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# Minsky's Approach to Employment Policy and Poverty: Employer of Last Resort and the War on Poverty

by

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**ABSTRACT**

While Hyman P. Minsky is best known for his work on financial instability, he was also intimately involved in the postwar debates about fiscal policy and what would become the War on Poverty. Indeed, at the University of California, Berkeley, he was a vehement critic of the policies of the Kennedy and Johnson administrations, and played a major role in developing an alternative. Minsky insisted that the high investment path chosen by postwar fine-tuners would generate macroeconomic instability, and that the War on Poverty would never lower poverty rates significantly. In retrospect, he was correct on both accounts. Further, he proposed high consumption and an employer of last resort policy as essential ingredients of any coherent strategy for achieving macro stability and poverty elimination. This paper summarizes Minsky's work in this area, focusing on his writings from the early 1960s through the early 1970s in order to explore the path not taken.

**Keywords:** Hyman Minsky, Employment and Poverty, Employer of Last Resort, War on Poverty, Regional and Sectoral Disparities, Financial Instability

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The mainstream interpretation of Keynes's economics seemed to offer theoretical justification for policies that could tame the business cycle, promote full employment, and eliminate poverty. The two main levers to be used would be fine-tuning of investment spending to keep it at the full-employment level, supplemented by welfare spending to keep aggregate demand high while protecting the unfortunate who might be left behind by a rising tide. While Hyman Minsky is best known for his work on financial instability, he was also intimately involved in the postwar debates about fiscal policy and what became the War on Poverty. Indeed, at Berkeley he was a vehement critic of the Kennedy/Johnson policies and played a major role in developing an alternative. Minsky insisted that the high investment path chosen by postwar fine-tuners would generate macroeconomic instability and that the War on Poverty would never lower poverty rates significantly. In retrospect, he was correct on both accounts. Further, he proposed a combination of high consumption plus employer of last resort as essential ingredients of a coherent strategy for achieving macro stability and poverty elimination. This paper will summarize Minsky's work in this area, focusing on his writings from the early 1960s through the early 1970s in order to explore the path not taken.

## I. MINSKY'S GENERAL APPROACH TO THEORY AND POLICY: ANALYTICAL INSTITUTIONALISM

While Minsky is often included as one of the major Post-Keynesians, and while he did sometimes refer to his work as falling within that tradition, he preferred to be identified as a Financial Keynesian. Interestingly, in his early writings (see Minsky 1961), he endorsed an approach he termed "analytical institutionalism"—which nicely summarizes the influences of two of his most important mentors: Schumpeter (for theoretical analysis) and Simons (for institutional analysis)—defined as one that analyzes how the institutions of the real world affect the way in which policy impacts the economy. In this section, I briefly summarize Minsky's general approach to theory and policy—an approach that can be seen in all of his work from the 1950s through the 1990s.

Perhaps Minsky's most important recognition is that the structure of the economy affects economic performance, including the volume of, and nature of, employment,

growth, and inflation. He insisted that real world institutions affect how policies will impact the economy. To be effective, a policy change must act through individuals (changing their behavior) and through institutions (which can constrain individuals and groups, and can empower them) (Minsky 1961, 1964). There is no "one size fits all" policy—policy must be designed for the existing structure and specific institutions in place at the time that the policy will be put in place. Thus, policy must adapt as the structure and institutions change.

Further, in a dynamic and complex economy, growth and policy have differential impacts across sectors (Minsky 1961, 1964, 1965, 1968). There are always leading sectors, merely expanding sectors, and lagging sectors. This alters the various "trade-offs": efficiency and equity trade-off; the Phillips curve's inflation and unemployment trade-off (Minsky 1968). Economic growth can raise demand and output in the leading sectors, inducing rising prices that feed through to CPI-measured inflation, even with substantial unemployment across the economy; conversely, employment can rise without raising prices if it occurs in lagging sectors that operate below capacity. Higher growth alone is not an appropriate goal of economic policy (Minsky 1965, 1968, no date). Policy makers must consider the impact that growth has on allocation, distribution, employment, and prices, which, in turn, depends on such sectoral effects. For this reason, economic growth is better seen as a possible result of policy that seeks to improve distribution and employment (for example), rather than as a goal in its own right.

