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Why Not Give Full Employment a Chance

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1. Introduction

Bill Clinton ran for President emphasizing change. Now that he is elected he has to deliver, to bring about change. Changing many social programs is the easy part of the task confronting Clinton. Much can be done without legislation. Changing the performance of the economy is more difficult.

Portia's remark "If to do were as easy as to know what were good to do, chapels had been churches, and poor men's cottages princes' palaces" catches the essential problem of economic policy. Economic policy only proposes, it is the economy that deposes.

~~Clinton's victory combined with the Democratic majority in both the House and the Senate means that for the first time in many years a governing party can be held responsible for both legislation and administration.~~ Beginning on January 20 the "buck" stops at Clinton's desk. for an ~~To be successful~~ economic policy to be successful it has to be consistent with the way the economy really works. This means that successful economic policy eschews ideologies that masquerade as economic theories. The Bush administration failed because monetarism and supply side economics, which are ideologies, determined its approach to economic policy.

Economic policy has to be prescribed made for the economy that exists, not for the economy as it appears in an abstract model. ~~some-abstract-model~~ The American economy tcis a capitalist economy with a complex financial system in which financial contracts are exchanges of money "now' for money "later". In our economy nothing happens without being financed. Our economy with its complex and ever evolving financial (or monetary) system does not conform to the economic model of the standard text books in which everyone has perfect foresight.

In examining the effects and feasibility of policies the questions which must be addressed include "what organization is expected to be ~~e--will-be~~ the proximate source of financing?", "what financial instruments will be used?", "how will the money now part of the financial contract be used?", and "where will the money later part come from?".

The Federal Reserve System

In 1991 and 1992 the economy did not respond to the Federal Reserve's policy promoting monetary ease. This shows that the Federal Reserve can be ineffective in stimulating an expansion. However whilst the Federal Reserve cannot guarantee an expansion, by constraining the ability of the banks and the financial system to finance private spending it can stifle an expansion.

The Federal Reserve is not ruled by a cadre of impartial technicians. Over the past twelve years the appointments to the Board of Governors of the Federal Reserve and to the Presidencies of the twelve Federal Reserve Banks have been mainly believers in monetarism and supply side economics. The Clinton new administration cannot count on the Federal Reserve's monetary policy to be supportive of an expansionary fiscal policy, for the monetarist belief, shared by the present Republican membership of the open Market committee is that accommodating monetary policies are inflationary, if not now or in the near term then eventually.

The character of the men determining the position of the Federal Reserve Board puts President Clinton in a bind. If a bold fiscal policy is undertaken he needs to enlist the support of the open market committee and the Board of Governors so as not to unduly alarm the financial markets, but, as these bodies are made up of honorable men their beliefs are truly held. Eventually their beliefs will determine their actions and a clash between the administration and the Bank will occur.

Any fiscal policy to jump start the economy is doomed to fail unless it triggers a rise in financed private spending.[1] The monetarist view that excessive expansion of

1. If the battery is dead jump starting the car will get the car moving but the battery remains dead. Once the car stops it needs another jump start. Jump starting as a

the money supply leads to inflation is likely to be a powerful determinent of the decisions of the open market committee. While the words of the Federal Reserve may proffer cooperation, the deeds may well belie the words.

The Clinton presidency may have to pick up the Bush administration's idea that the Secretary of the Treasury and the Comptroller of the Currency become members of the open market committee and the Congressional idea that either the Ppresidents of the Federal Reserve Banks should not be on the open market committee or that they ~~Ppresidents~~ be ~~subject-to~~ nominated~~ion~~ by the President and confirmed~~ation~~ by the Senate in order assure* ~~to-get~~ a cooperative Federal Reserve.

