The Employer of Last Resort Approach to Full Employment

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In this article, I will describe what has been called the "employer of last resort" (ELR) proposal in the

United States. Because of the negative connotations of “last resort”, it is probably best to call such programs “public service employment” when discussed outside purely academic debates. However, I will continue to use the designation ELR here because it implies that the purpose of the program is to supplement but not to replace alternative employment, such as that provided by private firms or other government programs. By design, ELR offers employment to those who are “ready, willing, and able” to work, but who have not been able to find jobs. Note also that much of my discussion will apply to the US case. While I believe that any nation that operates with its own currency, and which adopts a floating exchange rate, can implement an ELR program, each nation might formulate the specifics of its program in accordance with its own political and economic situation.

In discussions of ELR, there are 3 main questions that always come up:
1. How can the government afford to hire all those who might want to work?
2. Won't full employment cause inflation?
3. What will all those workers do?

The first question has become quite important in recent years as most governments around the world have tried to achieve balanced budgets. There are the more conventional ways to go about answering it, such as actually doing an estimate of the costs of ELR and finding that in the case of the U.S., the net cost is probably much below $100 billion and perhaps much less. One can then argue that these are very small costs relative to total government spending or to GDP. The problem with that defense is that one could argue that the US today is a special case with very low unemployment. People will wonder: what about France or Spain--surely they can't afford it! The argument then gets all bogged down in estimates of the trajectory of government deficit ratios.

But with the taxes-drive-money view laid out in my book (Wray 1998) or Abba Lerner's functional finance approach (Lerner 1947), it becomes obvious that the government can buy anything for sale in terms of its own currency merely by providing the currency. The question really just represents a misunderstanding of what might be called modern money—that is, monetary systems that are based on government-issued currency. With ELR in place it really is not even necessary to keep track of the government's spending on ELR or even of the deficit. It is just worthless accounting data. All the government needs to do is to keep track of the size of the ELR pool.

In the modern economy, all government spending is financed by having the Treasury issue a check--usually drawn on the central bank. When this is deposited, bank reserves go up. So the initial effect of an increase of government spending is that reserves increase. Tax payments are made by writing a check on a private bank account. When the check clears, the bank loses reserves. So tax payments just drain reserves created by government spending. A government deficit results in a net increase of bank

reserves. Since reserves don't earn interest, the government offers Treasury bonds as an interest earning alternative. This drains excess reserves. If the government didn't do that, the overnight interest rate target could not be hit. In other words, bonds are not issued to allow the government to “borrow” but rather to allow it (operating in conjunction with the central bank) to hit its interest rate targets.

This might sound rather esoteric, but what it all boils down to is this. If the government wants to buy something, and offers dollars, and finds takers for those dollars, then obviously it can buy what is offered--no matter what its tax revenues might turn out to be. If a deficit results, that just means the public is going to end up with government money (currency, or more likely checks drawn on the treasury) in the first instance, most of which will be converted to interest-earning government debt supplied mainly by the Treasury. In turn, this means that the government never needs to tax or to borrow its own money in order to spend--and in fact the spending has got to come first. In any country that operates with “modern money”, the government can always afford to hire unemployed labor.

Obviously, the second question is more difficult. This will take more time to answer.
If one believes in something like a NAIRU, then unemployment is the tool used to maintain price stability. I will state what I think is obvious, and what I think most readers will agree upon, and that is that most central bankers do believe in something like a NAIRU. Sure, there may be caveats made and most central bankers allow for a somewhat variable NAIRU, but it is always somewhere in the background of monetary policy formation. When unemployment falls and remains low, as it has in the US, central bankers start to tighten. Greenspan has admitted this several times, even going so far as to say that we need 6 million unemployed to keep labor from feeling too secure. This even goes beyond NAIRU--it is overtly Marxist: the reserve army of the unemployed is required to discipline the working class.