Financial factors matter, affecting market processes, as well as the efficacy of policy (Minsky 1957, 1964). Policy analysis must include careful study of the implications of policy changes for balance sheet positions. Each policy mix implies a mix of private debt and government debt, which in turn affects private behavior. As will be discussed below, an investment-led growth strategy implies growth of private debt relative to government debt, which affects the financial structure in ways that might generate instability.

There is no such thing as general policy—policy is always specific, with differential sectoral, structural, and distributional impacts (Minsky 1968). The metaphor of a general "pump-priming" increase of aggregate demand, with across-the-board equal impacts on all sectors, is not useful for policy analysis. There are always winners and

losers; there are always some industries that experience increased sales while others are left behind; there are some workers who face better job prospects while others remain unemployed. All policy analysis involves normative judgment—who is the policy trying to benefit?

Finally, Minsky's vision of the capitalist economy closely followed that of Keynes. He endorsed Keynes's Chapter 24 claim that the two outstanding faults of capitalism are its failure to provide for full employment and its tendency to result in an excessively unequal distribution of income (Minsky 1973). Like Keynes, Minsky argued that the decentralized, unplanned, capitalist economy is not self-correcting: a flexible wage will not ensure full employment; the normal path of the economy is cyclical (with oscillations constrained by institutional ceilings and floors) (Minsky 1964, 1975b; Minsky and Ferri 1991). Further, the financial system necessary for operation of the modern capitalist economy contains within it the potential for a runaway expansion, led by an investment boom. For reasons discussed in more detail below, an expansion led by investment not only increases private leverage ratios, but also lends an inflationary bias to the economy, even as it worsens income distribution. For this reason, Minsky returned to Keynes's proposal for socialized investment, interpreting this as a call for a "mixed economy" with government investment playing a larger role (Minsky 1985). He also favored shifting production toward consumption and other policy that would improve the equality of distribution of income (Minsky no date). Finally, he argued that while policy can improve economic performance, the business cycle cannot be eliminated. Indeed, he insisted that uncertainty makes stability destabilizing—all realized outcomes are temporary because individual behavior, as well as institutions, will adjust to those outcomes (Minsky 1957, 1973).

## II. SOLUTIONS TO POVERTY: HUMAN CAPITAL INVESTMENT, GROWTH, AND REDISTRIBUTION

In several of his writings from the early 1960s through the early 1970s, Minsky examined the problem of poverty and possible policy solutions (Minsky 1961, 1965, 1968, 1971, 1973, 1975a, no date). In this section we will examine three such policies: human capital

investment, economic growth, and redistribution. Minsky argued that none of these would be sufficient to make much of a dent in poverty rates. In the next section we examine the War on Poverty before turning to Minsky's own preferred proposal.

The solution to poverty favored by orthodox economists at the time—as well as now—is greater human capital investment. This is based on the notion that people are poor because they are not sufficiently productive. Hence, more education, more training, and other supply-side improvements that would make individuals more productive would raise their incomes and thereby reduce poverty rates. Minsky objected to this on several grounds. First, he rejected the notion that output, employment, and incomes are determined through a neoclassical production function (a position that is at least implied in even his earliest work by the emphasis placed on the role played by institutions and policy in affecting distribution and employment). The "real factors," such as productivity, are not the driving forces of the capitalist economy (later, he would call his approach to cycles the "financial theory of investment and the investment theory of the cycle"; see Papadimitriou and Wray 1999). Second, he argued that because the "gestational period" for human capital investment is 18 years or longer (the time taken to produce a worker; in a technologically sophisticated economy, that could be 30 years or more), such a policy would take too long (Minsky 1968). Even if it would work in the long run, other policy would be required for many years to resolve existing and near-term poverty. Third, in a dynamic capitalist economy, structural change ensures that specific skills are continually rendered obsolete while new skills emerge (Minsky 1965, 1968, no date). It would be impossible for "retooling" of human capital to keep pace with these changes, hence, there will always be a large reservoir of labor with the wrong skills set, even when there are shortages of skilled labor. Again, other policies will be needed to deal with poverty created by structural unemployment. Finally, Minsky argued that is unjust to tell the poor that they must change before they will be entitled to work—whether it is their skills set or their character that is the barrier to work. We will return to this last point again below—Minsky always argued that it is preferable to "take workers as they are," providing jobs tailored to the characteristics of workers, rather than trying to tailor workers to the jobs available before they are allowed to work (Minsky 1965, 1968, 1973).

