



## Working Paper No. 668

---

### **The Freedom Budget at 45: Functional Finance and Full Employment**

by

**Mathew Forstater**

Levy Economics Institute of Bard College

**May 2011**

---

The Levy Economics Institute Working Paper Collection presents research in progress by Levy Institute scholars and conference participants. The purpose of the series is to disseminate ideas to and elicit comments from academics and professionals.

Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan, independently funded research organization devoted to public service. Through scholarship and economic research it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States and abroad.

Levy Economics Institute  
P.O. Box 5000  
Annandale-on-Hudson, NY 12504-5000  
<http://www.levyinstitute.org>

## **ABSTRACT**

Forty-five years ago, the A. Philip Randolph Institute issued “The Freedom Budget,” in which a program for economic transformation was proposed that included a job guarantee for everyone ready and willing to work, a guaranteed income for those unable to work or those who should not be working, and a living wage to lift the working poor out of poverty. Such policies were supported by a host of scholars, civic leaders, and institutions, including the Rev. Dr. Martin Luther King Jr.; indeed, they provided the cornerstones for King’s “Poor Peoples’ Campaign” and “economic bill of rights.”

This paper proposes a “New Freedom Budget” for full employment based on the principles of functional finance. To counter a major obstacle to such a policy program, the paper includes a “primer” on three paradigms for understanding government budget deficits and the national debt: the deficit hawk, deficit dove, and functional finance perspectives. Finally, some of the benefits of the job guarantee are outlined, including the ways in which the program may serve as a vehicle for a variety of social policies.

**Keywords:** Unemployment; Full Employment; Budget Deficits; National Debt; Public Policy

**JEL Classifications:** B500, E240, E610, H600, P160

## THE FREEDOM BUDGET AND THE JOB GUARANTEE

2011 marks the 45<sup>th</sup> anniversary of the “Freedom Budget,” a policy program developed by A. Philip Randolph and Bayard Rustin, working with New Deal Keynesian economists such as Leon H. Keyserling, former Chairman of the Council of Economic Advisers in the Truman Administration. Randolph presented the proposal at the 1966 White House conference “To Fulfill these Rights,” calling for a government-sponsored job guarantee for those ready and willing to work, a guaranteed income for those who cannot or should not be working, and an increase in the minimum wage to lift the working poor and their families out of poverty (A. Philip Randolph Institute 1966).

The two main (and complementary) components of the Randolph-Rustin proposal for full employment and the job guarantee, encompassed in the term *public service employment*, were government as “employer of last resort” and public works: “We should be demanding immediate passage of an accelerated public works program” (Rustin 1971 [1965], p. 130). While accepting the basic Keynesian macroeconomic analysis that unemployment can be an aggregate problem due to lack of effective demand, Rustin and company also took the view that generic demand stimulus would not address the unemployment problem *in toto*. In addition to Keynesian unemployment there is also structural unemployment, a catch-phrase meant to include unemployment due to structural and technological change. A campaign to address structural unemployment would have to go beyond conventional fiscal stimulus: the private sector would never provide enough jobs, even when being pumped up by government expenditure. True full employment and poverty-reduction can be achieved “only when the government takes responsibility of creating work for those whom the private sector can no longer use” (Rustin 1971 [1968], p. 235):

[T]he government becomes the employer of first and last resort for the hard-core poor...Neither individuals nor the private sector of the economy has, or can take, responsibility for full employment in American society. This is the responsibility of all segments of the society and thus, finally, of the government. (Rustin 1971 [1968], p. 235)

In addition, the thinkers working around the Randolph Institute saw that a WPA-style program could not only create jobs, but produce goods and services that could address other important needs, such as increased community and social services and infrastructure creation and

revitalization. The program thus rejected the “culture of poverty” and “human capital” approaches gaining followers at the time, insisting instead that jobs must come first, with training coming on-the-job:

