
J E King
La Trobe University

Follow this and additional works at: http://epubs.scu.edu.au/jesp

Recommended Citation
Available at: http://epubs.scu.edu.au/jesp/vol5/iss2/5

ePublications@SCU is an electronic repository administered by Southern Cross University Library. Its goal is to capture and preserve the intellectual output of Southern Cross University authors and researchers, and to increase visibility and impact through open access to researchers around the world. For further information please contact epubs@scu.edu.au.

J E King
La Trobe University

George Kadmos and Phillip O'Hara (2000) present a sympathetic but critical assessment of the issues raised by Randall Wray's Chartalist theory of money ('taxes-drive-money', TDM) and his 'employer of last resort' proposal for achieving full employment (ELR). In this note I am principally concerned with ELR, which requires the government to maintain a 'buffer stock' of low-wage jobs in the public sector that expands and contracts as private sector demand for labour falls or increases. I make four brief comments on ELR, with the intention of confirming, broadening and strengthening the objections to it that are raised by Kadmos and O'Hara.

First, the connections between TDM and ELR are weaker than Kadmos and O’Hara imply. This is an important point, because the potential support for ELR is very much greater than that for TDM, which is at present advocated only by a minority of a minority of economic theorists. Chartalism is well established in the history of monetary thought, and the case for it is ably argued by Wray (1998), but it has little or no resonance among mainstream macroeconomists and has yet to be endorsed by a majority even of Post Keynesians, even in the United States. In France and Italy, where monetary circuit theory analyses the creation and destruction of bank money in models without any role whatsoever for a government (Realfonzo 1998), acceptance of TDM is extremely unlikely. Wray’s contention that Keynes was a Chartalist is contentious, as is his claim that the late Hyman Minsky was significantly influenced by Chartalist thinking.1 This is not to say that TDM is wrong, or

---

1 There is very little evidence for this claim in his published work. Minsky seems to have been much more forthcoming in private conversation, on this and other controversial subjects: see King (2000) for a discussion of his political philosophy.
that it will not eventually become much more influential. Historically, however, ELR has proved much more attractive. ‘The right to work’ has been asserted by socialists for the better part of two centuries, not least by Louis Blanc, whose projected National Workshops were actually established in France – admittedly in a distorted and unsatisfactory form – during the revolution of 1848 (Cole 1953, chapter XV). The current ELR proposals are direct descendants of the Works Progress Administration introduced in the United States in the mid-1930s as a major pillar of the New Deal (Gordon 1997). None of this had anything to do with Chartalism. Logically, too, ELR is independent of TDM, in the sense that it can be defended by those who hold quite orthodox monetary opinions (or, for that matter, heretical views of a different type). In principle ELR could be financed entirely by increased taxation, or implemented by a government that was intent upon running a substantial budget surplus. Again, this is not to say that Wray’s case for TDM is wrong – I have an open mind on this question – but rather that it is independent of his case for ELR.

Second, and closely related to this last point, Kadmos and O’Hara are surely mistaken in accepting Wray’s claim that ELR ‘can stimulate enough demand to ensure that deficit spending is at the required level to equate desired net savings with actual net savings’ (ibid., p. 9). On the contrary, almost all projections of the government expenditure required to implement ELR imply that its impact on aggregate demand would be small, verging on minimal. Indeed, this is sometimes advanced as a significant advantage of ELR as against other employment policies. In 1986 Minsky estimated the cost of public sector employment for two million workers at an annual wage of $7,000, with an extra $3,000 in overhead and material costs, at $20 billion, or 0.55 percent of GNP (Minsky 1986, pp. 310-12). Ten years later, the institutional economist Wendell Gordon calculated the costs of employing eight million unemployed workers, at $4.75 an hour, to be $81 billion gross, or $41 billion net of savings in dole payments. Both figures, he correctly concluded, were very small by comparison with a federal budget of $1.5 trillion (Gordon 1997). Wray’s own estimates, for buffer stock employment of slightly more than 8 million, are between $25 and $50 billion net, or more than $100 billion gross (Wray 1998, p. 129). For Australia, Mitchell and Watts (1997) arrived at a net cost of A$7.4 billion to reduce unemployment to a (frictional) 2 percent of the labour force; this was approximately 1.4 percent of GDP at the time but, as Mitchell later observed, it was an overstatement since