In line with the discussion in the first section, Minsky argued that we cannot rely on economic growth to reduce poverty. In several pieces, Minsky showed that growth does not necessarily reduce poverty; he showed that in the United States over the period 1948–66, wage dispersion actually rose in spite of relatively rapid growth of GNP (Minsky 1965, 1968, 1975a, no date). To some extent this was due to differential rates of growth across sectors and regions. As Minsky argued, there are always laggard industries and regions; growth is never equally shared. Indeed, it tends to favor the leading sectors or regions, rewarding those who are already better-off. He argued that not much trickles down (foretelling the results of Reaganomics). Further, growth is not necessarily sustainable, so that even if the results were widely shared, instability is created (Minsky 1964, 1965, 1968, 1973, no date). In part, this is because policy makers eventually fear inflation and so discretionarily slow the economy. However, even if policy did not intervene in this manner, rising financial instability would eventually change behavior in a way that would bring a boom to a halt; during the subsequent downturn, inequality would rise again.

To promote growth, policy makers usually rely on schemes to promote saving and investment (Minsky 1973). The first consists of favorable tax treatment of savings—which rewards the rich, lowers the average propensity to consume (thus, actually slows growth), and does nothing to increase aggregate savings. Promotion of growth through investment is subject to four problems: it increases financial fragility; it is inflationary; it increases capital's share of national income; and it increases the inequality of wages (Minsky 1964, 1973). Investment must be financed through a combination of internal and external funds. According to Minsky, over the course of an expansion, the weight shifts toward external finance, as income flows and safe assets are leveraged by debt (Minsky 1975b, 1992). Because investment generates profits at the aggregate level (as in the Kalecki equation, not added to Minsky's analysis until later), this encourages even more investment, external finance, and leveraging—exposing the economy to the possibility of a financial crisis (Minsky 1968, 1986). Early on, Minsky argued that investment tends to be inflationary as it raises demand for the output of heavily monopolized and unionized industries. This increases wages and prices in those sectors even if other sectors lag behind and national unemployment rates remain high (Minsky 1968). Later, Minsky

argued that the aggregate markup of the price of consumption goods is a function of the amount of consumption spending in excess of the wage bill in the consumption sector (Minsky 1986). Because investment generates a wage bill in the investment sector, most of which will be spent on consumer goods, as investment grows relative to consumption, this increases the markup and the overall price level.

Promotion of investment tends to increase inequality. Because profits return to capitalists, more investment raises the profit share. [Minsky (1968) recognized the modifications that become necessary if workers save.] Investment also worsens the distribution of wages, with higher wages going to the unionized workers in the capital goods sector. High investment and high profits can fuel a stock market boom, again, increasing incomes at the upper level of the distribution. External finance associated with investment also means opportunities for the financial sector to increase interest and fee income. Growing income of the rich can encourage consumption of luxuries, which is then emulated by the middle classes (Minsky 1968). The poor are left behind, both absolutely and relatively. Minsky argued that such inequalities might have been somewhat less important when the United States was largely rural. However, with economic development and urbanization, there was a growing belief in social status and economic mobility, hence, a growing concern with fairness and equality of distribution of income (Minsky no date). Relative poverty becomes more important than absolute poverty in a rich urbanized nation like the United States.

Minsky raised one other objection to the "rising tide" of growth as a strategy to eliminate poverty: the Baumol Disease argument (Minsky no date). Productivity growth over time will reduce the inputs required for the more advanced, leading sectors. Relatively more workers and other inputs will be used in the lagging sectors where productivity growth is slow. As the lagging sectors become increasingly large relative to the leading sectors, economic growth falls toward zero. In that event, there will be no growth to raise the tide of the poor.

While Minsky always supported redistribution policy to reduce inequality (and faulted the Hansen version of Keynes for side-stepping this issue), he argued that it did not offer a politically feasible means to eradicate poverty. In several pieces he carefully examined both "radical income equalization" policy, as well as a more moderate

"negative income tax" or "social dividend" approach to redistribution (Minsky no date, 1968, 1973, 1975a). The radical income equalization policy would redistribute most of the economic gains from growth toward the poor in order to move a large proportion of the population close to the existing median income level. He noted that such a policy was arithmetically possible, but would require that the rate of growth of incomes above the median would fall by 90% in order to bring the bottom half toward the median (Minsky no date). Further, the cost to the upper income level population would grow over time. Hence, such a policy would be politically unpopular.

