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A Reply to King: Employer of Last Resort and Taxes-Drive-Money
Revisited

A Reply to King: Employer of Last Resort and Taxes-Drive- Money Revisited

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We are very happy to have John King (2001) provide some alternative perspectives on the employer of last resort (ELR) and taxes-drive-money (TDM) policies, in response to our original paper in this journal (Kadmos & O'Hara 2000). In the main, he has provided support for our argument that the ELR needs to concentrate on a program of public investment in the leading sectors of the economy in order to expand the skill base of workers. His view that TDM and ELR are not necessarily closely linked is very interesting. In this "Right of Reply" we shall concentrate on the link between TDM and ELR.

John King critiqued the notion that ELR needs TDM to help with the financing of the basic public sector employment program. In the "low wage, low expenditure" versions of ELR, it may not be necessary to have a "budget deficit" to finance employment programs. But as we implied in our paper, and as John King suggests, this "low wage, low expenditure" option is unlikely to help with the long-term problem of providing a solid industrial and employment base for workers. Rather, a major problem over the past twenty years or more in many industrial nations has been a lack of investment, both public and private. During the long wave downswing of the 1970s-1990s, private investment has been lower than average, while a concerted campaign has been developed to restrict public investment as neoliberalism has exerted its influence on policy (see O'Hara 2000, Wheelwright 2001).

If ELR is to be implemented, it needs to, as we emphasized, expand the knowledge, informational, communications, industrial, social and infrastructural capitals. Wray's program of employment with limited skill development in the "social areas" of community arts, elderly assistance and teaching aids would be of some use, but generally too narrow in focus in getting the unemployed into useful employment in the long-term. Rather, we

need to expand the skill base into those areas that help propel not only social capital, but also skills in the leading edge sectors of the economy. The sort of skills necessary for the challenges of the twenty first century are multifarious, ranging from preparation for the life problems of solving conflict and promoting adequate communication; to skills linked to the tourist industry; to information and computing talents; to being able to work cooperatively in a complex organizational environment, in relation to people skills; to design and engineering skills associated with the structures, trends and fashions of industry and commerce.

In this context, the prime requirement is an expansion of public sector investment in the areas of education, infrastructure, information, social and communications capitals. Thus, the ELR needs to be closely linked to skills developed in TAFE, University and “learning by doing” environments. This requires the government to expand spending in education, training and on-the-job programs, as well as public infrastructure and programs designed to promote social capital. In short, it requires a *major* injection of funds (depending on macroeconomic conditions) to expand the stock of social skills and processes that enhance the self-reproducibility of people’s capacity to reinvent themselves, as the social economy changes and transforms their needs and requirements in a complex environment.

This sort of program generates complex multiplier effects, because many of the goods will be non-tradable: emphasizing skill development and adjustment processes. Thus the usual critique of Keynesian policies that demand expansions get lost to imports is unlikely to apply as much in this case. Despite the strong multiplier effects, the investment (and human) expenditure required will be considerable, certainly not the minor expenditures mentioned in the “low finance” versions of ELR. Hence the program – whether called an ELR or something else, such as an Employer and Skill Program of Last Resort – is likely to be “a powerful built-in stabilizer”.

Also, due to the high expenditure requirements, it is more likely that this complex ELR program will require something like the TDM to be viable. But even if it did not require such high spending in all phases of the business cycle (or in general), it is still necessary to comprehend the relationship between labor, money and production in detail in a new institutional context. We would reassert the need to critically investigate these linkages and to promote more research on the TDM as a major priority. The hypothesis of Taxes-Drive Money is more likely to be in accord with the institutional practices of government spending than the orthodox argument. The orthodox position

about the crowding-out of government spending and taxes financing spending lacks proper institutional foundations, although it is certainly dominant as an ideology and belief system. We must, however, differentiate a belief system that is hegemonic and the complex institutional organization of government finances and money.

It is high time that political economists paid more attention to the *institutional processes* of money creation and government spending; as L. Randall Wray (1998) has. Our research on these matters is ongoing, but at this stage it appears that taxes are indeed not necessary to finance government spending. Rather, taxes play a role in increasing the demand for government money. Government spending, on the other hand, occurs when the need arises, through an expansion of the money stock and credit, usually via electronic transfers, notes and coin from the central authorities through the banking, production and labor markets and institutions. And as Aschauer (1999) rightly points out, public investment financed by money has a large influence on real economic activity. In short, usually there is a net crowding-in influence on private investment.

So while John King puts the emphasis on the ELR or other programs for reproducing skill and employment conditions of working people, we believe that just as much emphasis needs to be placed on monetary and fiscal policy. Political economists need to abstract themselves from some of the preconceptions of the past and push ahead to comprehend nothing less than the institutional foundations of money and finance under modern capitalism. More generally, though, we need to develop a holistic view of the linkages between the money, goods and labor markets and dynamic structures in a monetary theory and practice of production and reproduction.

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