---

2 Not 0.055%, as stated (Minsky 1986, p. 312). This is an intriguing Freudian slip.
it ignored ‘the multiplier effects from the rising incomes of buffer-stock workers’ (Mitchell 1998, p. 549). Finally, Mike Kitson and his co-authors costed their plan to create a million new public sector jobs in the United Kingdom – paying average earnings in the industries concerned, not a uniform minimum wage - at £7 billion, or about 2.5 percent of current tax revenues (Kitson, Michie and Sutherland 1997). Admittedly these numbers depend on somewhat arbitrary assumptions about administration costs, as one Australian critic commented in unusually abusive terms (Wooden 1997). They are also contingent on the wage rate that is to be paid; at the opposite extreme to Minsky and Gordon, the ‘high-wage ELR’ proposed by Mario Seccareccia (1999) would increase the required expenditure very appreciably. But these are details. The general conclusion seems clear: the macroeconomic effect of ELR is unlikely to be very great, unless its anti-inflationary impact (to be discussed shortly) is large. There is certainly no reason to suppose that it would constitute ‘a powerful built-in stabiliser’ (Kadmos and O’Hara 2000, p. 10).

Third, there are two compelling political objections to ELR that Kadmos and O’Hara might perhaps have touched upon. One is the prickly question of compulsion, which is absent from the Wray version but present (at least by implication) in those of Gordon and Mitchell-Watts. If unemployed workers who refuse to take a buffer stock job at the minimum wage are denied benefit, then we have a thinly disguised work-for-the-dole scheme imposing the Howardian principle of ‘mutual obligation’. I find this repugnant. If they are not refused the dole, then the stated goal of eliminating or drastically reducing unemployment benefit payments will not be achieved (see Kadmos and O’Hara 2000, p. 9). Closely linked to this is the anti-inflationary – read, anti-union – thrust of ELR. Wray deals with this issue in one short (and to my mind unconvincing) paragraph, arguing that ELR is broadly neutral as between employers and unions (Wray 1998, p. 145). In fact it positions him on the right of the Post Keynesian debate on inflation control, while advocates of a formal incomes policy might be said to occupy the left (see, for example, Arestis and Sawyer 1998). Hyman Minsky was quite clear about this. The bargaining power of unions, and hence their ability to generate cost-push inflation, would be greatly undermined by the knowledge that if well-paid jobs in the private sector were lost as a result of ‘excessive’ pay demands, the alternative for union members would be low-wage employment in the public sector. The

3 Most advocates of ELR recognise the need to maintain dole payments as of right for a limited period (usually three or six months) to subsidise job search activity; no-one claims that ELR can or should eliminate frictional unemployment.
better-paid the workers, the stronger their (craft) unions, the greater the deterrent. Minsky saw ELR as a preferable, or at least a more practicable, alternative to an Accord-style corporatist incomes policy in which decisions on wages growth were agreed by employers, unions and government (Minsky 1986, p. 332; cf. King 2000, pp. 17-19), and this is implicit in the Mitchell-Watts proposal for Australia (Mitchell 1998). It would not be difficult to imagine ELR being used by Ian Macfarlane and his successors at the Reserve Bank to bludgeon the ACTU into submission, should the need ever arise. This would be better than the creation of open unemployment, but not much.

Fourth, there are alternatives to ELR as a policy for employment and income support that are consistent with the case for increased public investment made by Kadmos and O’Hara. One, directly relevant to their concern with structural unemployment, is a generously-funded active labour market policy (ALMP) of the type practised in Sweden before the major cutbacks in the early 1990s (Meidner 1993). In contrast to ELR, ALMP would emphasise the right to education and training for the unemployed, rather than unskilled work, and pay the participants 90 percent of their previous post-tax incomes rather than a flat minimum wage. This would be extremely expensive, and (ironically) for that very reason might be easier to link to TDM than ELR ever was. There would, however, be obvious benefits both for the unemployed themselves and for the broader community, for all the reasons stressed by Kadmos and O’Hara (2000, p. 18) in their analysis of ‘the stock of ….industrial, infrastructural, informational, communications, social and knowledge capitals’. It would also deal much more effectively than ELR with the problem of structural unemployment. A second possibility, favoured by many socialists, feminists, greenies and even the occasional social democrat, is the payment of a Citizen’s or Basic Income to all adults as of right, without any obligation to work or undergo retraining. This, even more than ALMP, is a big-ticket item, but it has a great deal to be said for it in terms of social justice (Atkinson 1996), human freedom (Van Parijs 1995) and macroeconomic stabilisation. Personally I think a strong case can be made for a combination of Basic Income, set at a relatively low level (but above the ELR minimum wage) for those who do not want to work or retrain themselves for work, and ALMP payments at a significantly higher level for those who do. This is a radical position, which is most unlikely to be practical politics in the foreseeable future. For that reason I would be prepared (reluctantly) to settle for ELR: very much as the last resort.
References


King, J. E. 2000, ‘Hyman Minsky: Social Democrat?’, mimeo, La Trobe University.