We are going to have to have public works programs to put these people back to work and to do it without a lot of talk about pre-training. These people don't have to be pre-trained. All they need to know is that there are jobs. John Dewey said that a man learns by doing. I want to go Dewey one better: we must put these people to work learning *while* doing, and while being paid. In World War II we did not ask if people were too black, or too old, or too young, or too stupid to work. We simply said to them this is a hammer, this is a tool, this is a drill. We built factories and sent these people into the factories. We paid them extraordinarily good wages and in two months they created the miracle of making planes that flew. We can find a peacetime method for doing this—public works for schools, hospitals, psychiatric clinics, new modes of transportation, of cleaning the air, of cleaning the rivers. All these improvements would benefit not only the poor but also the affluent. (Rustin 1971 [1968], p. 236)

Rustin saw public service employment as providing a number of benefits in addition to job creation and increased public works and social services. First, he viewed the program as resulting in a reduction in both crime and government spending on the poor and unemployed:

The way things are now we are twice damned. We are paying \$15 billion a year for the support and misdeeds of those who cannot find work and end up in prison or on welfare. If they are provided with work and improve the economy, then we have additional growth plus the \$15 billion we are now paying for keeping them on welfare and in jail. (Rustin, 1971 [1968], p. 237)

Secondly, he viewed the program as good for everyone, Black and white, rich and poor. The job guarantee would be for everyone (i.e., no means tests), regardless of race, and thus would benefit poor whites and others. Furthermore, full employment benefits everyone, even business, whose sales and profits are supported by increased incomes and spending:

But I want to assure businessmen that the people who benefit from the programs are not going to sit on the money when they get it. They are going to act like Americans. They

are going to buy all the junk that is advertised, thereby raising the GNP, raising the economic production and growth of the country, and fundamentally adding to its economic stability. (Rustin 1971 [1968], p. 237)

While the Freedom Budget was never passed, or even officially introduced as legislation, the momentum eventually contributed to discussions within the Congressional Black Caucus that led to the introduction of a new full employment bill by African American Congressman Augustus F. Hawkins (D-CA) in the early 1970s. The original bill included a job guarantee, the creation of a Job Guarantee Office, a Standby Job Corps, and the changing of the name of the United States Employment Service to the United States Full Employment Service (see Hawkins 1975). The bill went through several iterations and name changes until finally passed in 1978 as the Full Employment and Balanced Growth Act, stripped of the job guarantee.

Randolph, founding President of the Brotherhood of Sleeping Car Porters, and Rustin had previously worked along-side the Rev. Dr. Martin Luther King, Jr. in organizing the 1963 March on Washington, the full, official name of course which was the “March on Washington for Jobs and Freedom.” The two men had also led the March on Washington Movement (MOWM) of the 1940s that resulted in then-President Franklin Delano Roosevelt’s Executive Order 8802, which created the Fair Employment Practice Committee (FEPC).

During the same period as the Freedom Budget was issued, Dr. King was increasingly including similar themes in his writings and speeches, proposing a federally-guaranteed job creation program as the centerpiece of both his “economic bill of rights” (an idea revived from FDR) and his “Poor People’s Campaign” (King 1986 [1968], p. 67; see also Forstater 2002). But King was only one—albeit an extremely important one—of a host of African American leaders and organizations in the sixties and seventies to support not only full employment in general but the specific idea that “government... become an employer of last resort” (King 1971 [1963], p. 32). “This would guarantee a job to all people who want to work and are able to work...It would mean creating certain public-service jobs” (King 1986 [1968], p. 67). This notion in one form or another was embraced by virtually all the most prominent African American organizations, with the list of African American leaders and organizations supporting the policy encompassing a wide swath of the political spectrum (Forstater 2007).

Among those supporting true full employment and the job guarantee were U.S. Rep. John J. Conyers, Jr. (D-MI), James Farmer, Charles V. Hamilton, Bernard Anderson, and Robert S. Browne, the founder of the Black Economic Research Center (BERC) and the *Review of Black Political Economy*. Browne was also a charter founder of the Caucus of Black Economists, a predecessor of the National Economic Association (NEA; Alexis, Spratlen, and Wilson, 2008). To assist him in formulating a new full employment bill that would address the limitations of the 1946 Employment Act, Rep. Hawkins organized a small working group in 1972 that included Robert S. Browne and Bernard Anderson, among others (Anderson 2008):

Robert Browne helped shape and reinforce Mr. Hawkins' thinking about full employment, and how to make the Bill a tool for addressing black joblessness. He emphasized that the declaration of policy would mean little if not accompanied by specific measures to guide policy makers toward reaching the goal. Browne urged specific language in the Bill to spell out how the government would act as the employer of last resort. (Anderson 2008, p. 95)

Also of note, Coretta Scott King was very involved in the struggle for full employment during the 1970s, when she was co-chair of both the National Committee for Full Employment and the Full Employment Action Council.