Minsky also examined the negative income tax (NIT) proposal that came to be associated with Milton Friedman; it also was called a social dividend, and now is advanced under the name "basic income guarantee." Minsky argued that such a policy would have three impacts: a negative incentive effect on labor supply (particularly on married women), which could raise labor costs and thus, prices; an inflationary impact through wealth effects (NIT acts like a free insurance policy, increasing wealth and thus, consumption); and an inflationary impact through reduction of uncertainty (lowering liquidity preference and increasing aggregate demand). He argued that these inflationary impacts would prevent NIT from improving the situation of the poor, as the excess aggregate demand is inflated away. Any attempt to restore purchasing power of the NIT would simply fuel more inflation.

Further, NIT (and other welfare programs) would create a dependent class, which is not conducive to social cohesion (Minsky 1968). Most importantly, Minsky argued that any antipoverty program must be consistent with the underlying behavioral rules of a capitalist economy (Minsky no date, 1968, 1975a). One of those rules is that earned income is in some sense deserved. There is also the widespread view that taxes "pay for" government programs—even if that is not technically correct. Hence, taxpayers expect to benefit from government programs, perhaps not on a dollar-for-dollar basis, but at least to some degree. For these reasons, Minsky argued that welfare programs clash with the behavioral rules of a capitalist society. Taxpayers perceive few benefits from welfare programs. While it is true that a welfare safety net could be of potential use to anyone who unexpectedly needs it, in a reasonably well-performing capitalist economy (such as that existing in the United States in the 1960s), most taxpayers did not believe they would

need it. With the perspective of the 1980s and 1990s now behind us, it is hard to deny Minsky's arguments—President Reagan successfully turned most Americans against welfare programs and President Clinton finally "eliminated welfare as we know it." According to Minsky, a successful antipoverty program will need to provide visible benefits to the average taxpayer.

## III. THE WAR ON POVERTY

Most of Minsky's followers are not aware that he was active and influential in the antipoverty movement in the mid-1960s. He corresponded with policy makers and their staff, his advice was sought (especially by the left wing of the Democratic Party), and he served on panels, research projects, and commissions on this topic. In this capacity, he was a vehement critic of Johnson's War on Poverty, which he saw as a conservative rebuttal to the more progressive proposals (Minsky 1965, 1968, 1973; his correspondence is in the archive at The Levy Economics Institute of Bard College; see also Bell and Wray 2004). He characterized it as an attempt to end poverty by changing people. He insisted that it could not end poverty, arguing that it could only give the existing poor a better chance. In other words, all it would do is to redistribute poverty. Further, he believed it set its sights too low, arguing that it accepts a 5% unemployment rate as interim goal on way the to 4% (Minsky 1965). In Minsky's view, this perpetuated too much slack, citing Okun's Law: every 1% point reduction of unemployment below these goals would increase GDP by 3% points. He calculated that lowering unemployment to a 2.5% rate would create 3–5 times the GDP required to raise all households above the poverty line. A more ambitious employment goal would more than pay for poverty reduction in real terms (Minsky 1965; an update is provided in Bell and Wray 2004).

Further, the War on Poverty relied too heavily on welfare programs, transferring income from those who work to those who don't. As discussed above, Minsky was convinced that policy cannot rely on altruism, and argued that the program's benefits to the worker/taxpayer would be small. Interestingly, he argued that the administration's stance essentially admitted that American capitalism was a failure, because we cannot make the productive process work to provide factor payments to lift people out of poverty

(Minsky 1968). Further, it puts the cart before the horse: if the poor change their character, then they won't be poor. Minsky argued that policy must take the poor as they are, allow them to work their way out of poverty, and then—along the way—work with them to improve their "character" (Minsky 1968, 1973, 1986). Finally, he argued that the War on Poverty would create a dependent class, which is not conducive to social cohesion or democracy. Again, four decades later, it is hard to disagree with Minsky's predictions.