What I will argue is that it is possible to formulate a true full employment policy that is not inflationary; that is, NAIRU can be made to be zero through an ELR type program.
Some might object that this isn't a fair assessment of--or alternative to--NAIRU as it is usually defined because my full employment/zero unemployment NAIRU isn't achieved through market forces. There is some merit in that. What most people mean is that if the government tries to prime the pump through spending, there is some positive level of unemployment below which you cannot go without causing accelerating inflation. However, I would respond that there is no generic pump-priming fiscal policy. If the government decides to spend its way to full employment, it has to decide what it is going to buy. If the government is going to try to get to full employment by ordering high tech “starwars” missiles, I would guess that NAIRU would indeed be very high--maybe 7 or 8%, or maybe even twice that, in the USA. If on the other hand, government tries to achieve full employment by hiring unskilled labor in something like an ELR program, then NAIRU can be zero.

Another objection raised is that my definition of full employment is strange or artificial. On my definition, full employment results because there is by definition a job vacancy for anyone ready, willing, and able to work. The catch is that the government sets the wage offer. Anyone with a reservation wage above that may refuse the offer, and thereby become voluntarily unemployed. Someone suggested the government can simply set the wage at a penny an hour and then anyone who won't accept that is not really unemployed. Not only is that disingenuous, but it also demonstrates that the commentator doesn't really understand the argument. On one level, it does not matter where the wage is set. If there is an effective "buffer stock pool" of labor willing to work at that wage, it will become the effective base wage in society. However, setting the base wage well below current market or minimum wages would require massive deflation of the price level in order to generate a pool of workers willing to work for that wage. On the other hand, setting the base wage well above the going wage would generate a large increase of the wage and price levels as firms would have to compete with the base wage. Thus, on balance, it makes most sense to set the base wage for ELR work at something approximating the going market wage for relatively unskilled labor.

Let us move on to an analysis of the proposal, but we shall begin by stating what ELR is NOT.

*It is not slavery; only those ready, willing, and able will participate
*It is not workfare; it is only a guarantee that there will be a job vacancy for those who are ready, willing and able to work
*It is not meant to replace all social programs; we can retain any and all welfare programs that might survive the current conservative attack; we can even keep unemployment insurance as it is currently designed
*It doesn't pay starvation wages
*It is not meant to provide union-busting low wage labor
*It is not soviet-style communism; it will not replace market-based capitalism; rather it complements the market sector.

The first component of the proposal is relatively simple: the government acts as the employer of last resort, offering to hire all the labor that cannot find private sector employment. The government simply announces the wage at which it will hire anyone who wants to work, and then hires all who seek employment at that wage. A package of benefits could include healthcare, childcare, sick leave, vacations, and contributions to Social Security so that years spent in ELR would count toward retirement. Of course, there will still remain many (non-ELR jobs) jobs in the public sector that are not a component of the ELR and that could pay wages above the ELR wage. This policy will as a matter of logic eliminate all unemployment, defined as workers ready, willing and able to work at the going wage

but unable to find a job even after looking. Certainly there will still exist many individuals—even those in the labor force—who will be voluntarily unemployed; there will be those who are unwilling to work for the government (perhaps at any wage!—survivalists and the like), those who are unwilling to work for the government's announced wage (for example, because their reservation wage is too high), those who are between jobs and who would prefer to look for a better job while unemployed, and so on.

The ELR will eliminate the need for a minimum wage, as the ELR wage will become an effective minimum wage. It could also establish the base package of benefits that private employers would have to supply. It could replace unemployment compensation, although it could be simply added on to give workers who have lost their jobs more choices. In the US well under half of the officially unemployed even qualify for unemployment compensation. The point is that no matter what social safety net exists, ELR can be added to allow people to choose to work over whatever package of benefits might be made available to those who choose not to work. Obviously, generous benefits to those who do not work can affect willingness to work. The ELR benefit and wage package should be set higher than the benefit package given to similar individuals who do not work, but even this is not absolutely necessary. If ELR enhances one's access to desirable private and public sector (non-ELR) jobs, then some individuals will choose to work in the ELR program even if this means taking a benefit cut. However, if society values work, it seems far more reasonable to reward ELR workers with a better compensation package than they would receive if they did not work.