More recently, a job guarantee has been embraced and supported by William Julius Wilson (1996), Ronald B. Mincy (1994), Manning Marable (1997), the National Urban League (1996), Jarvis Tyner (1994), and the Black Radical Congress (1998). In the context of the current and ongoing crisis of the 2007-onward "Great [i.e., Terrible] Recession," NEA Past-President William A. Darity, Jr., in an article in the *Review of Black Political Economy*, has revived the proposal that the federal government should guarantee a job for all by serving as the employer of last resort (Darity 2010).

Job creation and public investment have tremendous potential social and economic benefits, and many have argued that such programs would essentially 'pay for themselves' and produce benefits that exceed their costs. Nevertheless, it is clear that one of the primary roadblocks in the way of a true full employment policy regards public perceptions concerning the perceived cost, and the impact on the government budget and the national debt. It would serve

those concerned about unemployment well to review the arguments surrounding deficit spending, the national debt, and government “solvency.”

## **DEFICIT HAWKS, DEFICIT DOVES, AND FUNCTIONAL FINANCE: A PRIMER**

There are three paradigms for understanding government budgets and the national debt: deficit hawk, deficit dove, and functional finance. We will now review each of these in turn, beginning with the deficit hawks. Hawks view government budget deficits and the national debt as almost always and everywhere a negative for the economy and society. Often associated with a “sound money” or “sound finance” position, some hawks support a balanced budget amendment to the U.S. Constitution requiring the Federal government to run a balanced budget except in times of national emergency.

There are five basic hawk arguments as to the negative impacts of deficits and the debt. Not all hawks subscribe to all five, but virtually all hawks take one or more of these positions. Many of the hawk arguments follow from the basic neoclassical economic vision explicit or implicit in the hawk conception of how the macroeconomy operates. This vision can be described by two main features. First, the market economy has a built-in tendency toward full employment of resources, including labor. Second, savings determines investment through variations in the rate of interest, as in a loanable funds model. Summaries of hawk views can be found in Buchanan (1958); Friedman (1988); Savage (1988); and Peterson (1993, 2004).

1. **Deficits cause inflation.** The economy tends to full employment, so excess aggregate demand caused by deficit spending is inflationary. Actually, the idea that deficits can be too large if they increase aggregate demand beyond the full employment level of output is shared by many hawks, doves, and adherents of functional finance. The differences then regard whether involuntary unemployment is viewed as a short term, disequilibrium macro-phenomenon or a normal, permanent feature of the system, consistent with macro equilibrium. But if the economy is at or near full employment, deficit expansion can result in what Keynes called “true inflation” (some cost-push or supply-side instances of rising prices may be more about relative price changes). Interestingly, some hawks would require the money supply to increase for there to be inflation (if they take a traditional monetarist view).

2. **Deficits cause high interest rates.** There are several versions of this argument, some concerning only *long term* interest rates (more later on the empirical evidence). But basically, for the hawks, government spending financed by borrowing increases competition in the loanable funds market, bidding up interest rates.
3. **Deficits crowd out private spending.** This also has several versions, partial versus full crowding out, for example. There are also those who view crowding out as resulting only from government borrowing versus those who hold the position that even government spending financed by tax revenues crowds out private expenditure. In any case, if all resources are fully employed, government can employ a resource only if it takes it away from the private sector. Viewed slightly differently, government borrowing to finance deficit spending reduces the loanable funds available to finance private spending, whether investment or consumer durables.
4. **The national debt is a burden on future generations.** Because they have to pay it.
5. **Deficits and the national debt are generally immoral.** The analogy is often made here between government deficits and debt and firm or household deficits and debt. “If I ran my company with spending in excess of revenue year after year, I’d be out of business!” “I can’t continually spend in excess of my income and expect to stay afloat, why should the government?”

