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H.P. MINSKY AND POLICIES TO COUNTERVAIL CRISES

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Abstract

The paper examines Minsky's reflections on policies designed to act as a countervailing force against crises by fostering "responsible" Big Government, in which the role of the State is profoundly revised and directed towards full and stable non-inflationary employment, and also enabled to sustain consumption and economic growth over time. The aim of this study is to assess the effectiveness of State-established structural direct job creation programs, enacted during severe recessions as a means of achieving full employment without disruptive consequences such as price instability, inefficiency of the public apparatus, unsustainable public and foreign debts. In-depth investigation of Minsky's perspective highlights that well-focused full employment programs are important to counter inadequacy of effective demand; but if they are to be feasible and financially sustainable they must also improve the productivity of individuals and economic systems in the medium term.

Keywords: crises, policies, Big Government, ELR programs

JEL codes: B22; E62; J68

1. Introduction¹

Macroeconomic instability has seriously called into question the founding principles enshrined in the vision of the *New Economic Consensus (NEC)*. Yet in mainstream economic thought it is still widely believed that recourse to structural and systematic use of fiscal policy tools as a means of combating involuntary unemployment, fighting against poverty and achieving more balanced income distribution is unnecessary. According to the *New Economic Consensus (NEC)*, fiscal policy remains intrinsically inflationary and is useful only in conditions of deflation or liquidity trap².

Recently, however, even mainstream thought has become receptive to a re-reading of economists who, like H.P.Minsky, building on the heritage of Keynes, have contributed to a better understanding of instability phenomena. The reappraisal has suggested new policy lines that are helpful in overcoming the recessions triggered by instability³. One may thus inquire whether there exist any margins for reconsidering the advisability of utilizing structural fiscal policy. Are there any policies whereby money easing stimuli may be used alongside action intended to foster full and stable non-inflationary employment and also sustain consumption and economic growth over time, and if so, under what conditions could such policies be enacted?

Significant answers to these questions can be found in the theoretical contribution of H.P. Minsky. In examining his work, this paper has two objectives. Concentrating mainly on the role of the State as the employer of the last resort, it seeks first and foremost to propose a critical analysis of the development of the thought of H.P. Minsky, with particular emphasis on the theory and history of fiscal policy. It is precisely this sphere of his work that has raised the greatest controversy; it has also been the aspect least explored among economists, including among Minsky scholars, who have highlighted above all his original contribution to the *Financial Instability Hypothesis*⁴. Secondly, this paper will endeavor to provide evidence that Minsky's conception of the role of the State in the economy was, from the very beginning, characterized by a modern and original approach to the genesis and evolution of the instability of capitalism and also to the issue of economic policy designed to contain this instability. The "responsible" *Big Government*⁵ advocated by Minsky certainly belongs to the Keynesian tradition in its emphasis on fiscal policies aimed at promoting

¹ The author wishes to express his sincere thanks to Dr. E. Gatti, Prof. C. Panico and Prof. A.M. Variato and anonymous referee for their helpful comments on earlier versions of this work. All errors or omissions are to be attributed exclusively to the author himself.

² For an example, see Bernanke (2003).

³ See Papadimitriou and Wray (eds) (2010).

⁴ See Tymoigne (2006), Assenza, Delli Gatti and Gallegati (2010), Bellofiore, Halevi and Passarella (2010), Ferri (2010).

⁵ For further in-depth analyses see Tymoigne (2008) p. 35, Tymoigne (2010).

targeted support for effective demand. On the other hand, Minsky emends the Keynesian tradition by shaping a “vision” with three main characteristics: (i) it foreshadows contemporary critical (Krugman , 2007) analyses of policies that have led to increased inequality within the USA; (ii) it overcomes the post-Keynesian limits (cf. Tcherneva, 2008a) through a proposal of an “original-Keynesism” that does not separate the demand side from the supply side; furthermore, this “original” interpretation is in agreement not only with policy lines designed to support economic productivity growth and raise incomes, wages and living standards⁶, but also with generally accepted theories on failure of the market and of the State⁷; (iii) it assigns a key role to the issue of equity in fostering prosperity, thereby adopting a “heretical” approach as compared to the more traditional conceptions.

The paper is divided into three parts: the first (sect.2-3) illustrates the role of the State as an Employer of the Last Resort (ELR); the second (sect.4-5) analyzes the critical aspects linked to implementation of ELR programs; the third (sect. 6-7) highlights the crucial role of ELR programs in the fight against poverty, as tools compatible with public budget constraints and price stability, but without going into the details of the complex theoretical and policy debate on ELR programs⁸. The paper concludes with a general overview of the points put forward and a glance at future prospects.

2. Policies at the service of the community: labor as a tool for averting crises and fighting against poverty

The specificity of the policies advocated by Minsky is linked to an economic vision that seeks to promote the development of stable democratic societies characterized by a greater degree of

⁶ See, among others, (Bluestone and Harrison, 2000, taking up the proposals outlined by the *New Growth Theory* , cf. Romer, 1994 and Thurow, 1999).

⁷ In this regard see Stiglitz (1989),(2000) and Krugman (2007).

⁸ The debate on ELR programs is extensive and complex, both with regard to the literature and also in the Political Economy perspective. Therefore, a specific in-depth investigation requires an entire study devoted to this topic alone, which would go beyond the scope of this paper. Our aim here is to focus attention on the theoretical concepts Minsky put forward in proposing use of the public employment tool to achieve socially beneficial goals during periods of crisis without significant inflationary results.

The empirical analysis of implementation of policies having an affinity with ELR programs is even more variegated. In addition to ‘socially useful’ work programs in Europe, experiences took place in Argentina and other areas of South America. These programs were examined and developed directly with the support of the group of scholars closest to Minsky who were active at the Levy Economic Institute of Bard College (among others, P.Tcherneva, Randall Wray, Kaboub). The debate that has arisen in this context is equally extensive, and has prompted contrasting and at times highly divergent assessments. An outline of the main theoretical points of the debate will be given in section 6. For a detailed discussion of theory and policy on this subject, a specific article on the subject is currently under preparation; in addition, the reader is referred to Kaboub, 2007a and 2007b, and to the numerous works published by the following: the Levy Institute, the Center for Full Employment and Price Stability of the University of Missouri—Kansas City and the Centre of Full Employment and Equity of the University of Newcastle (Australia).

fairness. One of the fundamental issues is the struggle against crises, to be achieved through labor, based on the presupposition that labor constitutes the key to overcoming instability, inequality and the scourge of poverty.

The first question to be addressed is why no effective solution has yet been found, even in the richest and most dynamic economies, to counteract the recurrent financial crises and the related problem of poverty. Minsky believes that the lack of a solution is due to a problem in prioritizing the objectives. In the struggle against crises and poverty, job creation should be at the forefront of policy targets rather than the indirect result of growth-related effects⁹ or of more efficient resource allocation (since such phenomena often do not provide a definitive solution to the specific issues). An essential point of his analysis is a critique of the War on Poverty (henceforth WOP) programs which, starting from the 1960s, formed the main basis of the fight against poverty in the USA and in the other more advanced countries of the Anglo-American area. These were programs rooted in the principle of providing incentives for improving the skills of the workforce in order to enable individuals to respond more successfully to the diversified and changing requirements of the labor market.

Minsky's critical approach reveals a substantial difference as compared to the traditionally accepted theories. In the conventional view it was held that social inequality can be curbed by investing in human capital in order to improve labor productivity and, if necessary, by introducing redistributive policies through tax levies and monetary transfers. According to Minsky (1965b, p.190), these policies failed to have a substantial impact on the differences between the well-off and the poor; furthermore, in a situation of recurrent economic crises and widespread instability they were unable to give the increasingly weak members of society a genuine opportunity to avoid the slide into poverty. Recently the contributions of Pigeon and Wray (2000), Brady (2003) and Bell and Wray (2004) have confirmed this perception.