In addition to provision of welfare, the War on Poverty was designed to raise aggregate demand using fiscal policy. However, increased government spending was biased toward war spending, which raises demand but does not increase the capacity to meet domestic consumption needs. Further, it tended to favor the leading sectors—those with monopoly pricing and union wages. For these reasons, it lent an inflationary bias to the economy. Tax policy was geared toward tax relief to rich, relying on trickle down effects to benefit the poor. The combination of a bias toward the leading sectors plus a bias toward the rich meant that the higher growth achieved through "military Keynesianism" would not reduce inequality significantly.

## IV. THE OUTSTANDING FAULTS OF CAPITALISM AND POLICY TO RESOLVE THEM

As mentioned above, Minsky accepted Keynes's argument that the two outstanding faults of capitalism are its arbitrary and inequitable distribution of income and persistent unemployment. According to Minsky, better economic performance since WWII has not resolved these problems. In his view, poverty can be resolved only through a combination of policies that would: euthanize the rentier; put in place a modest bias of taxes and transfers in favor of the poor; and maintain tight full employment (Minsky 1965, 1968, 1973). Minsky was convinced that the focus of any antipoverty program would have to be tilted toward jobs, not toward transfers and welfare. He defined tight full employment as a condition such that over a broad range of occupations and industries, employers would like to employ more workers than they do. Tight full employment helps the poor in several important ways, according to Minsky (Minsky no date). Some of the poor move

from a condition of unemployment to employment as involuntary unemployment falls. Minsky argued that the evidence also shows that periods with higher employment tend to be associated with rising relative wages for the poor (more recent work by Galbraith finds that wage inequality falls when employment rises). Further, tight full employment would help to reduce poverty by increasing the number of workers per family. Thus, poor families benefit as the total hours worked rises and as wages rise.

More generally, Minsky believed that policy should encourage faster wage growth for low-paying jobs relative to growth of wages for highly paid work (Minsky 1965, 1968, 1973, no date). This means that at the low end, wage growth will exceed productivity growth, while at the high end, productivity growth will exceed wage growth. Similarly, prices will grow in low-wage sectors as costs rise; to prevent inflation overall will require some kind of constraint on prices and wages in high wage sectors. Minsky argued that such policy can be justified: previously the low wage workers "subsidized" high wage workers because wages in the lagging sectors were depressed by unemployment—an argument consistent with the segmented labor markets hypothesis commonly accepted at Berkeley at that time.

Minsky recognized that even the poorly designed War on Poverty did reduce poverty somewhat by raising aggregate demand and tightening labor markets (Minsky no date). However, for the reasons discussed above, this was accompanied by the creation of inflation pressures, as well as rising financial fragility—as profits in the favored (defense) sectors encouraged investment and external finance. Further, countercyclical welfare spending would (together with rising trend levels of defense spending) set a floor to aggregate demand, reducing downside risk and thus, encouraging greater financial leverage ratios. Thus, part of the explanation for the long-run trend toward financial fragility over the course of the postwar period could be attributed to War on Poverty programs. (Recall that Minsky argued that stability is destabilizing. For Minsky, this was not meant to be an argument against government programs to enhance stability, or against raising aggregate demand by increasing government spending, but rather a warning that policies need to be carefully constructed and that the effects of one policy might necessitate compensatory policy.)

In addition to an inflation barrier, a demand-led strategy would also run up against two other kinds of constraints: the Baumol disease problem and the exchange rate constraint. According to Minsky, demand-induced tight full employment would ultimately be constrained by Bretton Woods—maintaining high aggregate demand is inconsistent with a fixed exchange rate system. According to Minsky, the fixed exchange rate is a cross of gold borne by the poor (Minsky 1965). Only abandonment of the Bretton Woods constraints would allow pursuit of high employment policy. Of course, within a few short years, the Bretton Woods system was abandoned.

Minsky feared that using demand stimulus to reduce poverty would necessarily lead to "stop-go" policy. Expansion would fuel inflation, causing policy makers to reverse course to slow growth in order to fight inflation (Minsky 1965, 1968). Because wages (and prices) in leading sectors would rise in expansion, but could resist deflationary pressures in recession, there would be an upward bias to rising wages in those sectors. However, in the lagging sectors, wage increases would come slowly—only with adequate tightening of labor markets—and could be reversed in recession. Hence, Minsky argued that a directed demand policy would be required—to raise demand in the lagging sectors and for low wage and unemployed workers. For this reason, he concluded that a direct job creation program would be required.

