. The nominal costs of PSE are thus partially offset by reductions in the social and economic costs of unemployment.

5. Other social costs can also be reduced as a result of PSE activities such as environmental, healthcare, childcare and other social services.

In addition to the reduced social and economic costs of unemployment, PSE may also be directed to activities that reduce other social costs. For example if PSE workers are engaged in environmental protection and clean-up, education, health care, child care, and other social services, this will reduce the direct and indirect costs of pollution, illiteracy, ill health, and other societal problems. The reduction in spending in these areas will also partially offset the nominal costs of PSE, and thus further ease inflationary pressures.

6. Expenditure on PSE will be partially offset by a reduction in other forms of expenditure that PSE makes unnecessary. Unemployment insurance, welfare and other social spending can be reduced.

In addition to reducing the social and economic costs of unemployment by providing for full employment, and reducing other social costs by directing PSE into appropriate activities such as environmental clean-up, expenditure on PSE will also be partially offset by reduced spending on other social programs. For example, much spending on unemployment insurance, welfare, and other aid to the poor would become unnecessary. PSE is thus associated with reduced spending in a number of areas, ensuring that the nominal cost of PSE would not be inflationary.

7. Public works tend to be less inflationary than the ‘dole’ because they increase both aggregate supply and aggregate demand, rather than only aggregate demand.

Welfare and other support for the poor and unemployed in the form of transfer payments increase disposable income and thus spending. PSE also increases aggregate demand, but because PSE activities provide infrastructure and goods and services, it is also associated with an increase in aggregate supply. Ceteris paribus, an increase only in aggregate demand will more likely be inflationary than an increase in both aggregate demand and aggregate supply. PSE is thus less likely to contribute to inflationary pressures than the ‘dole.’

8. Inflationary bottlenecks and other rigidities may be avoided with PSE.

Production bottlenecks and rigidities associated with high levels of private sector employment can result in inflation. With PSE, full employment can be attained, but without sacrificing the flexibility usually associated with excess capacity and a pool of unemployed labor. PSE activities are not constrained by private sector efficiency criteria, so methods of production may be selected that do not draw resources...
from sectors operating at high levels of capacity utilization. Numerical flexibility is retained with PSE, as PSE workers are ready to enter the private sector when the demand for labor rises. PSE may therefore be thought of as “full employment with loose labor markets.” PSE offers the real possibility of a flexible full employment, a full employment that is not inflationary.

9. Firms can continue to maintain reserve capacity, even while PSE guarantees full employment of labor.

Firms plan reserve capacity to meet peak demand and unexpected increases in demand for their products. Reserve capacity at the firm level often translates into excess capacity at the industry and economy-wide levels. This excess capacity is normally complemented by a reserve army of unemployed labor that stands ready to enter production lines when demand rises. PSE permits full employment of labor, but without sacrificing the reserve capacity in terms of plant and equipment. By permitting the economy to run at ‘normal’ rates of capacity utilization, PSE presents the opportunity to have the ‘best of both worlds’: full employment of labor and non-inflationary reserve capacity.

10. The basic PSE wage is set exogenously by the government and is therefore a perfectly stable benchmark price for labor—it is effectively a minimum wage.

Under PSE, government is willing to hire as few or as many people who want to work at the basic PSE wage. It is therefore free to set the PSE wage exogenously, rather than paying a market-determined wage. Being fixed, the program’s wage is perfectly stable and sets a benchmark price for labor. It is thus unlikely that inflation will be due to wage-related factors under such a system. In fact, the exogenous pricing component of the PSE approach may be seen as a means of defining the national currency in terms of fairly homogeneous, low- or semi-skilled labor. The program wage thus serves as an anchor to which the currency is tied. Because labor is a basic commodity, employed directly and indirectly in the production of every other commodity, PSE offers a mechanism for regulating the value of the currency, and thus controlling the price level. In this sense, the PSE approach resembles a commodity buffer-stock scheme, only here it is labor that is being used as the buffer stock to stabilize the currency. In fact, even if there were no other non-inflationary aspects of the program, this aspect itself would be enough to ensure that PSE can offer full employment and price stability.