The alternative put forward by Minsky can be traced back to the vision of Keynes (1936 and 1940) according to which full employment cannot be guaranteed by demand alone: rather, what is needed is appropriately "focused" demand distributed by utilizing the tool of socially necessary public work (see also Tcherneva, 2008b, p.16). Furthermore, Minsky's approach seeks to countervail a typology of economic organization that tends towards the concentration of wealth and power and is characterized by increasing disparity in income and resource distribution. Such a situation, he felt, was not only socially undesirable but also, in the medium-long term, incompatible with respect for democracy (Krugman, 2007). Rather, Minsky's approach advocates an economic

⁹ On the difficulty of implementing self-sustaining growth models, see Minsky, (1965a, [1982]). An approach to the fight against poverty as distinct from economic growth is shared by a vast literature that investigates this issue in depth (Bell and Wray, 2004; Wray, 2007c; Tcherneva, 2007, Kaboub, 2007a; Dodd, 2007, section 4).

policy line based on income redistribution in favor of medium and low income groups as an antidote against the dramatically escalating increase in inequality observed over the recent thirty years of American history. Thus a major focus of his concern is the realization that the strong economic growth of this thirty-year period has not translated into greater earning for the workers, including those who have acquired skills and are endowed with technological expertise.

3. The role of the State as an Employer of Last Resort (ELR programs)

In Minsky's vision the State can become an essential tool in the battle against financial crises and poverty provided that its action is organized into three lines of action: the Lender of Last Resort (LLR), Big Government (i.e. public intervention of at least the same order of magnitude as private investment, cf. Minsky, 1986, p.297), and the Employer of Last Resort (ELR). Although the majority of critical studies on Minsky award priority to examination of the first two elements, the his true position is different. Minsky believes that policies designed to achieve a lasting elevated consumption base and to combat the social insecurity that derives from unemployment and precarious labor conditions constitute an appropriate tool to counteract instability and crises: only thus, he argues, can the objective of a more balanced scenario in economic and social relations be attained. Furthermore, any policies aimed at income redistribution and elimination of poverty should be put into action without triggering significant inflationary effects and without adverse consequences on public finance.

The method Minsky adopted as early as his first works (cf. Minsky, 1961 and the interpretive reading of Wray, 2007c) is that of *analytical institutionalism*. This places emphasis on the crucial role of the institutions, rules and political context in allowing concrete realization of policies to act on the economy, income distribution and wealth, and to usher in widespread prosperity. Therefore policy effectiveness is always linked to the moment of implementation of a policy and to the characteristics of the specific institutions at the time of implementation¹⁰. It follows that policy programs should not be regarded as valid at all times and all occasions; rather, they represent flexible approaches, to be adapted to the macroeconomic context in which they are applied.

Additionally, in the Minskian framework, management and development of ELR programs should promote collaboration with the labor unions in the organization of industrial relations (in contrast to excessive trust in an unconstrained labor market). It should lead to creation of the kind of conditions achieved, for example, in the Roosevelt era, characterized by effective public

¹⁰ This concept has also been extensively developed by Krugman, 2007, in his reading of the different phases of the relation between economic inequality and political radicalization.

intervention that is not shackled by bureaucracy (Stiglitz, 1989 and 2000, Krugman, 2007, chap. IV).

ELR programs are feasible, Minsky argues, provided they avoid the adverse effects of unbalanced trade-offs between inflation / unemployment, efficiency / equity, and state / market. Only in a non radicalized institutional context does it become fairly straightforward to neutralize the negative repercussions of reform policies that also have a significant impact on the sectoral level (by mitigating the conflict between the area involved in public action and that involving the private economy, between expanding or contracting sectors). Careful attention should be given to such repercussions in order to achieve a sustainable mix of relations between efficiency and equity, or between inflation and unemployment, according to the well-known Phillips curve (Wray, 2007c). Economic growth can generate inflationary pressure in the more dynamic sectors even in presence of widespread and substantial unemployment in declining sectors; by the same token, employment may increase even without an increase in the price level, if the new workers are employed in sectors that are operating below their production capacity (on this, see again Wray, 2007c, p. 3).

In comparison to the classical public income support policies (such as the different forms of Basic Income Guarantee), ELR programs also have great ethical and civic value: they set labor and a dignified wage at the center of a social system that can guarantee maintenance of substantial and harmonious economic democracy, while not inducing severe negative effects linked to unproductive expenditure. This can be explained by noting that ELR programs allow expansion of the supply of public services *in kind*, thereby responding to needs for which the market does not provide adequate and efficient answers (as in the case of externalities or market failures); in addition, ELR programs assure more extensive provision for collective needs at contained costs.

4. Critical aspects of ELR programs

4.1 Pivotal concepts

During the 1960s Minsky began to develop his reflections on how to devise a solution to the problems of an employment strategy that would also be effective against inflation and public bureaucracy (Minsky, 1965b). His ideas were brought to completion during the 1980s (Minsky, 1986), identifying a path which calls for the creation of an infinitely elastic demand for labor, corresponding to a base wage that should not be linked to the expectations of profit (short term and long-term) on the part of firms. Such a framework can be generated only by the public sector, inasmuch as the latter is the only agent capable of offering employment opportunities not associated

with the profitability of hiring employees¹¹.

This strategy involves four aspects that have a notable impact on the labor market (Minsky, 1986, p.309):

1. Development of public institutions, both private and intermediate, that provide job opportunities at a non-inflationary base wage.
2. Modification of the structure of transfer payments.
3. Removal of entry barriers preventing participation in the labor force.
4. Introduction of constraints on monetary wages and on labor costs.

1) The answer to the first problem (noninflationary base wage) is to be found in institutional transformations allowing more liberal labor market regulations. In particular – in order to ensure maximum labor demand elasticity by private entrepreneurs who wish to hire more hands, even when public employment programs have been introduced – Minsky suggests that this typology of public employment should be remunerated with significantly lower wages compared to private sector wages.

2) The second aspect (modification of the structure of transfer payments) implies a profound revision of public support for private investment. The contribution of the State should be directed towards improving the efficiency of the industrial structure, and should not be an indiscriminate contribution. Only thus can there be less reliance on state demand for particular sectors (the construction and machine industry, also – and above all in the USA – for purposes of defense), and this indirectly also moderates the workers' drive towards wage increases in "protected" industrial sectors, which the workers seek to secure based on the particular conditions of prosperity assured by the companies involved. Furthermore, private sector wage increases (supported by the demand for investments, which frequently means public investment) have the effect of increasing unemployment in non-protected sectors, with the ensuing increase in the public budget deficit. In contrast, through reduction in contributions to "protected" sectors the balance between demand and supply of labor in these sectors is brought back into the context of market competition. If the base pay of public occupational programs is maintained rigidly fixed, then the wage differentials between the two aggregates (public and private) will tend to be determined by the market and thus will not induce inflationary consequences.

3) The third aspect (removal of barriers to labor force participation), Minsky suggests, could be pursued through changes in the social security system, mainly by recourse to tax incentives/disincentives. For example, this would favor extending work opportunities to the elderly and would modify the benefits that otherwise reduce working mothers' interest in the labor market,

¹¹ For a further detailed analysis of this theme see the works by Graziani 1986, Papadimitriou and Wray 1999, Whalen

in a perspective similar to that currently contained in the so-called Lisbon agenda.

4) The fourth problem (measures that constrain money wages and labor cost) is concerned fundamentally with the need to reduce labor costs, both as regards the direct components (net and gross wages) and also indirect components (linked to the cost of living), in order to reinforce the entire framework of the proposed policies. Minsky argues that the impact on wages can be allayed by breaking down the vicious cycle which, through the expenses involved in money transfers to firms that produce investment goods, leads to an increase in the market power of such enterprises, higher wages for their workers and the propagation of wage and price increases to consumption goods. As noted in point (1), support by means of the employment strategy has a more limited impact on wage and price rises, because public works program wages are significantly lower than in the private sector. Furthermore, with regard to the indirect components of cost of living-related wage rises, an economic policy that redistributes the benefits of growth in favor of medium and low income bands of the population allows effective containment of the actual and expected inflationary push, because public expenditure, financed by progressive income tax, can be directed towards a greater supply of efficient and socially useful services of collective interest, at controlled or ceiling price rates. This contributes to improving workers' and families' standard of living through the positive effects on the quality and prices of school and educational services, and care of the elderly, the disabled and the sick. A reduction in the cost of living for the medium and lower income bands creates the premises for limiting and stabilizing labor costs, in particular if the economy introduces measures to oppose employment insecurity.