The point has been made that some of the hawk positions are applicable to an economy on a gold standard or other fixed exchange rate regime, such as a currency board, monetary union, or peg to another nation’s currency (or a weighted basket of currencies). This will be discussed in more detail below.

Deficit doves view deficits (and an increased national debt) as ok, under certain circumstances, depending on the economic context. Doves have concentrated a lot of attention to issues of defining and measuring deficits and the national debt. The following ten points summarize various dove arguments, including dove responses to and criticisms of the hawks (dove positions can be found in Heilbroner and Bernstein 1963, 1989; Eisner 1986, 1994, 1997; Cavanaugh 1996; and Benavie 1998). Just as most of the hawk positions follow from the fundamental neoclassical vision characterizing their analytical framework, dove arguments tend to follow from a basic Keynesian view of how the macroeconomy operates. Specifically, doves view unemployment and excess capacity as normal features of a modern capitalist economy, and



they tend to reject a loanable funds view of savings and investment, instead seeing investment as determining savings through changes in income.

1. **Are deficits being measured in constant or current dollars?** Doves argue that it is wrong to compare deficits between years in current dollars, because the value of the dollar has changed. One way of correcting for this is to look at deficit/GDP ratios (and debt/GDP ratios). These ratios are also important for doves because they argue that a larger GDP means we can afford a bigger deficit or debt. A related issue is the changing *real* value of the national debt due to inflation or deflation. When Reagan claimed that a pile of dollar bills of an amount equal to the size of the Federal deficit or the national debt would reach almost to the moon (later repeated by Clinton), I proposed making dollar bills thinner. Then the pile would only go halfway to the moon! A similar, often repeated hawk image is that the same number of bills laid end to end would go around the earth three times, prompting my proposal that we make dollar bills shorter so they would only circle the globe twice!
2. **The federal government doesn't keep a capital account.** So when there is a large capital expenditure it looks like a lot has been paid out in the current period and the budget doesn't reflect the services that will last for multiple years into the future. Firms and state and local governments keep a capital account, but all federal expenditures go on the current account.
3. **The government owns assets.** The government may have a debt, but it also owns assets such as land, buildings, stocks, gold, water sewage treatment plants, hospitals, schools, etc. Next to the pile of dollars representing the deficit or debt we could make a pile representing government assets that might go past the moon. Hypothetically, these assets could be sold, but what economic reasoning would justify such an action?
4. **State and local budgets often not considered.** The media and politicians often do not make clear whether they are talking about the consolidated (federal, state, and local) government budget balance or only the federal deficit. Historically, federal deficits have sometimes been offset by surpluses at the state and local levels, although in recent years that has not been the case. Federal transfers to state and local governments are also common. Doves take this confusion between the consolidated and federal budget as yet another example of the imprecision in defining and measuring deficits and the debt.

5. **Government agencies own government debt.** For example, state and local governments may invest in government bonds, as do some federal government agencies, in which case it is argued that we really do “owe it to ourselves.” At the start of 2010, over 40% of the national debt was held by government agencies! Interest payments, therefore, constitute inter-governmental transfers. And, of course, all U.S. citizens are citizens of the nation, a state, and a locality.
6. **We should examine the “full employment deficit.”** Doves argue that much of the deficit is due to unemployment. When there is unemployment, income is lower, so tax revenues are lower, and government spending on various forms of assistance for the unemployed is higher, so unemployment increases the size of the deficit. Job creation causes incomes and therefore tax revenues to rise, and lowers government spending to support the unemployed, resulting in a decline in the size of the deficit. The “true” deficit would be the real value of the full employment deficit on the current account, net of government debt purchases and state and local transfers. Estimates of its size have often virtually wiped the deficit clean.
7. **Balance the budget over the business cycle, rather than in one year.** Doves argue that one calendar year is an economically arbitrary amount of time. Instead, it makes more sense to run deficits during recessions and surpluses during booms, so that the budget is balanced over the cycle and debt is not growing. It is true that in recent years the nation has run deficits during both phases of the cycle, but that does not alter the fact that there is little economic meaning to a twelve month period and a constitutional amendment to balance the Federal budget in each calendar year would make sensible fiscal policy impossible, except in a national emergency. A double-digit unemployment rate, by the way, constitutes a real national emergency!
8. **Debt is not a burden on future because we are also creating assets for the future.** Doves encourage consideration of two scenarios: one in which our children inherit a strong economy with high employment, an up-to-date infrastructure, good schools and hospitals, as well as a larger national debt; and another in which the debt is smaller, but the economy is weak, unemployment is high, and the infrastructure is crumbling. Which would our children and grandchildren prefer? Doves also argue that the debt will be paid