In summary, PSE is an automatic stabilizing policy instrument that can ensure full employment, without the danger of inflation. PSE establishes the infinitely elastic demand for labor required to guarantee full employment. Financing such employment through deficit spending guarantees the recycling of excess savings necessary to bring the desired and actual holdings of net financial assets into equality at the zero involuntary unemployment level of economic activity. A number of features of the approach establish it not only as a viable means to true full employment, but as a tool for price stability as well. In fact, once the blinders of dysfunctional finance are removed, it can be seen that a basic understanding of double entry bookkeeping in national income accounts and the nature of tax-driven currency reveals that price and currency stability requires full employment and national economies cannot afford not to have full employment.

John Maynard Keynes argued:

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 for an indefinite period, 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.... Our main task, therefore, will be to confirm the reader’s instinct that what seems sensible is sensible, and what seems nonsense is nonsense. We shall try to show him that the conclusion, that if new forms of employment are offered more men will be employed, is as obvious as it sounds and contains no hidden snags; that to set unemployed men to work on useful tasks does what it appears to do, namely, increases the national wealth; and that the notion, that we shall, for intricate reasons, ruin ourselves financially if we use this means to increase our well-being, is what it looks like—a bogy.

—John Maynard Keynes 1972, 90-92

The proposal was very well received by both the Chinese Embassy Representatives and Gao Shangquan. All expressed interest in continuing the dialogue at a more formal level. Currently C-FEPS is in discussion with some of the participants about a meeting in Beijing, China in the near future.

For Further Reading


Book Corner: Modern Money is “Free Money” Says Rodger Malcolm Mitchell in New Book

While C-FEPS scholars have a variety of research interests, they share a common interest in promoting economic policies that are both theoretically well grounded and socially well intentioned. Our scholars believe that the economic security of our citizens must be improved, and that this goal can be achieved through the promotion of sound macroeconomic policies. With this objective in mind, C-FEPS scholars have focused on the protection of our nation’s social security program and the promotion of policies designed to bring about full employment.

Although most economists, politicians, and private citizens would sympathize with our agenda, they frequently deny the feasibility of our proposals. “We can’t afford it!” “We need a lockbox!” “We’ll burden our grandchildren!” “We’ll crowd out private spending!,” and “We’ll cause inflation!” are among the more common objections we hear. Thus, what sounds like responsible social policy appears, to some, to be irresponsible economic policy.

Senior Research Associate L. Randall Wray addressed these misconceptions in his 1998 book Understanding Modern Money: The Key to Full Employment and Price Stability. And, in a new book entitled Free Money: Plan for Prosperity, Rodger Malcolm Mitchell adds to the body of literature that has attempted to dispense with these myths. From our perspective, Mitchell’s position is particularly interesting because he approaches the problem not as an economist, burdened by years of graduate training, but as a “turnaround specialist,” who must routinely ignore what appears to be true in order to determine the reality of each company’s situation.

Mitchell is clearly frustrated by the so-called “experts” who, he says, “have begun to destroy our economy.” He recognizes that their destructive policies follow from their failure to fully appreciate the nature of a modern monetary system. Thus, Mitchell suggests that it is necessary to reevaluate our common beliefs about money in order to overcome the destructive policies that follow from our misconceptions.

Mitchell’s greatest strength is, perhaps, his balance sheet approach. He understands that “the economies of the world form a perfect balance sheet. For every debt, there is a credit; for every deficit, there is a surplus; for every lender, there is a borrower; for every outflow, there is an income; for every sale there is a purchase.” Though it may appear obvious or benign, this simple recognition paves the way for a proper evaluation of issues such as the “burden” of the federal debt or the “virtue” of a government surplus. Moreover, since Mitchell recognizes that money always exists simultaneously as both an asset and a liability (i.e., a credit and a debt), he understands that eliminating one party’s debt is tantamount to destroying another party’s asset. Thus, he opposes the Balanced Budget Amendment as well as proposals to eliminate the public debt. In his view, “money truly is free.” And, since money is free, he believes that the government should create (and spend) enough of it to maintain economic prosperity.

Although the book is full of additional insights on Social Security, the U.S. trade deficit, inflation and the economic effect of household saving, it also suffers from one major problem. For Mitchell, taxes play no beneficial role; they are harmful to businesses and to the economy at large. The reason is this: the collection of taxes destroys a government debt, which, prior to being transferred to the federal government, existed as a private sector asset. We at C-FEPS consider Mitchell to be half right.