4.2 Role of the reduction of wage differentials

Action undertaken to abate crises and poverty is effective, in Minsky's view, under particular conditions. It is successful above all if, in addition to contributing to the stable entry of a greater number of persons into the labor market (with the effect of expanding the amount of families who have a greater number of family members in employment and thus of increasing family income), it also leads, by virtue of institutional agreements (for instance, income policies accepted by entrepreneurs and workers), to market mechanisms capable of raising the lower wage levels more rapidly than higher wages. This would have the result of raising the poverty income threshold and, at the same time, it would not provoke the wage-price spiral.

In the economic situation of the 1960s, Minsky (1965b, p. 180) did not deny the existence of a relation between wages and productivity in the different sectors of the economy and an interrelation

between relative wages and relative prices. He pointed out, however – referring to the results of the empirical analysis conducted by Ulman (1965) – that in periods of a “robust” labor market the wage differentials are reduced, whereas they tend to increase at times of greater tension in the sphere of employment. He also noted that the existence of high wage industries was often due to the need to reward selected workers and retain them in the workforce of this typology of enterprises (which were often also more highly unionized).

Under the hypothesis of an infinitely elastic labor supply as compared to the wages offered in high wage industry and where real wages do not tend to increase over time, it should be expected that the increase in aggregate demand would lead only to a rise in wages in the lower wage sectors (Minsky, 1965b, pp.182-183). Minsky admitted that in concrete empirical reality, wages in high wage industries tended to increase over time at least at the same rate as labor productivity, and therefore that the pay rises in low-wage sectors observed in favorable labor market conditions should also be evaluated in relation to the trends characterizing higher wage sectors. On the other hand, Minsky felt it was important that one of the key intermediate objectives of the fight against poverty should be that of facilitating an improvement in wages of low-paid workers and limiting wage rises among high-paid workers. The conditions for success of this income policy were linked to control of nonwage income.

It follows that the successful outcome of policies designed to fight against poverty depended on the impact of a rapid increase in wages – rising beyond their physical productivity - only for wage levels close to or below the poverty line, whereas higher wages should be guided onto a growth path below their productivity, in order to limit the price rises of products the workers themselves had to purchase.

The wage dynamic outlined so far would, in this perspective, create the conditions for increasing the national base wage (or at least for effectively assuring the base wage for all workers), so that wages both in the private and the public sector would not fall below the poverty line. This correction, necessary to win the war on poverty, would lead to inflation only as a temporary phenomenon on the way to an economy of tight full employment¹²

However, Minsky was well aware that control of the inflationary push did not depend exclusively on the reduction of wage differentials, but was linked to other conditions which, in the last analysis, implied a decline in the price of the output of high wage sectors. Such a result is, in turn, achievable dynamically if (i) wages grow less rapidly than productivity and (ii) the decline in unit production cost is transferred to the product price. In cases of an oligopolistic market structure,

¹² In order to avoid generating inflationary expectations and comprise the policies designed to fight poverty, the transitoriness of the price rise is fundamental and useful only to overcome an unequal income and wage distribution that would be unsustainable over time.

and /or if there are notable non labor-related costs, and/or price elasticity of demand for the product is low, then containment of the wage dynamic is no longer a sufficient prerequisite for containment of inflation. This is due to the fact that the above-described condition (ii) no longer holds. Hence Minsky's opposition to oligopolistic rents, as the latter, he believed, should be countered by institutional income policies and agreements, in analogy with the position of Kalecki (1971) concerning the difficulty of reducing the wage push in presence of high employment¹³.

4.3 Inflationary pressures produced by the labor market

Minsky approached the problem of guarding against inflation by distinguishing price rises triggered by problems originating on the labor market from those induced by public expenditure.

With regard to the labor market, Minsky's analysis focused on its "non inflationary" bases. The latter, he maintained, are achievable on the condition – realistic in regulated institutional contexts – that firms' demand for labor remains infinitely elastic at a pre-established base wage that is not dependent on the business conditions, so that a dignified standard of living can be assured for the workers in all situations¹⁴. Here Minsky's position differs substantially from the mainstream academic tradition, which stresses the importance of maintaining unemployment at a level compatible with price stability. In Minsky's view, the mainstream approach is damaging and unjust because, by setting unemployment and inflation in an inverse relationship, it perpetuates the differences between the well-off and poor components of society. In addition, he contended that it orients the labor market towards a setup that penalizes the weakest component, and that it therefore sacrifices the primary objective of the war on poverty to the aim of price stability.

As pointed out in the previous section, Minsky believed that the inflationary effects depended on the technical and institutional characteristics of an economy, both as regards the costs faced by firms and also the demand for products and services (family income)¹⁵. Therefore a multiplicity of variables must be taken into account: management remuneration, costs not directly linked to production, such as administrative management and professional consultancies; financial costs; the exchange rate that influences the cost of imported inputs; corporate taxation; employee income tax

¹³ For further in-depth analysis the reader is referred to Mastromatteo (2006).

¹⁴ Cf. Seccareccia (1999), in a critical review of the *ELR programs*, stresses the effects of such policies on income distribution: in policies through which the wage levels assured to those who resort to ELR programs are kept low in order to contain inflation, the beneficiaries may become dupes in the sense that the programs end up maintaining an unjust system that penalizes the weakest members of society; the alternative of setting wages of ELR workers too high could generate an instability in the wage structure, which in the long run could lead to inflationary processes. Without clear policy objectives concerning expected income distribution, there is a risk that these programs will not be successful.

¹⁵ The studies by Fair (1999) provide an empirical confirmation of Minsky's intuitions of that an increase in employment triggers an increase in the price level *una tantum*, without triggering a significant acceleration of the inflation rate. For an overview of this issue, see Petri (2003).

and social security contributions; stimuli encouraging competition in production; marketing of goods and services and so forth. All these contribute to determining the framework for reaching an agreement on policies designed to counteract inflation.

The first step towards a policy that seeks to build an economic-institutional model capable of achieving and maintaining long-term full employment must, in Minsky's view, involve a substantial change in relative salaries in order to favor low wage sectors. Subsequently, a stable level of employment may lead to a modification of the relative weight of employment in the different sectors and may contribute to a progressive alteration of mean income distribution. Finally, Minsky does not deny that such a prospect may imply changes in price behavior and in price expectations; thus he underlines the role of expectations in the various economic situations (for instance, in cases of deflation or inflationary acceleration).

A scenario characterized by policies oriented toward full and stable employment leads to major changes in the behavior of institutions (as in the case cited by Minsky on the subject of the postwar Scandinavian economies). There is a move towards income policies and incentives to competition (agreements between the State, entrepreneurs and trade unions) that aim to guide operators' choices in the desired direction concerning price expectations. Such policies may include action to guide the course of the wage dynamic and the labor market in order to avert bottlenecks in some sectors. Action of this type can be justified, Minsky contended, by the fact that labor should not be considered as composed of homogenous and total fungible activities¹⁶ (Minsky, 1965b, p.188)..

Overall, recognition of the heterogeneousness and stickiness of the labor force renders the policy makers' task more challenging, and highlights the need to implement targeted programs specifically directed towards low income communities.

4.4. Inflationary pressures induced by expansion of public expenditure

The relation in Minsky's vision between inflation and increase in public expenditure can be understood by recalling that he considered the public function of Employer of Last Resort to be that of taking on unemployed workers "just as they are" and providing those who wish to work with a job that will offer at least the national base wage. In this sense, the ELR function is effective in increasing social and collective productivity by supplying public services and/or goods (Minsky, 1965b, p. 196). Further, Minsky underscores the importance of efficiency and of focusing public

¹⁶ This position does not imply that the endeavor to make the labor market more homogeneous should be neglected. On the contrary, Minsky (1965b, p. 194) shared this aim and approved of the tools utilized (job training, labor relocation and similar programs); however, he was convinced that there were limits to the ability of these programs to transform particular kinds of jobs into an excess of supply in typologies that presented an excess of demand. This observation is particularly relevant on the policy plane, as it endorses a substantial equivalence between tools for reducing taxation vs.

programs on clear and well-defined objectives, pointing out that public investments are often poorly targeted, and in less homogeneous social situations they may act to the advantage of privileged workers and fail to respond successfully to the requirements of the fight against poverty (which, as noted earlier, is the primary objective of ELR programs).