I have assumed the ELR wage would be set at $6.25/hr, or $12,500/yr; but the analysis doesn't really change if the wage is set higher or lower. To make it even simpler, we can assume it is set at the prevailing minimum wage--which would lower the costs a little below what I had assumed, and would probably make the program less disruptive. Taking the current number of unemployed (conservatively estimated at about 8 million in the USA—including some who are not counted in official statistics), as well as the cost of various programs and projecting the cost of ELR and potential savings, it seems reasonable to assume that the net (direct) cost of ELR to the government would fall between $25 billion and $50 billion. On reasonable assumptions regarding reduced crime rates and improved health that can be attributed to higher employment, it is conceivable that ELR would actually "pay for itself". I should note that Gordon independently came up with a figure of about $40 billion, while Harvey came up with a figure of $22 billion for 1986. In any case, the cost is economically irrelevant but it may be politically important.

An important question, however, concerns the impact this program would have on aggregate demand: is full employment going to increase aggregate demand sufficiently that accelerating demand-pull inflation would follow? As I mentioned, that is the belief of the Fed and apparently of other central bankers as well--if unemployment falls below NAIRU, inflation results. However, the ELR program is designed to

ensure that the deficit will rise only to the point that all involuntary employment is eliminated; once there are no workers willing to accept ELR jobs at the ELR wage, the deficit will not be increased further. Thus, the design of the ELR guarantees that the deficit will not become "excessive", that is, it will not exceed desired net saving; or, more simply, it will not increase aggregate demand beyond the full employment level.

I can't agree with those who have supreme faith in Saint Greenspan, who argue that we should rely primarily on monetary policy to fight unemployment. Even some Post Keynesians have argued that we should use ELR only in emergencies when monetary policy doesn't work. However, it is inconceivable that a nation could get the program set up and operating in time when a recession hits. And as we will see in a moment, an ELR pool of employed labor is desired even in good times in order to help stabilize prices.

Note how different ELR is from military Keynesianism--which tries to get to full employment by ordering “starwars”. In effect, military Keynesianism requires hiring off the top, taking the most technically proficient workers away from other work, and hoping that some jobs might trickle down. How many missiles would the government have to order before a job trickles down to Harlem? With ELR in place, when private aggregate demand is not sufficient to employ all resources, the ELR program kicks in at just the right level to employ workers and raise aggregate demand. Once full employment is reached, ELR raises aggregate demand no further. This is all a result of automatic policy and does not have to rely on markets. If private demand were to rise further, ELR spending and employment automatically fall.

It might be objected that as the government implements ELR and begins employing some of the unemployed, this will raise aggregate demand through the multiplier and thus increase private sector employment. This, of course, is true and is desired as it will ultimately reduce the amount of ELR jobs required. By stimulating demand (through the "spending multiplier"), ELR may find that only 4 million workers will eventually accept ELR jobs. Still, ELR automatically operates to ensure that the deficit spending is at the correct level to equate desired and actual net saving. ELR is a tremendous lever for keeping aggregate demand at a level consistent w/full employment. I do realize that some people argue that any increase of aggregate demand will cause prices to rise. I cannot speak to the case of other countries, but I can talk about the US case. The evidence is overwhelmingly against the notion that any increase of aggregate demand sets off a wage-price spiral. In fact all of our high inflation periods came when aggregate demand fell and unemployment rose. It is thus not at all surprising that the Clinton expansion has experienced both low unemployment and low inflation—this is the typical case in the US. So while I might concede something to the supporters of NAIRU when I agree that trying to get to zero unemployment through military Keynesianism would set off inflation, I won't concede that raising

aggregate demand a bit by increasing living standards of those at the bottom must necessarily cause a demand-pull wage-price spiral.