The collection of taxes does indeed lead to the destruction of government money. This is an important point, which, as Mitchell recognizes, proves that taxes cannot be “used” to finance government spending. But we at C-FEPS emphasize that the government’s ability to create “free money” derives from the acceptance of the money in payment of tax and other liabilities to the state. Thus, taxes are not simply a means by which to destroy government liabilities. They are also the means by which the government establishes the supremacy of its debt. If businesses and individuals were not required to remit U.S. dollars in payment of taxes, why would they accept U.S. dollars? Why would people continue to write contracts in this unit? What would give value to what Mitchell recognizes are simply worthless pieces of paper?

Thus, while Mitchell demonstrates an advanced understanding of the nature of a modern monetary system and the implications for budgetary policy, he fails to recognize the link between the value of “free money” (i.e., government debt) and its acceptance in payment of taxes. In sum, while we caution readers to think carefully about its position on taxation, we encourage them to take a serious look at Rodger Malcolm Mitchell’s Free Money: Plan for Prosperity, a rare example of common sense on most matters concerning modern money.

Commitment to Full Employment Published by M.E. Sharpe

Commitment to Full Employment: The Economics and Social Policy of William S. Vickrey, a volume collecting the papers presented at the C-FEPS co-sponsored Columbia University conference in memory of Nobel-prize winning economist William Vickrey, has been published by M. E. Sharpe (2000, available in both hardcover and paperback). The volume, edited by the late Aaron Warner of Columbia University Seminars, C-FEPS Director Mathew Forstater, and Sumner Rosen, Vice-Chair of the National Jobs for All Coalition, includes contributions by Robert Heilbroner, James K. Galbraith, Paul Davidson, David Colander, Thomas Palley, Gertrude Goldberg, Helen Ginsburg, Philip Harvey, Heather Boushey, Edward Nell, John Langmore, Lowell Harriss, Dimitri Papadimitriou and the editors.

Also in the volume are two previously unpublished papers by Vickrey, “We Need a Bigger ‘Deficit’” and “Fifteen Fatal Fallacies of Financial Fundamentalism: A Disquisition on Demand Side Economics.” These papers are among a series on issues related to full employment and price stability written by Vickrey toward the end of his life. In this work, Vickrey formulated an assets-based approach to macroeconomic analysis with definite implications for budgetary and employment policy. In Vickrey’s approach, the difference between desired and actual holdings of net financial assets—or net nominal savings—is the crucial relation in understanding macroeconomic processes, and the government budget is the key policy instrument in the necessary recycling of net nominal savings to bring the desired levels into equality at the full employment level of output and income. Vickrey believed that the major task for economists and policymakers was to devise the means whereby the necessary recycling of net nominal savings can take place without unexpected changes in the rate of either inflation or deflation. It is here for Vickrey that government budget deficits play their crucial role in stabilizing the economy.

At a time when the economy is moving deeper into recession, unemployment is rising, and interest rate cuts are ineffective or, even worse, are sending already debt-ridden households even deeper into debt, this book promises to send a much needed message to economists, policymakers and the public that the causes of the current downturn are identifiable and the cures within our grasp. The contributions to the volume show that, despite the loss of Vickrey, there remain in the profession sensible voices that can inform public policy.◆

C-FEPS Active in Conferences in U.S. and Abroad continued from p. 8

Heather Boushey, Gary Dymski, Glen Atkinson, Jim Sturgeon, Fred Lee, John Henry, Bill Waller, Charles Clark, and Greg Hayden. C-FEPS Scholars Wray and Forstater also presented their work. Students particularly enjoyed the numerous break-out sessions, where they discussed and debated institutional economics and its relevance for understanding current economic trends. The AFEE Summer School meets every other year, alternating locations between UMKC and other schools. Henry, from California State University-Sacramento is Visiting Professor at UMKC for 2001-2002. Also in attendance were UMKC Assistant Professor and C-FEPS Research Associate Stephanie Bell (congratulations to Dr. Bell for the successful defense of her dissertation in the Spring of 2001!), and UMKC Social Science Consortium Research Associates Jim Webb and Bill Williams.