to those in the future as well, so the whole idea of the national debt as a burden on the future is the result of more misunderstanding and confusion.

- 9. Doves argue that if deficits and high interest rates are correlated, the causality goes the opposite way—from high interest rates to big deficits.** When interest rates are high, interest payments are high, pushing deficits higher. In any case, doves point out that short term rates such as the fed funds rate and the discount rate are directly controlled by the central bank, and these rates serve as benchmark rates for other important rates such as the prime rate. The argument that deficits cause high interest rates is also not supported by the empirical record (see Evans 1985; Ussher 1998).
- 10. To the extent that the analogy with households and firms is applicable, doves think it supports their view.** Well-managed, responsible debt is not a bad thing for households and firms—same with government. Why do households go into debt? Think of the homes we would live in and the cars we would drive if we had to pay cash, or how old we would be before we could purchase a home or a car. For firms, debt is often a sign of strength; firms borrow to invest in producing goods and services for sale to earn revenue and profits. But doves generally do not think the analogy is a good one, as it is rooted in a failure to understand the logical fallacy of composition. As Robert Eisner, who devoted a lifetime to refuting the myths and misunderstandings concerning budget deficits and the national debt, argued, for the economy as a whole, contrary to the popular saying, there may be a free lunch, “and failing to take advantage of it may leave some of us without dinner as well”:

The cost of anything is what has to be sacrificed to get it. What then would be the cost of providing lunch to the needy if we used surplus food that would otherwise be wasted? Would there be a cost to government's giving lunch to hungry children? Would the people, otherwise unemployed, who might be paid to prepare the lunches perhaps thus secure the wherewithal to purchase dinner? [Eisner 1994, xiii-xiv].

The Functional Finance view says both the hawks and the doves are wrong, but in different ways and for different reasons. Managing the government budget according to the principles of functional finance requires a Chartalist or state money system, i.e., a flexible exchange rate

system where money is not backed at a fixed exchange rate by gold or any other commodity. Functional finance therefore does not apply to a monetary system with any type of fixed exchange rate—no pegged currencies, currency boards, or currency unions, to give a few examples. Economies operating with a fiat currency or “modern money” system, however, can and should manage their budget according to the principles of functional finance. The original formulation was by Lerner (1943), with recent elaborations and developments by Mosler (1997-98), Wray (1998), Forstater (1999), and Bell (2000). The functional finance perspective can be summarized by the following 10 points.

1. **The federal government is the monopoly issuer of the currency.** Since the United States dollar is a sovereign, non-convertible, floating currency, why would the federal government need to tax or borrow from the public in order to spend? The federal government, as the money monopolist and issuer of the (intrinsically valueless) currency, doesn't need the public's money; what the government needs is for the public to need its monopoly money.
2. **In a modern money system, the purpose of taxation is to create a demand for—and give a value to—unbacked (i.e., intrinsically valueless) currency.** If the federal government does not need the public's money in order to spend, why does it tax? By imposing a tax obligation and announcing it will accept only dollars in payment of taxes, the Federal government creates a demand for its otherwise intrinsically worthless currency and gives it value. It is obvious that as monopoly issuer of the currency, the federal government could not collect any dollars from the public in payment of taxes unless it had first spent (or lent or given) dollars in the first place. As the father of functional finance, Abba Lerner, put it in his 1946 *Encyclopedia Britannica* entry on “money”:

If the government announces its readiness to accept a certain means of payment in settlement of taxes, taxpayers will be willing to accept this means of payment because they can use it to pay taxes. Everyone else will then be willing to accept it because they can use it to buy things from the taxpayers, or to pay debts to them, or to make payments to others who have to make payments to the taxpayers, and so on. (Lerner 1946, p. 693)