This should eliminate the fear that a full employment policy must necessarily generate demand-pull inflation. Of course, it can still be objected that full employment and the ELR wage will generate cost-push inflation by placing pressure on wages and thus costs and prices. We now examine the second part of the proposal: exogenous wage setting by the government. Chartalists such as Knapp argued that money is defined by the State when it chooses what will be accepted at public pay offices. Or, to put it more bluntly, the government imposes a tax liability, then chooses what it will accept in payment of taxes. In the modern economy, the thing that is accepted is government money--coins, fed notes, and bank reserves. Any payment of taxes leads to a drain of high powered money. This recognition leads to the proposition that the private sector needs the government's money in order to pay taxes; and this insight, in turn, leads to the conclusion that the government is free to exogenously set the price it is willing to pay to obtain things from the private sector.

I know this sounds a bit strange, but government can exogenously set the price of anything it wants to buy. We need not go into that now--all I want to do is to claim the government can exogenously set the price of ELR wages, for example, at $12,500 per year per worker. Thus, while the quantity of government spending "floats", the price is fixed. Note that this is almost the opposite of what is done now: the government decides how much to spend, then lets markets determine the price it will pay. So what I am advocating is that the government will determine the price (ELR wage) and then let markets determine how many ELR workers show up--which then determines total government spending (on this program—obviously there will be other types of government spending, which we are holding constant for the purposes of this analysis).
This is kind of the "trick" that prevents true full employment from setting off inflation. If the government instead said it would hire 8 million into ELR jobs and would pay whatever wage was required to obtain that many workers, then inflation could well result. That is similar to a situation in which the government decides to buy 100 starwars missiles and then pays whatever the contractors require to get them built. Instead, in the ELR program, the wage is fixed but the quantity floats.

What are the implications for prices and wages?

Clearly, with a fixed price, the government's ELR wage is perfectly stable and sets a benchmark price for labor. Some jobs might still pay a wage below the ELR wage if they are particularly desirable (for example, because the work is pleasurable, or where large wage increases are possible for a lucky few—as in sports or the arts). However, most low wage jobs—which pay below the ELR wage before the ELR is implemented—will experience a one-time increase of wages (or will disappear altogether).

Employers will then be forced to cover these higher costs through a combination of higher product prices, greater labor productivity, and lower realized profits. Thus, some product prices should also experience a one-time jump as the ELR program is implemented. In short, at the low end of the wage scale, implementation of ELR might cause wages and the prices of products produced by these workers to experience a one-time increase. If we set the ELR wage at the minimum wage, even this jump won't occur. This is why it is probably less disruptive to initially put the ELR wage at the minimum wage and without the package of benefits I prefer. If it is set above the minimum wage and it includes benefits, this would at first cause the ELR pool to grow as the private sector would lose workers. The private sector would then have to increase wages and benefits, presumably forcing them to raise prices. But this one time jump is not inflation nor can it be accelerating inflation as these terms are normally defined by economists.

Still, it can be argued that other wages are likely to also rise because by achieving full employment of labor, the threat of unemployment is removed, emboldening workers to demand higher wages—this is essentially the old "reserve army of the unemployed" argument. However, just as workers have the alternative of ELR jobs, so do employers have the opportunity of hiring from the ELR jobs pool. Thus, if the wage demands of workers in the private sector exceed by too great a margin the employer's calculations of their productivity, the alternative is to obtain ELR jobs workers at a mark-up over the ELR wage. This will help to offset the wage pressures caused by elimination of the fear of unemployment. It must be remembered that the ELR jobs workers are not "lost" as a reserve army of potential employees; rather, they can always be obtained at a mark-up over $12,500 per year. In the absence of ELR, these workers can be obtained at a mark-up over the value of the package of social spending obtained when unemployed; this mark-up, however, is likely to be higher than the markup over the ELR wage since it must be sufficient to make employment preferable.

Further, recent work has tended to place a high rate of "depreciation" on idle human capital; the productivity of workers falls quickly when they are unemployed, and beyond some point, they probably become unemployable (due, for example, to loss of the "work habit" or due to imprisonment). Most people who leave the category called unemployed generally go out of the labor force, not into a job. With an ELR policy, however, those who are not employed in the private sector continue to work, thus, will not depreciate so quickly. Indeed, social policy could actually be geared toward enhancing human capital of the ELR jobs pool. This would reduce the productivity-adjusted cost of hiring ELR jobs workers relative to unemployed workers, and thereby diminish inflationary pressures. Thus, ELR workers are a better reserve army than are the unemployed.