In conclusion, to ameliorate the fundamental faults of capitalism, Minsky would euthanize the rentier through lower interest rate policy and—more importantly—by reducing the importance of the private financial system (Minsky 1973). This could be accomplished by shifting emphasis away from stimulation of private investment, which relies on external finance, and thus creates financial assets that become part of the rentier economy. Second, he would modestly bias the tax-and-transfer portion of the budget in favor of the poor, although he would not make this the major redistributive mechanism to eliminate poverty (Minsky no date). Rather, he would achieve tight full employment through direct job creation, raising employment and wages at the low end of the labor market while checking the growth of wages and prices in the leading sectors. In the next section we will examine his employer of last resort (ELR) proposal.

## V. JOB CREATION AND EMPLOYER OF LAST RESORT

Minsky argued that we need a “bubble up” policy, not trickle down economics (Minsky 1968). Spending should be targeted directly to the unemployed, rather than to the leading sectors in the hope that tight labor markets might eventually benefit lagging sectors and poor households. For this reason, he advocated an ELR program that would take workers as they are and provide jobs that fit their skills (Minsky 1965, 1968, 1973, 1986). He argued that only the federal government can offer an infinitely elastic demand for labor, ensuring that anyone willing to work at the going wage would be able to get a job. Further, he argued that in the absence of tight full employment, the true minimum wage is zero; however, with an ELR program, the program wage becomes an effective minimum wage.

Those familiar with Minsky’s 1986 book and with his Levy Institute publications in the 1990s know that he occasionally included the ELR proposal in his recommendations for policy reform. However, few of Minsky’s followers are aware of his 1960s and early 1970s active pursuit of an ELR program as an alternative to other employment and antipoverty programs. Almost every article he wrote during that period that addressed employment and poverty included a call for direct job creation by the federal government; virtually every letter he wrote offering advice to politicians and policy makers endorsed ELR-type programs. (Again, his correspondence is archived at The Levy Economics Institute of Bard College.) He pointed to the various New Deal programs (WPA, CCC, NYA) as models to be developed for a nationwide employment program. Virtually every argument that has been made in recent years in favor of ELR programs had already been made by Minsky during this period; further, Minsky had also proposed various design features that have been adopted by supporters today—and by real world programs such as Argentina’s *Jefes* program.

Minsky listed a number of advantages of an ELR program (Minsky 1965, 1968, 1973). It can provide jobs where workers live, including rural areas, slowing undesired urban migration. With the ELR wage serving as an effective minimum wage, it can be used to raise the floor wage. He argued that it should increase over time faster than high wages to reduce the spread between low-skilled and high-skilled wages. As discussed

above, policy might need to constrain high wage growth (to a rate below productivity growth) to offset any inflationary pressures. ELR could include part-time work, child maintenance, and a discounted youth wage, if desired. In addition to providing jobs where they are most needed, ELR would also provide public goods and services where most needed—in urban ghettos—to help quell unrest.

To ensure taxpayer support of the program, it would need to provide readily visible public benefits. Minsky advocated a progressive income tax, and would distribute the benefits of publicly produced goods and services progressively (Minsky no date). Hence, taxpayers would get something for their taxes—parks, safety, clean streets, education, child care and elder care, etc.—but there would be a strong redistributive bias. He recognized that the program would probably need a permanent cadre to provide critical services—as the public becomes accustomed to receiving public services from the ELR program, these cannot be suddenly shut off (Minsky 1973).