First ICAPE Conference

The first ICAPE (International Confederation of Associations for Pluralism in Economics) Conference will be held at UMKC in the summer of 2003. According to its Statement of Purpose, “The impulse for ICAPE derived from globally pervasive dissatisfaction with postwar trends in the discipline of economics… There is a need for greater diversity in theory and method in economic science. A new spirit of pluralism will foster a more critical and constructive conversation among practitioners of different approaches. Such pluralism will strengthen standards of scientific inquiry in the crucible of competitive exchange. The new pluralism should be reflected in scientific debate, in scholarly conferences, in professional journals, and in the training and hiring of economists…” ICAPE is a confederation that will facilitate the exchange of information and other fruitful collaboration, with a view to a fundamental reform of the discipline of economics, by opening it to a healthier variety of interdisciplinary and other studies of economic behavior.” C-FEPS is a member and supporter of ICAPE, and C-FEPS Director Mathew Forstater is a member of the ICAPE Conference Committee. The Conference will bring together a wide variety of political economists and interdisciplinary social scientists for important cross-fertilization and communication of ideas.◆
In April 2001, C-FEPS Research Associate Stephanie Bell traveled to Washington, D.C. to meet with Congressman Ray LaHood’s (R-Illinois) personal aide and two high-level advisors to the Board of Governors of the Federal Reserve. The purpose of this meeting was to discuss HR1452, the State and Local Government Economic Empowerment Act, which was proposed by Congressman LaHood in 1999. As it was initially written, HR1452 proposed that the Federal Reserve create, on behalf of the U.S. Treasury, up to $72 billion interest-free each year for five years. The administrator of this account would then use these deposits to make interest-free loans to state and local governments, school districts, and Indian reservations, mainly for the purpose of building and repairing public infrastructure.

The bill was never formally introduced in the House of Representatives, essentially due to opposition by officials at the Federal Reserve. Had it met less resistance, the bill would have enabled states to make some much-needed improvements to their infrastructure. Indeed, as Table 1 reveals, our nation’s infrastructure is in such disrepair that the proposed $78 billion per year is only a fraction of what is badly needed.

### Table 1

<table>
<thead>
<tr>
<th>Subject</th>
<th>Grade</th>
<th>Amount Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>D-</td>
<td>$357 Billion</td>
</tr>
<tr>
<td>Bridges</td>
<td>C-</td>
<td>$80 Billion</td>
</tr>
<tr>
<td>Mass Transit</td>
<td>C</td>
<td>$72 Billion</td>
</tr>
<tr>
<td>Aviation</td>
<td>C-</td>
<td>$60 Billion</td>
</tr>
<tr>
<td>Schools</td>
<td>F</td>
<td>$172 Billion</td>
</tr>
<tr>
<td>Drinking Water</td>
<td>D</td>
<td>$138 Billion</td>
</tr>
<tr>
<td>Wastewater</td>
<td>D+</td>
<td>$140 Billion</td>
</tr>
<tr>
<td>Dams</td>
<td>D</td>
<td>$1 Billion</td>
</tr>
<tr>
<td>Solid Waste</td>
<td>C-</td>
<td>$75 Billion</td>
</tr>
<tr>
<td>Hazardous Waste</td>
<td>D-</td>
<td>$750 Billion</td>
</tr>
<tr>
<td>Grade Point Average:</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>Total Need:</td>
<td></td>
<td>$1.8 Trillion</td>
</tr>
</tbody>
</table>

Source: American Society of Civil Engineers, 1998

In addition to demonstrating, overwhelmingly, that there is a serious need for such spending, supporters of HR1452 also showed that numerous economists were in favor of the bill. For example, Sumner Rosen of Columbia University called the proposal “perfectly rational public policy” and Nobel Prize-winning economist Robert Solow suggested that it was “a bill of very great importance” for a “most worthy purpose.” Despite the needs of the nation and the support of the discipline, the Fed’s objections reigned supreme. The trip to Washington was designed to change minds.