One might say that the ELR program provides full employment with loose labor markets; it is precisely the opposite of traditional military Keynesian policy, which gives high employment only with tight labor

markets--at least for the skilled and semi-skilled. This is why ELR is consistent with a NAIRU of zero, while traditional Keynesian policy is not. So long as the government keeps the ELR wage at $12,500, employers can always obtain workers from this pool at that price. This is the private sector alternative to hiring workers of greater skill at "market determined" wages. When the "market determined" wage rises to a level that so exceeds productivity-adjusted value of labor employed, there is an incentive to substitute workers from the ELR jobs pool. For this reason, the ELR wage will continue to provide an "anchor" for market wages.

In conclusion, if the ELR is put in place, it is not at all likely that this will be inflationary in the sense of generating continuous pressure on wages and prices. I make no claim that this ELR policy will completely stabilize the overall price level, thus, it is not a close substitute for an "incomes policy" or more formal wage and price controls. Although I don't support them, such policies can be used in conjunction with an ELR program. I do claim that implementation of ELR will generate full employment (as defined) without generating additional inflationary pressure, and, indeed, would actually reduce inflationary pressure that normally arises when the “reserve army of the unemployed” shrinks.

From time-to-time, there will be pressure for an upward revision of the ELR wage. As the overall price level will not be held constant, and as there are substantial forces in modern capitalist economies that generate trend increases of the price level, the "real" (inflation-adjusted) ELR wage will fall over time--generating a need for an adjustment. In addition, there will be obvious pressures by labor to raise the ELR wage—just as there are pressures currently to increase the minimum wage. When the government raises the ELR wage, this in effect devalues the currency by redefining the amount of services that must be provided to the government to obtain the means of paying taxes. Rather than "causing inflation", the devaluation will merely take account of inflation that results from factors that have little to do with the ELR policy. Thus, the ELR will achieve what most economists would call zero unemployment (well beyond what they would call full employment) without inflationary pressures. The ELR policy would almost certainly result in less inflation than is currently the case.

Let me finish by looking at what ELR workers might do as well as deal with some less serious objections that have been raised.

1. *Some commentators have wondered what happens if one country tries to go it alone; others objected that a large country like the US might be able to run an ELR program, but small countries like Canada or Mexico could not because it would place them at a tremendous disadvantage.*

It seems to me that the first country that adopts an ELR program has tremendous advantages so that

others will soon follow. Why do people fight against free trade and worry about trade deficits? My students always wonder what is wrong with a US trade deficit--the Japanese and others work hard to give us Toyotas and other goods, while all we have to do is to give them pieces of paper in return. That sounds like a great deal to all those who haven't been trained in economics. The main problem, of course, is the loss of jobs.

But once a nation has adopted ELR, those displaced workers go into the ELR pool. There they receive job experience and retraining. Society as a whole benefits from the cheaper imports. Of course, one can object that the ELR jobs pay less than GM jobs; and that is true. But the American consumer must on average receive greater benefits than the losses incurred by the new ELR workers--as all the textbooks teach. Assume we have a trade deficit and a growing ELR pool. What should we do? We cut taxes or increase government spending to stimulate the private economy to absorb some of the workers from the ELR pool. Note that corporate downsizing or loss of jobs due to technological advance leads to the same result: tax cuts or increased government spending. Society can always "afford" lower taxes or greater government spending whenever the ELR pool is growing. As other countries see that an ELR country with a trade deficit gets cheaper products and tax cuts, their populations will demand the same thing. I do realize that I'm ignoring other problems raised, for example by loss of manufacturing, and loss of good paying jobs, and I don't want to minimize these problems. What I am saying is that these things are occurring anyway and it seems to me that these problems can be more easily dealt with once we have a job guarantee in place. In any case, the notion that a country that runs trade deficits cannot "afford" to hire its unemployed clearly has got things backward.