The independence of the Federal Reserve System is a doctrine that carries much weight in our political rhetoric and in the set of beliefs that guide the actions of agents ~~operators~~ on ~~the~~ financial markets. The present members of the Board, as ~~As~~ monetarist ideologues may well continue to dominate Federal Reserve policy making, posing a serious ~~a~~ quandary ~~is-posed~~ for an expansion oriented administration. It has been suggested that the disastrous monetary policy of the last year of Carter's term was a preemptive strike by

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metaphor for economic policy only makes sense if the economy is analogous to a live battery that has somehow been run down. But if the battery has somehow been shorted then jump starting is ineffective. The financial system trauma is equivalent to an assertion that the battery is dead and something more than jump starting is needed.

the Federal Reserve System against the embryonic plan ~~of the Carter--administration~~ for an incomes policy. Because monetarists tend to be true believers they are dangerous in positions of power: the disasterous application in the early 1980's of practical monetarism supports this view. ~~is evidence for this.~~ Alan Greenspan has the power to offset President Clonton's efforts to stimulate the American economy.

3.The United States is a Very Rich Country.

In spite of the mismanagement over the past twelve years the United States remains a very rich economy. The full employment gross domestic product ~~income~~ of the American economy is well in excess of $6,000 billion. ~~s of dollars.~~ In developing new and revamping old programs the huge size of the economy means that even a very big number, such as $50 billion, is less than 1% of the gross domestic product.

The present unemployment rate is some 7.45%. If we first assume that at full employment the measured unemployment is 4% and further assume that there is a 3% increase in GDP for every 1% decline in the measured unemployment,--The famous Okun Law-- then the gap between actual and full employment GDP is more than 10% of the present GDP. This gap implies that a policy that succeeds in spurring expansion can experience several years in which increases in nominal GDP are 6% to 9% per year, where only some 2% is due to inflation: ~~This is a large number,~~ gross domestic product can increase between $360 Bbillions to $540 billions per year.

The gross government debt is now approximately about $4,000 billions. The burden of the debt depends upon the ratio of debt to gross domestic product and the interest rate on the mix of government securities debt outstanding. At the end of World War II the government debt was almost 130% of gross domestic product. Over From 1945 to 1981 the cumulative growth rate of gross domestic product was much greater than that of debt: as a result this ratio fell to about 33%. Over the last twelve years, however, the ratio of the debt to GDP ~~income~~ doubled: the gross government debt is now in excess of 67% of the GDP. ~~Gross Domestic Product~~ The public concern about the accumulated debt means that an appropriate a prudent fiscal policy requires that the gross government debt grows at a lower rate than that of the ~~gross domestic product~~ GDP. The administration should use its bully pulpit to emphasize the significance of the debt to GDP ratio and that its fiscal policy aims to lower this ratio.

Because of the The size of the economy ~~means that~~ positive new and revamped social programs programs that would replace welfare with work, which seem to cost a great deal, really cost very little when measured as a ratio to the gross domestic product. Along this line of thought, a judicious use of considerably less than $50 billion in spending can do a great deal to set the stage for serious economic betterment - especially if the decline in interest rates over the past several years that has decreased the burden of the debt - continues. The Federal Reserve's. support will facilitate progress, especially if a decline in long - term interest rates takes place.

The Perot candidacy and the 19% of the vote he gathered has changed the discourse. It placed the addition of broad based taxes to the revenue system of the United States on the political agenda. A phased implementation ~~introduction~~ of a gasoline tax and a tariff for revenue makes a short term fiscal expansion consistent with an enacted tax program which, when fully effective ed, ~~would~~ lowers the ratio of the government's deficit -~~debt~~ to GDP.

4. Inherited barriers to prosperity

Clinton inherits two barriers to prosperity ~~are~~ ~~inherited-from~~ Bush. These are:

1. a severely weakened financial system, and
2. a fiscal mess.

THe main economic A task of the Clinton administration is to undo the harm done to the financial and fiscal fabric of the American Economy over the past twelve years.[1].

The Weakened Financial System

One of the first acts of the Clinton Administration should be to ask Congress to set up a NATIONAL MONETARY AND FINANCING COMMISSION that is charged with restructuring ~~developing a structure of~~ private and government financial institutions. The charge to the commission should be to develop a system of *private* financial institutions that reflects the complexities of an advanced financial economy and which will be able ~~sufficient~~ to sustain prosperity in the United States and a set of *government* agencies and financial institutions that will regulate, supervise and backstop the private institutions.