As stated in their written response to Congressman LaHood, the Fed claimed to object primarily on the grounds that the financing of HR1452 would reduce Fed earnings, since the Fed would be holding interest-free loans and fewer interest-bearing securities. Senior Research Associate L. Randall Wray showed that the government would experience the same financial shortfall regardless of the manner in which HR1452 was financed. But, even though the Fed officials conceded this point, they continued to oppose any direct involvement in the financing of HR1452. In the end, it was decided that the bill should be rewritten and introduced through normal channels (i.e., sent to appropriations) and that the Congressional Budget Office (CBO) should be asked to score the government’s financing of this project as an off-budget item. The Fed raised no objection; the new bill could be introduced in 2002. Both Bell and Wray are working with Rep. LaHood’s office on this project.
C-FEPS Scholars Active at Professional Meetings

SELECTED PRESENTATIONS

**Stephanie Bell, Research Associate**


**Mathew Forstater, Director**


“The Relevance of Heilbroner’s Worldly Philosophy,” Eastern Economics

**Pavlina Tcherneva, Associate Director for Economic Analysis**

“‘Money Matters’ or ‘Money is Neutral’: Another look at the Post Keynesian and Orthodox Approaches,” Missouri Valley Economic Association, Kansas City, February 2001.


**L. Randall Wray, Senior Research Associate**


“Monetary Policy for Full Employment”, Instituto Politécnico Nacional (IPN), Mexico City, November 2000.


Recent Publications by C-FEPS Scholars

**Stephanie Bell, Research Associate**


**Mathew Forstater, Director**


**Pavlina Tcherneva, Associate Director for Economic Analysis**


**L. Randall Wray, Senior Research Associate**


“Large Tax Cuts are Needed to Prevent a Hard Landing”, *C-FEPS Policy Note 00/01*, Kansas City, MO: Center for Full Employment and Price Stability, 2000.

Lecture Series continued from p. 9

**Historical Legacy of Slavery--Compensating for Racial Exploitation.”**

Dymski has been a lead researcher for many federal programs, such as the HUBZone Empowerment Contracting Program—a procurement program that targets businesses located in and hiring from lower-income areas. UMKC Economics Professor and Director of the Center for Economic Information Peter Eaton has joined Dymski in a collaborative research effort involving the HUBZone program. Dymski’s son Jamaal, a talented alto saxophonist, is currently studying at UMKC’s Music Conservatory under the mentorship of jazz musician and UMKC Professor Bobby Watson. Gary has generously agreed to use this serendipitous development as an opportunity to expand his involvement in the Economics Program at UMKC.

**UMKC Visiting Distinguished Research Professor JAN KREGEL delivers UNCTAD Report**

In November 2000, Jan Kregel, high-level financial expert at the United Nations, presented the Kansas City community with the latest UNCTAD Trade and Development Report in a talk entitled “Global Economic Growth and Imbalances.” The address was attended by over 150 students, faculty, staff and community members.

C-FEPS was instrumental in bringing Kregel to UMKC as a Visiting Distinguished Research Professor. Kregel taught a Ph.D. course on Financial Macroeconomics in Fall, 2000 and will be returning to teach another graduate course in Spring, 2002. Professor Kregel’s lectures were recorded and will be broadcast over the University of Missouri television network. Anyone interested in these lectures can also obtain them on video tapes available from the Center for Full Employment and Price Stability.

**EDWARD J. NELL speaks on Demand, Growth, and Critical Realism**

The C-FEPS-sponsored seminar series continued in Spring 2001 with a visit by Edward J. Nell, Malcolm B. Smith Professor of Economics at the New School for Social Research. Nell lectured on Growth, Demand and Government Policies. He argued that the best way to understand how the real world works is by analyzing effective demand. Unemployment, a result of insufficient effective demand, can and should be addressed by sound government policies. Nell is concerned with the policy recommendations that sensible prescriptive economics can provide. He concluded that one such policy is the Employer of Last Resort program, which allows the government to counteract deficient effective demand and, not only restore previous levels of employment, but actually achieve full-employment.

Other lectures by Professor Nell included “The Theory of Growth of Demand,” “On the Theoretical Integration of Keynes and Sraffa: Challenges and Possibilities,” as well as an interdisciplinary seminar titled “Transformational Growth and Critical Realism.” The Keynes and Sraffa seminar was co-conducted by UMKC Economics Professor Fred Lee. The seminar had the flavor of the famous Trieste Summer School, where Post Keynesians and Sraffians debated the potential integration of a revived Classical Political Economy and Keynes’s analysis of money, uncertainty, and effective demand. Many of the visiting scholars brought by C-FEPS to UMKC in the last two years were principle participants at Trieste, including Paul Davidson, Alain Parguez, Jan Kregel, and Edward Nell.