A related objection is that if ELR causes the trade deficit to rise, that will cause the exchange rate to fall. Maybe. It is pretty easy to find the opposite case. But anyway, it is hard to make the case that the population is worse off if it has full employment and more imports--even if the exchange rate does fall.

2. *It will be impossible to administer the program.*

The existing unemployment benefits program administration might be used, or, alternatively, the Federal government would simply provide as much funding as necessary to let every state and local government (as well as qualifying non-governmental non-profit organizations, such as Americorps, VISTA, the Student Community Service Program, the National Senior Service Corps, the Peace Corps, the National Health Service Corps, school districts, and Meals on Wheels) hire as many new employees as they desired, with only two constraints: these jobs could not replace current employment, and they could provide only the fixed, basic, ELR compensation package.

Another option is to let State and local government and non-profits pay any wage they want so long as

it is above $6.25/hour, with the federal government rebating $6.25 per hour (plus legislated benefits). This makes the price effects harder to analyze and probably reduces the price-stabilizing features, but it might make the program more politically acceptable. One might even consider the Phelps route that would let private firms have the ($6.25/hour) subsidy, but I think the problem with his proposal is that you still must have the federal government standing ready to hire those the private sector doesn't want.

Probably each nation should choose a format for the ELR program that is most consistent with its own situation. In nations like the US in which federal government programs are generally less politically popular than local government programs, decentralization makes sense. In other nations that have a stronger central government, it may be best to have administration at the national level. Nations that place greater reliance on “free markets” (such as the US today) will probably choose to have the hiring done by non-governmental institutions; nations that place greater trust in government might choose to have the hiring done by government.

3. ELR employment will consist of nothing but "make-work" job

Is it really that hard to believe that we can find useful work for 8 million or so? John Kenneth Galbraith has been writing for almost 40 years of the lack of public goods in the new industrial state. So, one obvious thing that can be done is to increase the supply of public services. A partial list of such services includes:

*Companion for senior citizens, the bed-ridden, mentally or physically disabled
*Public school classroom assistant
*Safety monitor for schools, parks, neighborhoods, playgrounds, subway stations, street intersections, or shopping centers
*Neighborhood cleanup/Highway cleanup engineers
*Low income housing restoration engineers
*Day care assistants for children of ELR workers
*Library assistants
*Environmental safety monitors
*ELR artist or musician
*Community or cultural historian

Obviously, this list is not meant to be definitive, but is only to suggest that there are many jobs that could be done by ELR workers. We have not listed the more "obvious" jobs, such as restoration of public infrastructure (patching holes in city streets, repairing dangerous bridges), provision of new infrastructure (highway construction, new sewage treatment plants), and expansion of public services (new recycling

programs) that should be carefully considered because they might reduce private costs and increase private profitability. In any case, these are types of social spending that should be done even without an ELR program, and that might be better accomplished by non-ELR (including unionized) workers. However, it should be noted that WPA (one of Roosevelt's "New Deal" programs) employees did indeed engage in this sort of work.

If a substantial portion of ELR employment is accomplished through non-profit community service organizations, questions about "what will the workers do?" should become far less important. These organizations are already providing the kinds of services that communities need, and have a very good idea of labor needs to increase services to fulfill unmet needs. Furthermore, this sort of decentralization should tend to reduce fears of corruption as the public (at least in the case of the US) places greater trust in non-profit service organizations than it does in government or for-profit firms. Should a scandal result, it may also help to have the program decentralized in order to contain the inevitable backlash to the specific non-profit that has behaved improperly—rather than tainting an entire government-run program.

4. *States are already implementing "welfare to work" programs; why is ELR needed?*

State governments cannot run continuous deficits and would find that precisely when ELR is most needed, tax revenues would fall. Further, the price stabilizing features of ELR requires creation of a national labor buffer stock pool. For these reasons, the program should be nationally funded and should be subject to national standards regarding wages and benefits.