In the broad sense Minsky's position can be seen as linked to the post-Keynesian tradition (and more specifically to the neo-Chartalist strand), which is known to consider inflation as a possible but not necessary effect of the implementation of expansionary fiscal policies. That is to say, it is a perspective which sees inflation as influenced, but not determined, by government spending inasmuch as the latter is an injection of credit into the economy which should be commensurate with the total of public revenue. This interpretation suggests that not all deficits are necessarily inflationary and not all surpluses deflationary, as there are deficits produced by fiscal policy interventions such as basic income guarantees (analyzed in the seventh section of this paper) which have a strong inflationary impact on the economy. In general, however, the effects on prices depend on specific economic circumstances, the level of private expenditures and the production and employment typology (Tcherneva, 2008a, p. 38). Moreover, as also argued by the NEC authors, excessive emission of liabilities by the State (both in the form of debt and of money) is inflationary only when the increase in public expenditure in relation to revenue is not associated with a change in the assets of the private sector.

Minsky's evaluation of the effects of fiscal policy is also consistent with Lerner's functional finance approach: such policies should be judged essentially on the basis of their economic impact and not merely on the consequences for the budget. If the economic impact is positive because the expenditure makes it possible to achieve an important and widely shared goal (in the specific case, universal high quality health care provision at acceptable costs), then the policy has been effective; if the goal has not been attained, then the policy must be assessed from a management perspective, reviewing possible individual or collective errors in the decision-making process (see Tcherneva, 2008a, p. 40).

Looking at more recent times, with the experience of an economic system that has undergone major change as compared to the scenario analyzed by Minsky in the 1960s, it seems reasonable to share the ideas of Bell and Wray (2004, p. 23), who argue that the effects induced by increasing globalization attenuate the danger of a price-wage spiral and even increase the probability of deflationary pressures.

increased expenditure, and it is valid as a means to overcome a recession, but it is not valid if the objective to be achieved is full employment (above all when unemployment has been triggered by structural change).

4.5 Effects on external equilibrium

Labor market and “wage/price” problems have an impact on issues concerning external equilibrium in an open economy. Minsky (1965b, p. 192) acknowledged that robust full employment and the elimination of poverty were perhaps not compatible with the aim of balance of payments equilibrium, in the conditions of the 1960s, and he did not rule out that the expansion of employment could lead to a rise in wages and prices, with adverse effects on the foreign balance of payments¹⁷. In the 1960s, as a consequence of the dollar standard, any increase in income, arising from a general increase in aggregate demand – whether or not accompanied by a price rise – could lead to a crisis in the foreign currency accounts of the balance of payments¹⁸ (Minsky, 1965b, p. 187).

Today the solution proposed at that time by Minsky seems unconvincing in delineating the hypothesis of abandoning the principle of the dollar anchored to gold in order to limit the expansion of demand deriving from balance of payments problems¹⁹. However, in the context of those years, when market liberalization had not yet reached global dimensions - and the economies were not yet as integrated as they have become over the last twenty years - adjustment of the fixed exchange rate was sometimes considered as an effective tool to attenuate balance of payments constraints. It was also contemplated as a means allowing utilization of fiscal policies that were not generically expansionary but targeted towards a social objective, in particular for effective war on poverty programs.

Abandonment of the dollar standard would constitute the simplest solution, Minsky argued (1965b, p. 193), if a hierarchy of priorities favoring specific objectives of averting crises and fighting against poverty were developed. But in a Keynesian vision, this proposal seemed short-sighted because devaluation would export unemployment elsewhere and could be sustained only by an economy that was in a strong position, capable of obliging other nations to decrease their sales. In effect, if a chain of competitive devaluations were to come about, the most probable outcome would be a generalized progression towards worldwide recession (as a result of an increase in uncertainty about sales, leading to an increase in interest rates and a decrease in real wages and consumption). By contrast, a concerted policy of expansion of aggregate demand would enable all countries to increase their imports, with a benefit for exportation as well.

¹⁷ For further in-depth analysis see Petri (2003).

¹⁸ This is a reasonable position, albeit not always confirmed by the facts, as shown by the cases of export-led economies such as Germany, Japan and China. This issue is linked to the Cambridge growth theory and to the recently proposed amendments, such as those put forward by Serrano (1995) and Trezzini (1995, 1998).

¹⁹ But it should be noted that the position of the American economy as the reference point and driver on the international level as well as the role of the dollar have always, especially in the years between the end of the second

In later years Minsky's position developed in a number of different directions as well, with attention to exchange rate problems: he was fully aware of the role of the dollar as the leading international reserve currency²⁰. As highlighted by Wray (2006) from the mid 1970s onwards, the perspective around which Minsky built his theoretical analysis underwent a significant change, and was marked by the important step of abandonment of the dollar exchange standard and the Bretton Woods agreement. Since then, changes in the contemporary open economies have been increasingly influenced by exchange rate fluctuations among the main currencies. In this regard, Minsky (1979), concerned above all about the scenario that could ensue in a flexible exchange rate system, highlighted the risk that the structure of the US balance of payments could begin to resemble that of poorer countries, rendering assets denominated in dollars less attractive. Furthermore, pointing out that standard economic theory ignored the impact of the financial sphere on the real economy, he stated that an international deficit-ridden financial position (at least on the level of the basic balance²¹) could contribute to compromising the position of "loan-seekers" as well, first and foremost the State. The latter would therefore be forced to refinance itself at more burdensome conditions and would experience a weakening of its capacity for stabilization in conditions of recessive dynamics.

Minsky thus realized that currency equilibrium was closely connected to the requirement of public finance solvency. Thus he too became convinced that it was imperative to address the problem of the extent of public intervention and the sustainability of the deficit, in the wake of the evolution of the American economy in the 1980s and 1990s. It is even more vital in the light of the current crisis situation.

Minsky repeatedly stresses the importance of having a public sector endowed with a solid and solvent financial structure, with a tax system that efficiently generates a surplus, so as to avoid deterioration in the quality of the debt (Minsky, 1986, pp. 302-303). However, his attention to the problem, as we will see in the next section, should not be taken as implying an a-priori acceptance

world war and the first oil crisis, resulted in minimizing concerns about the effects of constraints external to the economy.

²⁰ Due to the international status of its currency, the costs of expansionary policies were historically relatively contained for the USA, favoring the adoption of a regime of fairly relaxed monetary and fiscal policies, while the other country were obliged to adopt stricter macroeconomic policies. In this regards see Bell and Wray, 2004, p.24.

²¹ For Minsky "*the technique of managing the net foreign acquisition of international money by influencing private investment abroad requires that the basic balance – the sum of Tier I (current imports and exports of goods and services, including remittances and other invisibles) and Tier II (receipts and expenditures due to income from capital assets owned abroad) be in surplus* (Minsky, 1979, p. 117). Consequently, "*for the international banks that acquired dollar-denominated assets as they emitted dollar-denominated liabilities, a run on the dollar means that they cannot sell new dollar liabilities as such liabilities mature*" (Minsky, 1979, pp. 117-118).

Therefore this began to act as a severe constraint even for an economy whose currency is functioning as a key or reserve currency in international monetary relations (Minsky, 1979, p.119), such as the U.S.A.

of the Ricardian equivalence²², of crowding-out effects²³ or of budget constraints²⁴.

4.6 Effects on public current expenditure and financial sustainability

On the plane of concrete policies, Minsky's answer to the issue of debtor solvency, of sustainability of State intervention and the burden placed on public current expenditure, should be assessed in the framework of an overall critique of irresponsible Big Government. Such a view is shared in much of the literature today, which has superseded the approach traditionally defined as Keynesian (Minsky, 1986, pp. 302-303).

The anticyclic functioning of ELR programs does not impede achievement of substantial public finance equilibrium, above and beyond short-term fluctuations. With their "concertina-like" mechanisms, they are highly flexible economic policy tools: they can be activated in cases of necessity, with a burden that weighs on the public budget only during recessions and which can be reabsorbed during the favorable phases of the economic cycle. Containment of ELR programs during expansionary phases should not impair the quality, price and range of public service provision for the collective community, since, thanks to the greater resources of the private sector, certain services may be taken over and provided by the latter.