We may very well be in as deep a need for such ~~financial~~ restructuring as we were in the aftermath of the crisis of 1907 and the Great Collapse of 1929-33. This restructuring should not look mainly ~~so much~~ to the safety and convenience of the payments mechanism, these concerns being rather trivial~~-to-assuring-of-which-is-rather-trivial~~, or even to minimizing the cost to the Treasury of any future need to refinance the financial system in the aftermath of a series of financial institution malfunctioning. The financial restructuring should look to how the financial structure facilitates the ~~affects the~~ capital development of the economy.

The financial structure Clinton inherits has been grievously wounded. The "hits" the institutions of our private financial system took during the past four years have greatly decreased the ability and willingness of our ~~in~~ presently surviving ~~place~~ financial system to finance a self sustained economic expansion and capital development that is based upon ~~the~~ private financing.[2] ~~of the capital development of our economy.~~ The hits were in good part a consequence of the casino economy of the 1980's. The repair and strengthening of our financial system requires that the inherited private financial institutions be augmented by new private financial institutions, new government institutions that provide regulation and support as well as new ~~nd~~ government instituions that finance ~~ing of~~ investment.

The debacle in the Savings and Loan industry was due first to the impact of interest rate volatility upon the net worth of Savings and Loans, second to the insane

2. Over the past years Japanese Banks played a major role in the financing of American business. The news from Tokyo as this is being written is that the same problem of non-performing assets that continues to plague the American banks is affecting Japanese banks. Inasmuch as the Japanese banks took major hits from the problems of the American economy the past several years, we should not expect to see a quick infusion of financing from Japan into the United States' private sector. Over the near future we can expect the Japanese surplus from exports to the United States to be placed into safe government debts rather than into private equities and debts. The Japanese banking problems will help

deregulation that took place even as the Jimmy Stewart's of the industry[3] were being replaced by con artists, and third to the proliferation of assets which became non-performing that the con men and their investment banker associates placed into the portfolios of Saving and Loan associations. The Savings and Loan Association debacle was followed by "crises" which are still unfolding in Commercial Banking, Insurance Companies, Finance Companies and Pension Funds, to name the most prominent classes of intermediaries that have taken serious "hits" in the value of their assets over the past four years. Furthermore many operating corporations became so over indebted in the 1980's that they became very vulnerable to bankruptcy if the rate of growth of their revenues declined. For example the crisis in the American airline industry is a combination of inept deregulation and speculative over indebtedness.

As a result of the cumulative impact of these developments the financial structure that is in place is not capable of financing an American prosperity that is based upon private demand.[4] The Clinton administration cannot

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maintain and even increase the gap between government and private financing conditions in the United Sates.

3. In the Frank Capra film "Its a Wonderful LIfe" the character played by Jimmy Stewart apparently was a officer of a Building and Loan Society, a precursor of the Savings and Loan, although in the replaying of the reel of life the Stewart character apparently financed businesses. We should also note that the villein, Lionel Barrymore was apparently a banker.

4. The financial system is more grievously wounded than at any time since the great collapse of 1929-1933. After the final debacle in early 1933, the private financial system

count on private business to lead the economy out of its current malaise even after a fiscal stimulus that, to use the common phrase, jump starts the economy.

The recent losses on many categories of assets and the weakened equity base of many units make it natural and normal for the standards that private financial institutions apply in 1992 in evaluating propositions to finance to be stricter than the standards of some eight years ago. Bankers and apologists for bankers may blame the tightening of regulation or the Basle agreement on capital absorption ratios for different classes of assets, but the main cause for the tightening of credit standards is the experience of institutions in the financial system with non-performing assets.[5] It will take several years, and most likely

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was not able to finance sufficient private demand to generate full employment until 1948 or so, when we once again had a private financial system that was able to finance sufficient demand to sustain a close approximation to full employment. Even so the 1948 sufficiency was based upon a set of government guaranties and financing institutions that had not been present earlier. It seems as if the United States economy needs the prop of government deficits or government assisted private financing if a close approximation to full employment is to be achieved.