5. *What can be done with belligerent/anti-social/lazy ELR workers?*

Discipline would be maintained primarily by the promise of promotion to more desirable ELR jobs, and, eventually, to private sector employment. In the worst case, some workers might be so irresponsible that their employment would be day-by-day, or even hour-by-hour. ELR workers could be fired from their jobs for just cause with conditions placed on re-hiring.

6. *What effect will ELR have on unions?* On one hand, ELR removes the fear or threat of unemployment, but on the other, it creates a pool of employable labor. Thus, it is not clear that ELR is biased in favor of workers or employers. At the same time, it establishes a true, universal minimum wage and can set a universal minimum package of benefits. Unions would negotiate additional benefits. It is important, however, to ensure that ELR employers do not replace existing, unionized (or otherwise) workers with ELR workers. In the case of direct employment by government, this could be ensured by placing union workers on all boards or committees that are in charge of administering ELR employment

in the public sector. Non-profits that proposed to hire ELR workers would have to show that such hiring was in addition to existing employment.

6. *Won't participation in ELR lead to stigmatization, like welfare does?*

This is potentially a real problem, however, the danger can be reduced through creative action. ELR can be promoted as a universal "Americorps" service. We could institute a national service requirement, allowing ELR to substitute for military service. We can rely on persuasion: universities could favor applications from prospective students who have served for a year in ELR or could offer "junior year programs" in ELR as an alternative to "junior year abroad" programs. Corporations could allow leaves of absence to professionals and executives to work in the ELR program as a community service. In any case, it is difficult to believe that one would be as stigmatized by participation in ELR as one would be by enrollment in a welfare program.

7. *What if the Fed or financial markets react negatively?*

Implementation of an ELR program might cause a reaction by financial markets because they expect the Fed to raise interest rates. However, the Fed would no longer be able to fight fiscal policy by causing unemployment, but would only be able to reduce private sector employment and raise ELR employment. In response, the appropriate fiscal policy would be to increase non-ELR spending or to reduce taxes. My response to those who worship Greenspan is as follows: let us first guarantee a job for everyone, then try to get the Fed to lower interest rates. It makes no sense to argue that we should first lower rates and then if that doesn't lead to a job for everyone, we try to implement ELR.

8. Why worry now, when unemployment is lower than it has been for a generation?

Many pundits have proclaimed that we have entered a "new age" with the "new economy"; it is claimed that things "have never been better". If true, this means that the best that can be expected is a situation in which six and a half million are officially unemployed and millions more work fewer hours than desired or are forced to patch together several jobs. Even though the unemployment rate is very low in the US, that gives a quite misleading picture of job prospects in the US. In other work I've done with my colleague Marc-Andre Pigeon, we've shown that the Clinton Rising Tide hasn't caused jobs to trickle-down to the bottom of the population. In fact, we estimate that of the 12 million jobs created through 1998, only half a million went to the half of the population that hasn't gone to college. The real problem for the bottom half of the population is that high percentages are out of the labor force. In fact, well under 40% of high school dropouts are in the labor force. We calculated that if employment-population ratios for all groups could be brought up to the level enjoyed by college graduates, 26 million more

people over age 25 would be working; if you exclude all those over age 64, there are still 15 million more potentially employable. I think that this is where the big problem is--and that is where the ELR will be effective. If there really is an unemployment problem at the top of the skills ladder, then that can be solved through the normal starwars Keynesianism. That may well be what Europe needs, and maybe even Canada and Mexico need starwars. But that just means you need ELR plus pump-priming--that is, hiring off both the top and the bottom.

Just this past December, we celebrated the 50th anniversary of the Universal Declaration of Human Rights, Article 23 of which states:
"Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment".

We have been violating those fundamental human rights on a massive scale for 50 years now. It is time to provide a job to anyone who is ready, willing, and able to work. Fortunately, that can be done, immediately, without worrying about "bankrupting" government, without setting off a "wage-price spiral", and without creating "make-work" jobs. As 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

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