Another important aspect underscored by Minsky concerns the financial sustainability of ELR programs in relation to the effects on gross domestic product (GDP). In this regard, he utilizes Okun's law empirically, pointing out that for each percentage point of decrease in the rate of unemployment, GDP would increase by 3 percentage points; furthermore, even in a less optimistic version of this law, which would be the case if unemployment were below 4%, the reduction in unemployment by one percentage point would lead to an analogous increase in GDP. In conclusion, Minsky (1965b, p.180) estimates that the costs involved in raising the income of all those who live in poverty, by providing them with jobs so that they rise above the poverty line, would be far lower (11/12 billion dollars) than the increase induced in GDP (34 billion dollars), even in the most cautionary hypothesis of the impact of Okun's law (elasticity equal to one between unemployment

²² The reader is referred to Arestis and Sawyer (2003, 2004) for more detailed investigation of why the Ricardian equivalence starts from the assumption of full employment and from denial of the wealth effects generated by fiscal policies

²³ Cf. Tcherneva, 2008a, pp.35-37 argues that the crowding out effects are not caused by fiscal policies, as they depend on monetary policy. On the contrary, it more often tends to be public expenditure policies that generate a crowding in effect, i.e. injecting high potential money into the economic system that stimulates net credit to the private sector.

²⁴ The debate on budget constraints offers markedly diversified indications; even among NEC supporters (see Woodford, 2000, p.32) it is recognized that the government is an agent that differs from the private sector. On the manner of weighting this difference, see Arestis and Sawyer, 2004 (sustainability of the state budget with a growth rate of the economy greater than the gross interest rate on the debt) and Alsopp and Vines, 2005 importance of the question of solvency as compared to the traditional budget constraints, which can be overridden by political decisions).

and real GDP)²⁵.

Although it would be beyond the scope of this work to conduct an in-depth investigation of the Financial Instability hypothesis, it is important to bear in mind, in proposing alternatives to ELR programs, that supporting demand by re-launching public or private investment would have a substantial impact on the instability of the economic system²⁶, triggering a potentially inflationary spiral and a more permissive evaluation of the financial risk. This in turn would lead to an increase in the leverage ratios and severe disruptions of distributive equilibria, with significant effects on the cash-flow of the major economic units (Wray 2007c, p.4).

5. ELR programs and their impact in different historical phases

ELR programs are structural interventions which, in Minsky's view, are applicable in response to "employment strategy" requirements in order to achieve specific economic and social objectives. During the 1960s and 1970s the tool was used with the aim of countering the instability triggered by excess investment demand that had caused chronic inflation and excess profits/wages in sectors benefiting from public investments (Cfr. Minsky, 1975; Minsky, 1986, p.308). In the early 1980s the Financial Instability Hypothesis embodied the view that public employment support programs were a factor capable of countering the fragility of the economic units and supporting their cash-flow (Minsky, 1982, p. 23).

In the phase of the predominance of laissez-faire programs in the USA (from Reagan onwards), Minsky's criticism of the degeneration of Big Government took the form of a challenge to review the functions and role of the State²⁷. This was to be done partly also through ELR programs, in

²⁵ Papadimitriou (2008, p.5) reports that simulations on the present-day economy of the USA, Australia and United Kingdom (with the exclusion of income multiplier effects) reveal that an ELR program should lead to burdens varying between 1 and 3.5 percent of GDP, which would seem to be sustainable for many state finances. In particular, calculations conducted with regard to the USA indicated that such a program targeted to covering seven million individuals would lead to an increase close to 2% of GDP against a cost of roughly 1%.

²⁶ For a more detailed examination of these issues, see Mastromatteo, 2009 and Wray, 2007a and 2007c.

²⁷ The political - and also economic - issues which, from the Reagan presidency onwards, ushered in a neoliberal era of limitations on state intervention in the economy, as eloquently described by Dymski (2002) and Kregel (1998), are well known. In actual fact, the rise of the neoliberal era merely resulted in channeling public expenditure in a different direction, mainly towards defense and national security objectives and, to a lesser extent, towards social expenditure (Minsky, 1986, p. 305). At the same time, however, there arose a process of redistribution of the benefits attributable to public action, with benefits shifting from the weaker social groups to those more able to exert pressure on the political institutions (without solution of continuity in comparison with Minsky's ideas, 1986, p. 318). Minsky perceived the potential danger and expressed his concerns by pointing out that a reduction in social expenditure would sweep away an extensive and stable source of demand, with dangerous consequences not only for the cash-flow of the individual economic units, but also for entire economies (Minsky, 1993a, [1990], p. 112-113 and Minsky, 1996, section 6). Minsky's vision embodied a confirmation of the conclusions reached by Kaldor (1978), who confuted the assumption typical of the traditional models, according to which a reduction in the costs and price of exports, incorporated into systems with a less burdensome weight of social expenditure, implied a greater increase in competitiveness and assured more substantial market shares.

order to reinforce the State's capacity to set up socially more equitable policies (Minsky, 1992, p. 20) as well as to address the issue of the instability of economic systems (Minsky, 1986, p. 22). Minsky was becoming increasingly aware that in conditions of market integration, the negative effects of an elevated deficit and of an increasing public sector debt undermined the State's stabilizing role in the case of severe recessions, with the attendant difficulties of utilizing this lever in situations of imbalances in the domestic and foreign accounts.

Minsky's critique of Big Government therefore underlines the need to focus public action towards specific and particularly selective objectives chosen for the quality of their social impact. On the concrete plane, Minsky urges a drastic scaling down of public monetary transfer payments destined for use in bureaucratic/welfare-related services and for support to firms: instead, he argues, greater priority should be given to ELR programs in order to combine the objective of holding recessive situations at bay and combating social insecurity.

What emerges from Minsky's vision is a liberal conception (à la Henry Simons²⁸ and developed in the analysis by Stiglitz, 1989) of the market as a regulator of economic processes. Indeed, it was precisely the importance Minsky awarded to market mechanisms that led him to realize the need for intervention, through appropriate systems of orientation, regulation and direct public management, in situations characterized by a concentration of oligopolistic power and/or specific externalities that obstructed the effectiveness of the "invisible hand". As early as the 1980s, Minsky commented that *"The market is an adequate regulator of products and processes except when market power or externalities exist"* (Minsky, 1986, p. 329). Market failures, taken in their Keynesian interpretation of "services not provided" by the private sector because they are regarded as not profitable can, he believed, be overcome through direct provision by the State, utilizing ELR programs. On the question of externalities, he recalled the case of the railways (infrastructures) and nuclear power (problems concerning energy and the environment), as examples where public ownership could offer an attractive route (Minsky, 1986, p. 331).

The process of rethinking public intervention in the economy thus becomes an opportunity to assure new growth opportunities in condition of more equitable income and wealth distribution.

6. Present relevance of ELR programs and problems arising from the evolution of financial capitalism in the last twenty years

Rooseveltian policies, described by Minsky as "paternalistic capitalism" (see Wray, (2008, pp. 35-36), facilitated the development of a robust economy through cooperation with the trade unions

²⁸ Cf. Simons H. C. (1948) and Minsky (1985). The latter work contains extensive references to his university education in Chicago.

in order to assure rising wages and an increase in consumption demand, creation of a social security network (which likewise encouraged consumption), the granting of loans to students in order to reinforce their future earning capacity, and a more strongly rooted sense of shared responsibility for bringing up children and caring for the elderly and the disabled.

Taken together, these policies contributed to reducing uncertainty, and helped to reinforce trust and promote economic stability (see Krugman, 2007). Over time, however, the economy moved in the direction of greater fragility. The cold war favored investment in high-tech industries that were among the main drivers of the economy, resulting in a progressive rise in wages in sectors that already enjoyed high wages, and the inequality between these privileged sectors and those characterized mainly by unskilled workers thus became even more marked. Moreover, the distortions of the elephantine system of public finance led to cuts in social programs, with policies being oriented towards support for investment in order to boost economic growth.