5. The concept of equity absorption as the control over the quality and quantity of bank financing may be counterproductive in an economy where contagions of non performing assets occur. Non-performing assets are a result of the cash flows falling below some perhaps optimistic expectation but as bank equity is the difference between the value placed upon assets and the value of liabilities, an increase in non performing assets implies a decrease in capital. If bank lending is a determinant of the aggregate investment, if bank lending is constrained by bank capital then an increase of non performing assets will lead to a decrease in bank asset acquisition, which decreases bank financed investment, which decreases corporate profits, which in turn leads to a new round of non performing assets.

institutional changes, before the balance sheets of financial institutions will be sufficiently robust and the agents who operate the financial institutions will be sufficiently secure about the health of their own institution and the prospects of those they would finance so that the financed private demands of businesses and households will be sufficient to enable the economy to realize a close approximation to full employment.

Furthermore the points of contact between the government's regulatory and control mechanism and the organizations that now finance businesses have been much attenuated by the evolution of the financial structure. An easing by the Federal Reserve of money market financing terms does not now quickly translate into an increase in financed spending. Banks and the monetary liabilities of banks are now much less important in financing prosperity than they were earlier in our economic history. Our economic policy apparatus has not adjusted to the consequences of the electronic revolution in communications and computation.

One effect of the crises in the Savings and Loans, commercial banks, and investment banks is a decrease in the number of independent financing sources for business. The closure and the merger of banks and savings and loan associations also means that the average size of the surviving institution has increased. The normal financing habitat of a bank is determined by its capital. If we use the two rules that a bank has some 8% capital to liabilities and that 10% of its capital is the largest financing that prudence permits, then a $1 billion bank will have $80 million in capital and the largest financing it can comfortably do for its own account is $8 million. The loan portfolio of such a bank will consist of loans to smaller businesses. By the same calculation a bank of $10 billions in assets will feel comfortable extending financing lines of $80 millions.

The evolution of banking and finance over the past 12 years has diminished the number of sources of business financing that specialize in credit lines of $1 million or so. There is a need to create a new set of banks whose main asset will be the result of financing smaller businesses.

Commercial banks are trying to eliminate servicing the smaller depositor. The reason is simple: banks lose money servicing smaller accounts. There is a need to create a new set of banks which services businesses and households which do not carry large accounts.

Without looking to preempt the work of the suggested monetary commission, one element of a modernized financial structure may well be the chartering by the National Government of <u>Federal Community Service and Development Banks</u>. These Development Banks will have up to three departments. One is a payments service department which will have both deposits subject to check as well as non-checking accounts. The asset structure of this department will be limited to government securities and highest quality short term private debts. These liabilities will be fully guaranteed by the Federal Government without limit and after an interval they will be the only deposits which have this guarantee. The provision of payments services shall be a profit center for these banks. The payments service should not be offered as a "gift" to institutions that use the services of the other departments.

Because of the quality of the assets this department holds it will be allowed to function at a 30 to 1 or even a 40 to 1 asset equity ratio.

The second department will be a mortgage initiating and packaging organization which will finance its activities with its own capital and a series of funds which resemble mutual funds. In every mortgage based mutual fund a bank sponsors some 7% is to come from the bank's own equity.

The third department will be an investment bank, which will administer a variety of funds which resemble existing mutual funds. These assets in these funds are to be limited to businesses in the bank's service area. These funds will vary from equity funds to long and intermediate credit funds. There will be no fixed value to the liabilities, but the sponsoring bank will be required to invest about 10% of its own funds in every fund it sponsors: the bank investment is to serve as a quasi equity, in that it absorbs the first 5% or so of portfolio losses. In addition to the development banks investment of its own capital to create a risk absorbing financing tranch, the government's Bank for Development Banks will match the equity investment with a long term debt or an equity investment.

The development bank funds will differ from existing mutual funds, in that the capital of the managing bank and of the government will take the first 10% or so of the losses due to non-performance of assets and the investments of share owners of the funds will be term investments. Investment in these funds is not as liquid as investing in existing mutual funds.[6]

The Development Banks will be small business development agencies for area it serves.