**“Keynes y el Pleno Empleo: Una Lectura Contemporanea,” in Commercio Exterior, Vol. 50, No. 12, December, 2000.**

**“Fiscal Policy for the Coming Recession: Large Tax Cuts are Needed to Prevent a Hard Landing,” (with Dimitri Papadimitriou), *Policy Note 2001/2*, Jerome Levy Economics Institute, 2001.**

**“Tax Cut Facts,” (with Pavlina R. Tcherneva), *C-FEPS Policy Note 01/01*, Kansas City, MO: Center for Full Employment and Price Stability, 2001.**
payroll tax cut is preferable for several reasons. First, as Tables 1 and 2 (page 6) suggest, payroll taxes are more burdensome for a larger portion of the population than the income tax. Secondly, payroll taxes are regressive (income above $80,400 is exempt). Third, they are levied on both employees and employers, decreasing the benefits of work and increasing labor costs of the employers. The authors argue that “a payroll tax cut would provide significant tax relief to the vast majority of Americans, while it would also reward work and make American labor more competitive.”

Unlike changes in tax policy, which may take months (possibly years) to fully implement, a Public Service Employment policy immediately responds to the slightest fall in demand and employment, thereby helping to stabilize the business cycle. It responds to economic developments as they arise, unlike the current policy approach, which provides too little too late.

In sum, we suggest that a proper fiscal adjustment package would include payroll tax relief, creation of a Public Service Employment program, and various spending initiatives including public infrastructure investment that will lead to an overall federal budget adjustment of at least five percent of GDP. This would total over $500 billion per year. Clearly this is far beyond the adjustment currently being discussed in Washington. We fear that unless Congress and the President abandon pretense at maintaining “fiscal responsibility,” the current recession is likely to be deep and prolonged.

For Further Reading

“Petition 2000: For the Record,” C-FEPS Special Report 00/01, Kansas City, MO: Center for Full Employment and Price Stability.


L. Randall Wray, 2000, “Large Tax Cuts are Needed to Prevent a Hard Landing,” C-FEPS Policy Note 00/05, Kansas City, MO: Center for Full Employment and Price Stability.


Malcolm Sawyer, University of Leeds, frequent participant in C-FEPS activities at “The Path to Full Employment” Conference in Newcastle, Australia, 2001

There are myths also about our public debt...debts public and private are neither good nor bad in and of themselves. Borrowing can lead to over-extension and collapse–but it can also lead to expansion and strength. There is no simple slogan in this field that we can trust

The stereotypes I have been discussing distract our attention and divide our efforts. These stereotypes do our nation a disservice not just because they are exhausted and irrelevant, but above all because they are misleading–because they stand in the way of the solution of hard and complicated facts.

It is not new that past debates should obscure present realities. But the damage of such a false dialogue is greater today than ever before simply because today the safety of all the world–the very future of freedom–depends as never before on the sensible and clear-headed management of the domestic affairs of the United States.

We cannot understand and attack our contemporary problems...if we are bound by traditional labels and worn-out slogans of an earlier era.

But the unfortunate fact of the matter is that our rhetoric has not kept pace with the speed of social and economic change. Our political debate, our public discourse on current domestic and economic issues, too often bears little or no relation to the actual problems the United States faces.

What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion, but the practical management of a modern economy. What we need are not labels and cliches but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead.

The national interest lies in high employment and steady expansion of output and stable prices and a strong dollar. The declaration of such an objective is easy. The attainment in an intricate and interdependent economy and world is a little more difficult. To attain them we require not some automatic response but hard thought.

I am suggesting that the problems of fiscal and monetary policy [today] as opposed to the kinds of problems we had in the Thirties demand subtle changes for which technical answers–not political answers–must be provided.

These are matters...which government and business should be discussing in the most sober, dispassionate and careful way if we are to maintain the kind of vigorous economy upon which our country depends.

How can we generate the buying power which can consume what we produce on our farms and in our factories?

How can we take advantage of the miracles of automation with the great demand that it will put upon high-skilled labor and yet offer employment to the half a million of unskilled high school dropouts every year who enter the labor market?