One of the goals of the program would be to make labor more homogenous through education and training, but Minsky opposed any education or skills requirement for admission to the program (Minsky 1965). He also opposed means-testing, which would turn the program into what is now called workfare. Instead, Minsky advocated jobs for all, available at the established minimum wage. Government agencies would be able to bid for these workers, proposing projects that could utilize them (Minsky 1965). He recognized that the nation would still need some programs for skilled workers who lose high wage jobs and fall into the ELR program. As discussed, a dynamic economy would always be creating structural unemployment, so retraining programs would be needed to ameliorate skills mismatch. He also recognized that the nation would still need welfare for those who could not, or should not work. He advocated a universal children's allowance, as well as medical care for all, unconnected to employment. However, he showed that an ELR program by itself would solve most of the poverty problem: at the time, 30% of the poor worked part-time, while 40% didn't work at all (Minsky 1965). He calculated that perhaps two-thirds of all poverty could be eliminated by providing a minimum wage job to each household. He saw ELR as an alternative to the dole, arguing that unemployment compensation just institutionalizes unemployment. By contrast, jobs affirm the dignity of labor and allow all to participate more fully in the economy.

Minsky argued that policy should set taxes to balance the budget when ELR employment amounts to 4.5% of the labor force (Minsky 1973). When the private sector slows, the deficit will expand as tax revenue falls and ELR employment rises beyond the 4.5% level. When the private sector expands, workers are recruited from the ELR pool; a robust expansion could even create a budget surplus, with ELR employment falling below 4.5%. In this way, the program and the budget would act as automatic stabilizers. Minsky saw ELR as a return to pre-WWII New Deal policy, which emphasized public employment rather than welfare plus stimulus of private investment. Direct job creation would reduce emphasis on investment, reducing capital's share and helping to reduce financial instability, while favoring consumption and public investment. As discussed, this would partially euthanize the rentier as financing of the new ELR jobs doesn't require private debt. Hence, the program won't require speculative finance and won't foster speculative booms. For these reasons, greater stability of demand and output would be achieved.

Minsky argued that ELR would not be inflationary once it is in place. He did allow that implementation of ELR could raise wages and employment, leading to some price increases. However, he insisted that maintaining full employment does not have the same inflationary impact as moving to full employment (Minsky 1965). Raising aggregate demand (for example, through investment incentives or defense spending) to move to full employment would be inflationary. But, he argued, it hasn't been shown that maintaining low unemployment is inflationary—especially if full employment is maintained through a wage floor. For this reason, even if implementation of ELR raised wages at the bottom and increased consumption demand, placing pressure on prices, this is a temporary phenomenon. Maintenance of full employment with an ELR program would not cause permanent inflation.

Recalling Minsky's argument that Bretton Woods imposes a cross of gold on the poor, he argued that the United States needed to drop gold standard before it would be able to pursue continuous full employment. He said that within a short time, a U.S. dollar standard will arise based on the ability of the dollar to buy goods and services in United States. Of course, Minsky's prediction came true, and he correctly recognized that floating the currency was a prerequisite to creating domestic policy space to successfully

pursue antipoverty programs. Today, with the floating exchange rate, there is no financial barrier to offering employment to anyone who wants to work—that is, the federal government can offer an infinitely elastic labor demand without worrying about affordability issues.

## VI. CONCLUSIONS

Minsky argued that his policy prescriptions are not utopian—there is no single set of policies that can resolve the fundamental flaws of capitalism (Minsky 1975a). While ELR will not solve all problems associated with poverty and unemployment, it is a feasible and desirable program. Over time, any program will evolve, needing adjustment as the economy evolves. Hence, the ELR program will need to evolve as conditions change. Further, ELR would also be supplemented with other policies to deal with unemployment and poverty—and these, too, would need to be changed through time [see Minsky (1986) and Minsky and Whalen (1996) for discussion of other policies]. In particular, Minsky consistently argued for policy to reduce bigness; he favored policy biased toward small-to-medium sized firms. He would restrain growth of construction wages, as he saw these as substantially set by powerful labor unions, imparting an inflationary bias to the economy. He also advocated price controls for things the government buys (most importantly, utilities, defense industry outputs, and healthcare), as well as moderated wage increases in those sectors and in the government sector (Minsky 1968, 1975a). Together with ELR, this would allow for full employment, with greater equality and lower inflation than alternative antipoverty programs. Further, his proposed set of policies would not directly promote financial fragility, although he did recognize that enhanced stability would bring its own set of destabilizing forces. As he habitually remarked, there is no final solution to the fundamental flaw that is inherent to the form of capitalism we have inherited—with complex, long-lived, and expensive capital assets that require external finance. For this reason, new institutions and policies will be required to contain the financial fragility that will arise when economic security is enhanced by elimination of unemployment and poverty.

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