There should also be a Government Bank for Development Banks which will act as a co-investor in the funds sponsored by the development banks as well as a source of liquidity for these Banks.

6. One charge to the Monetary and Financing Commission will be to examine how the mutual fund and pension funds affect the financing of the capital development of the economy.

The current status of the financial structure means that publicly financed demand will have to make up for a deficiency in privately financed private demand if a close approximation to full employment to be achieved during the first years of the Clinton administration.

Publicly financed demand takes two forms. One is public, private and state spending that is financed either by the Treasury or by markets which accept debts endorsed or guaranteed by agencies of the Federal Government. The second is by a government financing institution which directly finances specified classes of investment. Both of these devises were used during the long haul from 1929-33 when the private financial structure was destroyed until the resumption of private financing of demand after demobilization, i.e. after 1948. Both the recovery and the great war were largely financed either directly by the government or by government financing organizations.

Some hard thinking is needed by the National Monetary and Financing Commission about what should now be put in place that does the job that organizations like the Reconstruction Finance Corporation and the Rural Electrification Authority did during the Depression.

One aspect of the institutional flaw in our financial markets is illustrated by the inability of a major company, McDonnel Douglas, to finance the construction of a new generation of large passenger planes. Undoubtedly the

McDonnel plane is a spin off of the technologies that underlies the new military transport plane that McDonnell is building. The spectacle of McDonnell Douglas shopping this technology in Japan, Taiwan and China because domestic financing was not available is evidence that something is amiss in our financing structure.[7]

A financing arm of the government which can invest both equity and long term debt money into such a project is needed. Europe and Japan do not hesitate to invest government or quasi government monies in long range investments which involve such large development costs that private investors shy away from because they would involve "betting the company".

There is a need for a Government Holding Company, similar to the RFC of the 1932-1950's period. A $10 billion equity investment by the government together with a $40 billion authorization to borrow in financial markets Federal Development Bank should be chartered. The aim will be to foster the emergence of products which have been developed to the market.[8]

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7. The Boeing 747 was one of the most successful export monopolies ever held by a national state. The McDonnel Douglas plane may well be an opportunity for another such monopoly.

8. It should be noted that if the government ran its accounts like all others do an investment of say $10 in a Development Bank would lead to an asset being added to the Government's account even as it borrows $10 billions to finance the investment. There is not increase in the government debt by such a transaction.

The Fiscal Problem

The huge vote for Perot can be interpreted as a mandate for bringing the budget closer to balance by a serious revision of the revenue system of the United States. One of the first acts of the Clinton Administration should be to ask Congress to set up a Commission on the Revenue of the United States.

For government, as for businesses and individuals, the burden of a debt is measured relative to the income that finances the carrying charges and the repayment schedule of the debt. One dimension of the fiscal mess is the sharp increase over the past 12 years in the government's debt relative to gross domestic product, even as the public infrastructure, which aids and abets the productivity of private enterprise, deteriorated. Since 1980 the spending side of the government has not been supportive of private productivity and the well being of the working population. A shift of government spending towards productive activities and activities which increase the well being of the public is called for. Such a shift would enhance both the immediate and the longer term well being of the community.[9]

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9. There is a need to modernize the welfare state in the light of demographic changes. One prerequisite for such a modification is a resetting of the age at which people go from the labor force to being retired.

There is an obvious need to reduce the deadweight burden of the public debt. This cannot be done in one fell swoop. It must be the target of a budgetary realignment by which over a run of years dollar gross domestic product grows at a faster rate than the debt. Policy needs to target a reduction of the ratio of federal government debt to our gross domestic product, not a total elimination of the debt. Tax and spending policy must be calibrated so that over the next decade the percentage increase in the Government's debt is significantly smaller than the trend percentage increase in the gross domestic product.

A 1-2 % per year average increase in the gross government debt is tolerable if we can achieve an average 4 or 5 % increase per year in the dollar value of gross domestic product. As the government debt is now about $4,000 billions this means that a deficit that averages between 40 to 80 billion dollars per year is consistent with a decline in the burden of the debt. The structure of taxes and public spending should be so constructed that the budget is either in surplus or the deficit is less than 40 billions when the economy operates at a close approximation to full employment.