How do we eradicate the barriers which separate substantial minorities of our citizens from access to education and employment on equal terms with the rest?

How, in sum, can we make our free economy work at full capacity, that is, provide adequate wages for labor and adequate utilization of plant and opportunity for all?

These are problems that we should be talking about, that the political parties and the various groups in our country should be discussing. They cannot be solved by incantations from the forgotten past.

Let us not engage in the wrong argument at the wrong time, between the wrong people in the wrong country, while the real problems of our time grow and multiply, fertilized by our neglect.

UNIVERSAL DECLARATION OF HUMAN RIGHTS
Adopted by the United Nations General Assembly, December 10, 1948

Article 23.
(1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.
(2) Everyone, without any discrimination, has the right to equal pay for equal work.
(3) Everyone has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
(4) Everyone has the right to form and to join trade unions for the protections of his interests.

Article 24.
Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25.
(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
(2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection. ✦
In the News

Director Mathew Forstater


Senior Research Associate L. Randall Wray


Hour-long panel discussion on Social Security, Walt Bodine Show, KCUR (Kansas City public radio), November 8, 2001.

 Appeared live on Dan Ferguson’s local Kansas City radio show, Hot Talk 1510 AM, to speak about the current state of the economy, October 28, 2001.

Interviewed by Snigdha Prakash about the coming recession for NPR’s Weekend All Things Considered, September 7, 2001.


“Kansas City this Week,” KMBC (NBC affiliate), May 21, 2000.


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Franklin Delano Roosevelt
State of the Union 1944

THE ECONOMIC BILL OF RIGHTS
This republic had its beginning and grew to its present strength under the protection of certain inalienable political rights... They were our rights to life and liberty. As our nation has grown in size and stature, however—as our industrial economy expanded—these political rights proved inadequate to assure us equality in the pursuit of happiness.

We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence... People who are hungry and out of a job are the stuff of which dictatorships are made. In our day these economic truths have become accepted as self evident. We have accepted, so to speak, a second Bill of Rights under which a new basis of security and prosperity can be established for all—regardless of station, race, or creed. Among these are:
– the right to a useful and remunerative job in the industries or shops or farms or mines of the nation;
– the right to earn enough to provide adequate food and clothing and recreation;
– the right of every farmer to raise and sell his products at a return which will give his family a decent living;
– the right of every business man, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad;
– the right of every family to a decent home;
– the right to adequate medical care and the opportunity to achieve and enjoy good health;
– the right to adequate protection from the economic fears of old age and sickness and accident and unemployment;
– the right to a good education.

State of the Union 1945
An enduring peace cannot be achieved without a strong America—strong in the social and economic sense as well as in the military sense.

In the State of the Union message last year I set forth what I considered to be an American Economic Bill of Rights.

I said then, and I say now, that these economic truths represent a second Bill of Rights under which a new basis of security and prosperity can be established for all—regardless of station, race or creed.

Of these rights the most fundamental, and one on which the fulfillment of the others in large degree depends, is the “right to a useful and remunerative job in the industries or shops or farms or mines of the Nation.” In turn, others of the economic rights of American citizenship, such as the right to a decent home, to a good education, to good medical care, to social security, to reasonable farm income, will, if fulfilled, make major contributions to achieving adequate levels of employment.

The Federal Government must see to it that these rights become realities—with the help of the States, municipalities, businesses, labor and agriculture.

We have had full employment during the war. We have had it because the Government has been ready to buy all the materials of war which the country could produce—and this has amounted to approximately half our present productive capacity. After the war we must maintain full employment with Government performing its peacetime functions.

President John Fitzgerald Kennedy
Commencement Address, Yale University, June 11, 1962

If our Federal Budget is to serve not the debate but the country, we must find ways of clarifying this area of discourse. Still in the area of fiscal policy, let me say a word about deficits. The myth persists that Federal deficits create inflation, and budget surpluses prevent it. Yet sizable budget surpluses after the war did not prevent inflation, and persistent deficits for the last several years have not upset our basic price stability. Obviously, deficits are sometimes dangerous—and so are surpluses. But honest assessment plainly requires a more sophisticated view than the old and automatic cliche that deficits automatically bring inflation.

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