To ensure the continuity of an increasingly heavy burden of investments, the importance of the financial sector expanded inordinately, and the absence of severe recessions in the late postwar period allowed a notable accumulation of resources in support of a debt-driven growth model that was dependent on the financial markets. Towards the end of the 1970s the paternalistic government of the postwar years was replaced by a neo-conservative Big Government, and the reformist New Deal tools gave way to market self-regulation and emphasis on personal responsibility. Thus the network of social and financial security was swept away and supplanted by fiscal and monetary policies that paid little attention to the question of maintaining full employment and improving the average standard of living of the population, favoring debt accumulation instead. However, the role of the State was by no means scaled down, nor did it become less interventionist, especially if one considers the ever greater role of expenditure on defense and the administrative apparatus. There was merely a shift of emphasis from the concerns of the American middle class to the interests of the Wall Street money managers.

The model of financial capitalism based on deregulation undermined the cash-flow solidity of the main economic units (families, companies, the State) in the USA. In effect, as a result of the gradual intensification of the financial route to development, and despite the expansion that characterized the 1990s, firms did not reinforce their assets with a view to building up greater security and protection: rather, they made greater use of recourse to external sources of financing, with a growth of leverage, preferring aggressive dividend distribution policies in order to respond to the demands of the money managers (Wray and Tymoigne, 2008, pp,17-21).

All of these themes were already addressed and developed by Minsky (Wray and Tymoigne, 2008) from the late 1980s up to the mid 1990s, above all starting from *Stabilizing an Unstable*

Economy (1986). State intervention had proven to be a valuable bulwark to mitigate the recessive effects and avert the dramas of great depressions, but this had resulted in an over-heavy state bureaucracy, distortion of competition due to excessive public money transfers, and the persistence of inflation.

As a counter-proposal to this model which had taken shape in a particular historical setting, even Minsky in his later works put forward an alternative in the form of an idea of capitalism as an economy regulated by the public function, in which the Government's task is to set up structural macroeconomic programs that directly control fundamental elements of the economy, such as: (i) employment of the available labor force; (ii) the level and composition of investments, orienting the decisions of private enterprises towards projects having a more substantial impact on the collective community (social housing, infrastructure, health care); (iii) reinforcement, growth and balanced distribution of the assets of the financial institutions.

Only through bold and innovative forms of public intervention, Minsky asserted, can the premises be created for overcoming financial crises and reducing the systemic instability of the capitalist economy, thereby averting both the risk of debt deflation and that of a prolonged economic depression. Minsky thus championed Keynes' original approach as set out in the *General Theory*, which opposes both the concept of Big Government based on monetary and fiscal stimuli and also the Reaganomics which predominated in the USA from the 1980s onwards, with its limited agenda of supervision and regulation of the economy. Minsky argued in favor of a structural, systematic and decentralized intervention by the State, which should embrace an approach that retains a certain degree of socialization of investments in order to lead the economy towards full employment, and which endeavors to stimulate a context favorable to labor and to individual initiative (especially if undertaken by disadvantaged members of society).

Given this context of economic and social problems, Minsky made a significant appeal, together with Whalen (1996-97, p. 161), urging that citizenship rights should translate into the opportunity to utilize and develop one's talents as well as the prospect of improving the standard of living of workers and their children. He noted that the evolution of the contemporary economic system dramatically highlights the potential present-day repercussions of severe economic recessions on the fragility of the financial and social situation of underprivileged families and social classes, who are already severely exposed to lack of job security and who are bearing the brunt of the changes in the organization of production, finance and the social system that have come about in recent years.

In particular, the importance of State intervention concerns two fundamental issues involved in

stabilizing the economic setup of families and firms: (1) the struggle against social insecurity²⁹; (2) the need for more advanced economies to base their competitive edge³⁰ on high performance and not on a low-wage economy (Minsky and Whalen, 1996-97, pp. 163-165).

The theme of social insecurity goes beyond the economic sphere, and cannot be solved automatically by embarking on a path of quantitative growth. In contrast, the concept of reinforcing the communities operating in the various local areas, as Minsky suggested, also represents a method for devising a new development model based on production quality and high performance. The idea Minsky put forward, shortly before his death, is that competitiveness should be guided along “high performance” paths when an economy is capable of expressing the qualities of its society through shared prosperity. ELR programs can give an impulse in this direction: by creating the conditions for stable full employment, they contribute to facilitating a lifelong learning approach; they lay the premises for individuals to be socially integrated in a working environment rather than excluded³¹; additionally, they generate a context of civilized society where there is widespread appreciation of collective enjoyment of public consumption (environmental protection, health care and quality of life, individual security). Thus expenditure on ELR programs is not unproductive, because it can be directed towards assuring conditions of “learning by doing” in a virtuous circle that provides an incentive to investments³² (which is consistent with the theory that growth is fostered by competitiveness according to the Kaldor-Verdoorn model), and it can be focused on knowledge-based opportunities for economic growth (cf. North, 1990; Grossman and Helpman, 1994; Romer,

²⁹ Minsky and Whalen, 1996-97, highlight the underlying inability of growth to generate prospects of economic and social improvement. Therefore it becomes important to counter the tendency to a worsening of financial positions by intervening to support families in the field of education and training as well as social services and health care, partly as an effective anti-recession remedy, but also as a response aiming at improving the quality of the economic system by increasing productivity and competitive success. The system of tax incentives, according to Minsky and Whalen, should be oriented towards inducing firms to share with their workers the gains achieved in terms of productivity and profitability, and should allow greater participation of workers’ representatives on the boards of directors.

³⁰ Particularly important is the need to build up and reinforce the communities operating in the various local areas as a safety net to conserve the heritage of human, civil and social resources required to sustain lasting development processes (the idea of the welfare community). In this regard, there is a multiplicity of situations where public support can provide useful support for the communities (Minsky and Whalen, 1996-97, p. 163). An emblematic case in point is Minsky’s argument in favor of the community development banks (Minsky, 1993b) (Minsky, Papadimitriou, Phillips R.J. and Wray, 1993, pp. 9-10). The importance of such banks for community development is linked to the aim of systematically updating the public institutional frameworks so as to provide new opportunities in order to counter the stagnation of many segments of the population. In other words, this goes back to the idea that the State should intervene in cases where the market forces have proved incapable of acting: the State would thus support initiatives of collective interest which civil society should then develop concretely under its own initiative.

³¹ In this connection, Pasinetti, 2007, p. 357, speaks of *hyper-integrated human activity*.

³² Cf. the analysis by Perez, 2009, who strongly believes in the existence of long-drawn-out cycles in which periods of individualism, liberalizations and massive technological change, followed by depressive phases, are then replaced by periods of attention to the common welfare with a social climate more favorable to solidarity and the networks of collective security. The profound technological change that has come about over recent decades contributes to focusing attention on the importance of innovation for economic growth. Policies designed to favor the spread of innovation in the real economy can thus more easily be introduced and will favor a sustainable upswing guided by concrete State intervention inspired by criteria of greater equity and social justice.

1994). In this perspective, a vital element consists in prompting firms to share the benefits of increased productivity and profitability with the workers, to provide working conditions that are favorable to families, and to stimulate active worker participation in management of the enterprise (Minsky and Whalen, 1996-97, pp.163-165).

The question of ELR programs has been the object of extensive and detailed debate both in the literature and also in the *Political Economy* perspective. On the theoretical plane, for the purposes of this paper we will limit ourselves to an overview of some of the main issues that have prompted discussion on the limits of such programs (cf. Sawyer, 2003 and the reply by Forstater, 2005):

- a) the Kaleckian argument claims that a capitalist system has no interest in orienting policies towards stable full employment that will endure over time; on the contrary, such policies can lead to inflationary degeneration of welfare-supporting public spending systems, as was the case, according to the mainstream theory, during the 1970s;
- b) there is a widespread conviction that ELR programs are useful to balance situations affected by Keynesian unemployment deriving from lack of aggregate demand and not from technological/structural change, but equally, there is a conviction that they cannot achieve effective price stability (nor can they solve the psychological problem of being considered a form of “concealed” low-cost unemployment);
- c) practical difficulties are encountered in seeking to create ELR programs linked to the organization of vocational skills, in terms of the characteristics of the available supply of labor and distribution of unemployment broken down by social groupings /geographic areas etc. These difficulties are of relevance when considering the need to set up targeted projects requiring specific competences and efficient organization of the production of services/goods of collective interest;
- d) there is a traditional mistrust of a functional finance hypothesis linked to social programs, due to the suspicion that such programs are likely to expand public expenditure by crowding out private investment and render public budgets unsustainable, or have an impact on the taxation of private budgets. Naturally, as public choice analysis has highlighted, this issue also includes the objections concerning waste of public money for useless projects.