Measured unemployment is now 7.5%. A measured unemployment of 4% is a reasonable policy objective. A standard rule of thumb is that a 1% point reduction in unemployment leads to a 3.5% increase in gross domestic product, so that the 1992 Gross Domestic Product was some 10% lower than the full employment GDP. In 1991 our gross domestic product was $5,700 billions which makes $6,3000 an approximate number for full employment. A government deficit in the neighborhood of $160 to $180 billions (4% of the accumulated debt, 3% of full employment GDP) for 1993 may well be consistent with a budget which reduces the burden of the debt at full employment.[10] A fiscal posture of this sort, combined with a monetary and debt management regime that is supportive of lower long term interest rates, is most likely the fiscal posture that is apt for the economy during the first Clinton years.

The shape of government spending and of taxes needs to be restructured in an effort to make a current deficit in the neighborhood of $160 billions in 1993 a handmaiden to expansion and not merely a sustainor of unsatisfactory performance. Clinton's post inauguration supplementary budget message should include some $50 billion ($200 per person) of grants in aid to the States to be used to undo cuts in State and Local spending on law enforcement, education and infrastructure investment. This program of grants in aid should be permanent.[11]

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10. At full employment social spending will be smaller and tax revenues may well be $150 billions greater than what the slack economy generates.
11. One aspect may be to require that 20% of every state's grant should be used to develop and implement a series of serious high schools with very high academic standards.

Perot has put the revenue structure of the government on the agenda. A gasolene tax of 5 cents a gallon will raise about $5 billion dollars per year and if 5 cents is added every year for 5 years the ultimate yield will add $25 billions to tax receipts in the final year. The 25 cents a gallon of gasolene tax will fund a permanent infrastructure transfer to the states from the Federal Government

The talk about free trade is mainly cant. We now have a protectionism that are much more harmful to our competitive position than tariffs: economically an exporter administered quota system is the worst form of protectionism. This is what we now have for automobiles, transistors and many other products. An immediate 10% to 12.5% tariff on the value of *all* imports, accompanied by a phasing out of *all* exporter administered quantitative quotas over a 5 year period, is better in terms of free trade than what we have now. Such a tax may yield some $50 billions in revenues each year, as well as partially protect American jobs.[12]

When fully operational a gasolene taxes and a tariff for revenue will add from $65 to $755 billions per year to our tax revenues.

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12. The principles of a free trade zone require a uniform, easily administered common barrier by the countries within the free trade zone to trade with the world outside the free trade zone. A tariff for revenue at the modest suggested rates is just such an easily administered common barrier.

The campaign stressed a middle class tax cut that was revenue neutral because it was offset by a rise in the rate at the higher brackets. This promise should be implemented by a rise in the marginal rate where it now falls and by the introduction of two new rates: a 36% rate for taxable income in excess of $200 thousand and a 40% rate for all taxable income in excess of $1 million, all for a family of four.

The combination of a sane income tax, a gasolene tax and a tariff for revenue will do wonders to the overall revenue situation. It should also improve the credit worthiness of United States long term securities in the international markets.

Employment

Putting the banking and financial structure in order and getting the revenue system back on a path where a close approximation to a balanced budget at full employment is reachable will make it possible in the longer run for the United States to have a full employment economy based upon private demands. Such financial system institution building and revenue system reforms will not do much to improve the situation in the political time span, in which the 1994 Congressional elections are just around the corner on inauguration day. Measures that have a quicker effect on employment are both economically sound, socially desirable and politically necessary.

If we are to achieve a serious improvement in the employment situation in the near term and a close approximation to full employment as a permanent feature of our economy we need to construct modern equivalents of the trio of project based work programs of the New Deal, CCC, WPA and NYA. Two principles motivate such work programs: an abhorrence of the dole and the importance of income from work as supporting the dignity of individuals. The first aim of an employing America program should be to assure that every American has a job which pays at least the minimum wage.

The CCC was one of the great successes of the New Deal. The Conservation Corps was managed by the army. We can once again use the NCO corps and Junior officers to help train youth for work and manage projects. A CCC will open vista's of what can be better to many who are now trapped in a cycle of poverty.

NYA (The National Youth Administration) was a campus and community work program for youths in secondary schools, colleges and Universities. The jobs were only loosely need based. They paid for work in the schools and in community facilities such as playgrounds and neighborhood centers. They taught that income was received in an exchange and not as a dole. The program also was an effective aid to education and even to research.

The revived and modernized Works Project Administration will not only put those who are now on the dole (welfare) to work, it can be structured to provide much in the way of improved goods and services to the present poor. WPA can provide supplementary labor to schools, hospitals, park systems, etc. It can build public facilities like swimming pools, tennis courts, etc.

The annual income at the minimum wage is less than $9,000 per year. The adult programs should be at the minimum wage: the youth programs, especially the in school and summer programs can be at a sub minimum wage. It is best if such programs be only loosely means tested. A million WPA workers will cost but $9 billions. If 50% is added for material and administration a million worker WPA will cost $14.5 billions. The same back of the envelope may well apply to the CCC. In other words less than $30 billion dollars, less than 1/2 of 1% of GDP will fund programs that will offer jobs and opportunities where non exist now. If the NYA summer and in school programs are funded at $5 billions then the total of the three will be about $35 billions

If workfare is ever to become operational some instrument like WPA which is open to all and which in effect hires all who want work is necessary.

The trio of WPA, CCC and NYA do not need to have long lead times. They could easily become operational by the end of the second quarter of 1993. The CCC would build up: an enrollment of some 80,000 a month would build up to a million in the program by the time it is one year in being.

Such programs bring income and increase demand in the impoverished communities. They should have a substantial multiplier effect.

Conclusion.

The end of the cold war releases a great deal of competent people from both our military industries and the armed forces. Over the next five years we can deploy millions of workers to produce goods and services which can lead to serious improvements in our standards of life. Many of the released workers have the skill and training to be entrepreneurs. A supportive banking system, which includes new institutions such as the previously mentioned Community Development Banks is a prerequisite for releasing these energies.

The new taxes on imports and gasolene will assure financial markets that the United States is serious about doing something about its deficit and debt situation. A rational fiscal program which cuts the reliance on the income tax and which aims to reduce the size of the debt relative to gross domestic product will also tend to decrease long term interest rates. The burden of the debt is lowered in two ways by both the reduction in the relative size of the debt and the interest rate on the debt.

One formidable task of the Clinton administration is to raise workers morale and constrain money wages even as a full employment policy is put in effect. To do this an improvement in the quantity and quality of the consumption services provided by the government sector is necessary.

It is ironic that The New Deal, which emphasized the virtue of work and employment, survives in the form of transfer payment schemes such as Social Security and aid to families with dependent children. Chronic and systemic unemployment, that relegates all too many to the scrap heap of the economy, is the true measure of the failure of the American Economy. THe true crime of the 1980's and 90's is that the number so relegated has increased and is still increasing.

The simple truth is that we have to face is that the free market system in its present form is unable to guarantee that a close approximation to full employment is the normal condition of the economy. Aggregate demand for labor often and systematically falls below that which is sufficient to guarantee full employment.

There is a need for permanent instruments of policy which generates an infinitely elastic demand for work that is useful. The desirable situation is that at every moment of time the number of unfilled jobs is greater than the number of unemployed. This can only be guaranteed if the government acts as an employer who has a vast amount of projects that need to be done and is willing and able to pay to get these jobs done.

There is a complementarity between the needed measures to restructure the financial system, the rebuilding of the revenue base of the government so that the payment commitments on government obligations are met by revenues from taxation rather than by issuing debt to pay debt, spending on infrastructure and improved education and the fallback work based government employment programs. The Clinton program needs to combine those measures such as the CCC, NYa and WPA which have a quick and visible impact and the measures which are needed for a permanent structure of prosperity such as a financial system that is not specialized to the "big deal" and a tax system that yields the revenues needed to finance government spending and to validate the government debt.