However, rather effective counterarguments to these objections are put forward by several authors. Mention should be made in particular, of Kaboub, 2007b, p. 497, who insists on an economic policy response that will allow adequate institutional adjustments to take into account technological change, interdependence among the different decision-making subjects, and minimal production delocalization, and also Mitchell, 2007, who underlines the elevated social and economic costs of structural unemployment and the concrete possibility for the State to assure efficient solutions to the main macroeconomic objections advanced against the appropriateness and feasibility of ELR

programs.

The question of the public basis of a civil and democratic society clearly reflects the view that it is no longer sufficient, in contemporary societies, to boost investments in order to promote growth and reinforce the efficiency of capital. Rather, it is equally necessary to ensure provision of other services of use to the general public – security, parks and green spaces, protection of the environment, health care – in order to ensure balanced development that is compatible with full employment objectives³³.

Minsky did not conduct specific empirical analyses to demonstrate the validity of this theoretical construct; however, numerous analyses have underscored the role of welfare and public expenditure as a means of assuring a greater range of opportunities for development³⁴. If the evolution of Minsky's thought is applied to our present-day scenario, then the repeated revitalization of ELR programs over time can be interpreted as representing a right to work, a citizenship right that includes precisely the need to guarantee all individuals the prospect of full development of their personal opportunities. It follows, as a necessary corollary, that this conception should be carefully evaluated in comparison with other income support tools that have redistributive effects, in order to determine, for each typology of intervention, the action which can offer the most concrete possibility of effective implementation.

7. The war on poverty: advantages of “ELR programs” for public service provision “in kind” in comparison to income support policies

As has been underlined by authoritative analyses of Minskian thought (Wray, 2007c, p. 7), economists have always considered tax-based redistributive policies as a major tool to reduce social and income inequality; however, such policies have not been viewed as a politically sustainable route to eliminating poverty. This conviction derives from a careful analysis not only of the more radical policies proposed to reduce income inequality, but also of more moderate measures (such as “negative income tax” or “social dividend”, recently re-proposed under the definition of “basic income guarantee, see Minsky, 1968, 1973, 1975).

The more radical policies have as their aim that of redistributing a large part of the benefits of

³³ Cf. Minsky and Whalen, 1996-97, pp. 166-167, where it is stated that “*Just as both rich and poor were once free to sleep under the bridges of Paris, today's rich and poor are equally free to “enjoy” safe streets. Public investments that promote economic growth and enhance the efficiency of privately owned capital are certainly important, but expenditures on public consumption – in urban parks and other public spaces, and in public health and safety, for example – are also required for a civilized society. Moreover, such undertakings can easily be made compatible with the full-employment objective discussed earlier.*”

³⁴ See Vatter and Walker, 1990, 1997; Lindert 2004 and 2005.

growth to the poor, in order to bring a substantial portion of the population up or close to the median level of the income distribution classes. But, as noted by Wray (2007c, p.8), Minsky realized such policies would mean that incomes above the median level would have to fall by 90%, and this would not only make the policy unfeasible on account of its unpopularity, but would also involve increasing costs over time, the burden of which would weigh on the portion of the population whose income was higher than the median.

The more moderate measures of “negative income tax”, “social dividend” or “basic income guarantee” would, in Minsky’s view, fare no better, as they would imply a negative effect on the supply of labor (in particular for married women), with the result of increased labor costs and a rise in prices of consumer goods and services. They would also have an inflationary impact due to the wealth effects on consumption fostered by public subsidies; furthermore, they would induce a thrust towards price increases stemming from a reduction in uncertainty (shrinkage of the preference for liquidity and increase in aggregate demand).

On account of the inflationary effects, the effectiveness of these tools in mitigating poverty is curtailed, as the erosion of purchasing power caused by price increases cancels out the impact of subsidies delivered and/or recognized. Moreover, the public monetary subsidies act as a factor in creating a category of people who become dependent on the welfare subsidy, leading to adverse consequences for social cohesion, in the sense that tax-payers expect to obtain benefits from government programs whereas the benefits of the welfare measures cannot be enjoyed by all citizens. But in order to be successful in the war on poverty, a program must, Minsky argues, bring visible benefits for the average tax-payer as well: the fact that many Americans welcomed the cuts in welfare subsidies in the 1980s and 1990s points to the truth of this observation. In addition, as underscored by Minsky (1965b, 1968, 1973), all war on poverty programs must center around labor rather than monetary transfers or other forms of social aid³⁵.

There are a number of ways in which providing people with jobs and the achievement of stable full employment help the poor to improve their standard of living. In particular, the reduction of involuntary unemployment and the consolidation of full employment over time contribute to raising the relative wages of the poor, while the concomitant increase in the number of workers per family also contributes to the beneficial effect. These two conditions, acting jointly, help to diminish poverty without the attendant inflationary pressures and effects on fragility and on financial

³⁵ The supporters of the public subsidy system (basic income guarantees) believe such measures to be effective against the drift towards job insecurity (cf. Aronowitz and DiFazio, 1994) and against the injustice of the fact of income depending on holding a job (cf. Van Parijs, 1995 and Winderquist, 2004). Those who are most favorable to reinforcing the right to a job for everyone (job guarantees) believe this constitutes an important tool to combat poverty, as it increases individual freedom to reject degrading jobs (cf. Harvey, 2003, Mitchell and Watts, 2004). The debate on these themes is extensively illustrated by Tcherneva, 2007.

instability associated with the more traditional measures of providing support for aggregate demand and indirectly for the labor markets.

Thus a policy line based on ELR programs bring benefits to the taxpayers as a whole. It assures availability of jobs in the area where people live, including rural and marginal areas, and consequently reduces the pressure to emigrate; it helps to raise the base wage and decreases the spread between wage rates for unskilled and skilled labor; it provides public benefits even for those who are regular tax-payers inasmuch as it is also concretely manifested in the creation of services that are of collective interest; it helps to curb recourse to undeclared or off-the-books forms of working arrangements and discourages theft arising from social exclusion. ELR programs offer the dignity of having a job and enables all people to participate in the development of society.

ELR programs act in the manner of a buffer stock program³⁶, contributing to price stabilization as long as public sector wages have been correctly fixed on the basis of the currency in which they are expressed (Tcherneva, 2007, p.13-14; Mitchell, 1998a; Wray, 1998). Thus during recessions unemployed workers can obtain a job in the public sector, at a pre-established ELR wage, whereas when the demand for labor increases, ELR program workers will be hired in the private sector at a better wage compared to what they earn on the ELR program. Consequently, government spending rises during a recession, and can thereby curb the deflationary pushes, whereas it lessens during the recovery and upswing, thus contributing to a reduction in inflationary pushes. With this mechanism, the ELR wage is fixed, while the quantity of labor employed fluctuates. Government spending always positions itself at the “right” level, i.e. the level that assures stable and full employment. Additionally, ELR programs stave off the deskilling that follows in the wake of unemployment, as they contain a training component that enables participants to return to employment in the private sector once the market conditions are favorable.

The voluntary nature of participation in such programs distinguishes them from the forced labor system that characterized certain experiences in countries dominated by the Soviet ideology. ELR programs do not sideline jobs offered by the private sector, because they offer work opportunities in the sphere of services that are not “produced” in the world of private enterprise (Wray, 1998; Kaboub, 2007a, p.12). Furthermore, since they reinforce the range of public service provision “in kind”, they make it possible to keep at bay the inflationary pushes of the tariffs and prices of goods

³⁶ Following in the footsteps of Minsky, a number of contemporary scholars (Forstater, 1999; Papadimitriou, 1998; Mitchell, 1998b) have developed the idea of making the State into a “market maker for labor” for socially useful activities while not entering into competition with private enterprise. By establishing a “buffer stock” of labor, the State “buys” the unemployed labor force at a pre-established wage (at “decent wages”, to use the term proposed by Minsky, 1971, p. 20) and sells it at a higher wage if the private sector demands it. The labor “commodity” used as a buffer stock always has a stable price (wage) Therefore this approach to employment policy assures full employment and price stability (Papadimitriou, 2008, pp. 4-5).

and services that are important in calculating families' cost of living, as well as providing an effective response to a multiplicity of social wants, linked not only to macroeconomic stabilization and situations of crisis and extreme poverty³⁷. The most concrete and significant redistribution takes place through the production, both quantitatively and qualitatively, of public services that are of greatest benefit to those who are economically and socially most disadvantaged.

Finally, as underlined by Harvey (2003), proposals designed to assure the right to work and a decent income are incomparably less expensive than those embodied in any type of basic income guarantees. Through a rationalization of expenditure they can be achieved without increasing the tax burden at the federal, state or local level, above all in highly developed countries like the USA. And in particular, an employment strategy based on ELR programs presents the noteworthy advantage – as compared to action based exclusively on money transfers – of allowing a significant expansion of services provided for the collective community, thereby improving the quality of life and productivity. This is in line with the requirement that the government should provide goods and services that the private sector does not produce independently due to the crisis or to lack of appropriate incentives (Keynes, 1926, *La fine del laissez faire*, in Keynes J.M. [1971-1989, p.288-289], *op. cit.* CW, vol. IX).

Admittedly, on account of the inevitable generality of the provision, the development of public services for the collective community has the defect of also being generous towards those who are already endowed with adequate financial resources. However, the costs of this approach appear compatible with a balanced and non inflationary financial policy of the State. That is to say, precisely because these policies can reduce the costs of reproduction of the labor force through action targeted towards situations of market failure and/ or deficiency, they can be highly effective in guiding growth towards more elevated social productivity and in combining support for demand with an improvement in the cost and supply of products and services made available on the private markets.

It is also worth noting that utilization of the tool of money transfers has proven to be inadequate as a means of achieving policies oriented towards the growth of individual and social productivity, particularly in the fields of enhancement of human capital and services for individuals. The concept of awarding priority to freedom of individual choice does not always prove to be efficient in dynamic societies which should pursue long-term aims of reinforcing and raising the standard of secondary and university education, promoting the development of research and protecting the environment, such aims being regarded traditionally as falling within the remit of the public sector.

³⁷ As in the experience of Argentina's Jefes Program, and in other applications mentioned by Papadimitriou, 2008 in the PVS or in the various *New Deal Programs – Works Projects Administration (WPA)*, *Civilian Conservation Corps (CCC)*, *National Youth Administration (NYA)*.

In fact, there is widespread agreement even within the mainstream of economic orthodoxy that the market tends to invest less than would be socially optimal in what are considered as essentially public goods; therefore the importance of State intervention is implicitly recognized, both as regards direct production of goods that are crucial for development but which are not profitable as a market supply, and also as a means of stimulating and coordinating the private sector.

In this regard, ELR programs are felt to constitute the basis of an important and modern tool for the provision of public services in kind, which encourage the involvement of local administrations in many fields, such as services for individuals (child care and *crèches*, support for the disabled or those who are not self-sufficient, management of care homes for the deprived), energy saving and alternative energy sources, renovation and restoration of the art and architectural heritage, environmental protection and safeguards, as well as education, training, innovation and research. The range of service provision in kind has often been underestimated in terms of its ability to significantly modify primary income distribution towards greater equity (Bosi, 2005, section 10). However, even on the basis of the results of empirical analyses (see the work on the case of Italy by Baldini, Bosi, Pacifico, 2006), this provision is shown to have a greater distributive impact than money transfers in the field of education and health care. The range of services in kind becomes decisive above all in phases where macroeconomic effects not controllable by the local communities (eg. inflation due to raw materials and energy sources, recession) compromise the cash flow of the poorer families.

In order to lay the premises for a different and more clearly targeted public expenditure policy, oriented towards direct provision of facilities and services concretely useful for the collective community through the establishment of ELR programs, what is called for is a new social pact among citizens. This pact should be based on acceptance of the civic duty of agreeing to taxation as a means of building a project of 'shared prosperity', as Minsky put it (Minsky and Whalen, 1996-97, pp. 166-167). The project seeks to promote collective management of public goods (security, health, protection of the environment) with benefits that are equitably distributed between the more privileged and the less protected classes of citizens. It is a vision solidly inscribed within the liberal tradition, but it is one that strives at the same time, in full respect of individual liberties, to reduce economic and social inequality and to assure to all citizens the best opportunities for development.

8. Conclusion: policies to counteract crises and to build shared prosperity

Minsky's reflections delineate State intervention in the economy not only as a tool to increase

productivity and economic efficiency, to encourage the growth of a better qualified supply of labor and production and achieve a more equitable distribution of incomes and wealth, but also as a means to pursue the goal of assuring genuine individual freedom, and this goal cannot be divorced from the vital imperative of freedom from economic want.

The path suggested by Minsky is compatible with the solvency of public finance and also with an efficient and effective Big Government, on condition of a profound critical revision of the traditional fiscal stimulus policies that “pump demand”. This can be achieved by:

- introduction of institutional mechanisms that remove supply side labor market barriers in order to curb inflationary pushes;
- focus on flexible public intervention directed towards socially useful services that bring benefits to the entire tax-paying community, since such services contribute to reducing the cost of living for the collective community that benefits from their availability.

Thus the effectiveness of Minsky’s proposed approach is linked to stricter regulation of economic activity in the capitalist system. Faced with instability and systemic crises, the State can reinstitute a policy of structural, systematic and decentralized intervention - which may go as far as socialization of investments - in order to lead the economy towards full employment and to stimulate an economic climate favorable to labor and individual initiative (Bellofiore, 2009). In this perspective, the primary task of any policy agenda and particularly during a financial crisis is to build a more humane economy as a first step towards a humane society (Minsky, 1986, p. 293). In Minsky’s view, this model oriented towards maintenance of robust and lasting full employment is compatible with solidity of public finance, currency equilibrium, price stability and a system capable of reconciling market freedom, distributive justice and efficiency of the state apparatus. More specifically, this compatibility is possible on condition that the economic policies enacted are capable of recovering the multiple degrees of freedom that exert an influence on the evolution of institutional frameworks.

As we have sought to demonstrate in this paper, Minsky’s policy proposals open up new paths through which state intervention in the economy can assure improved prospects and “shared prosperity”³⁸. In Minsky’s vision, this can be done precisely by starting out from the situations of hardship that afflict individuals and families who have fallen into poverty as a result of involuntary unemployment, underemployment and job insecurity. His proposals, in line with the thought of Keynes, prefigure a society that sets itself the goal of reducing inequality and of moving in the

³⁸ The source of inspiration for a solution to the economic problem may also draw on an economic and social policy that makes reference to chapter 24 of the *General Theory*, namely to the “social philosophy towards which the General Theory might lead”. Despite his optimism, in the closing part of the *General Theory*, Keynes warns that: “soon or late, it is ideas, not vested interests, which are dangerous for good or evil.”.

direction of a person-centered approach, with awareness of people's concrete needs within the context of families and the community.

The present study, which has highlighted Minsky's teachings, aims to revive attention to the importance of active and specific fiscal policies such as will allow labor to become the driver of a new and more equitable model of development, and to become a tool for the growth of knowledge, social mobility and progress towards a society free from crushing poverty.

However, the limits of Minsky's analysis should not be overlooked. There is a lack, in his framework, of a genuine "econometric" model designed specifically to evaluate the public function of "Employer of Last Resort" as well as the criteria utilized in determining relative wages. By the same token, he outlines no econometric model on the basis of which to put forward measures to guard against aspects such as the following: the adverse secondary effects linked to the multiplier, the rise of a 'welfare dependency' mentality, the financial management of the public debt, or balance of payments deficits due to loss of international competitiveness following enactment of fiscal policies that increase the share of consumption out of income. But it should also be recognized that Minsky's challenging vision of a society characterized by shared prosperity offers a number of different solutions on the plane of concrete feasibility and policy implementation (Papadimitriou, 2008, Sen, 1999).

Above all, when it is vital to deal with profound financial crises and epoch-making changes, recourse to ELR programs in combination with significant income and wealth redistribution policies in favor of the poorer and average income families can become an effective state intervention model for well focused and delimited projects of collective interest (Shubik, 2009).

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