3. **The purpose of U.S. government bond sales is not to finance spending, but to drain excess reserves created by deficit spending in order to maintain positive short term (overnight, interbank) interest rates.** Government spending, lending, and giving of money add to the reserves in the aggregate banking system; government taxing, borrowing, and taking of money drain reserves from the system. When the federal government runs a budget deficit,  $(G - T) > 0$ , meaning there is a ‘net reserve add’. These excess reserves will cause the fed funds rate to fall toward zero. If the authorities desire a positive overnight (interbank) lending rate, bonds are sold to drain the excess reserves from the system. Notice that budget deficits put *downward* pressure on interest rates, the exact reverse of what most hawks claim!
4. **In the functional finance view, the relation of G and T doesn’t matter—all that matters are the effects of any policy.** Policies should be judged on their ability to achieve the goals for which they are designed and not on any notion of whether they are “sound” or otherwise comply with the dogmas of traditional economics. There is nothing inherently “good” or “bad” about any particular relation between government expenditure and tax receipts. It depends on the economic circumstances and on the results a particular budget stance will promote under those circumstances. As Lerner put it, if the amount of taxing or spending required to achieve macroeconomic goals such as full employment “should conflict with the principles of ‘sound finance’ or of balancing the budget or of limiting the national debt, so much the worse for those principles” (1951, p. 11). Promoting a balanced budget or surplus or a paying down of the national debt regardless of the macroeconomic effects would best be referred to as *dysfunctional finance*.
5. **“Printing money” can have no effect on the economy independently of fiscal operations (in this case, the spending, lending, and giving of money by the Treasury and/or central bank).** If a trillion dollars are printed and left in a closet there will be no impact on the economy. To have any impact, money must be spent, lent, or given away. Therefore, if these fiscal operations are comprehensively accounted for, and “printing money” is also considered, this would constitute double-counting. Therefore, “printing money” can be effectively disregarded.
6. **The “sound money,” “sound finance” view of the hawks treats the modern money system as if it were on a gold standard.** Former Fed Chairman Alan Greenspan has

said as much: “since the late '70s, central bankers generally have behaved as though we were on the gold standard...[W]e've behaved as though there are, indeed, real reserves underneath the system” (Greenspan 2005). Fixed exchange rates, such as a gold standard, reduce or even eliminate a nation’s ability to use fiscal and monetary policies to pursue the public purpose. Under a gold standard, government spending is constrained by the accumulation of gold (or by the accumulation of foreign currency under a peg), and the central bank’s ability to set short-term interest rates are sacrificed to the requirements of maintaining the peg. In any case, different systems operate according to different logics, and managing a modern money system according to the logic of a gold standard is like playing chess using the rules of checkers.

- 7. Doves are wrong because, by saying that the deficit is not really as big as it seems, or that we can balance the budget over the cycle, they are giving in too much to the hawk view and end up harming the position of supporters of common-sense budgetary policy.** According to what has come to be known as “Lerner’s Law,” trying to placate the public and the media for reasons of short term political expediency will inevitably backfire. Eventually, one will be revealed as a hypocrite, one’s hands will be tied, or both. This seems a likely explanation of what has happened to Democrats who decided to call the Republicans fiscally irresponsible during the 1980s. Currently, both the Republicrats and the Demublicans are vying to be more “fiscally responsible” than the other, and they are likely to run the nation into the ground in the process. As one student remarked when I explained that virtually all members of both parties are now hawks: “Anything that all Democrats and Republicans agree on [i.e., that deficits and a larger national debt are harmful] must be wrong!”
- 8. The deficit is just accounting information—it tells us how much the domestic private and foreign sectors want to “net save” in assets denominated in the domestic currency.**  $(G - T) = (S - I) + (M - X)$ , that is, the government budget deficit equals the private sector surplus plus the foreign sector surplus (the trade deficit). Deficits do not reduce savings, as the hawks argue, but just the opposite: deficits generate savings!
- 9. The national debt is just accounting info.** It is the record of government’s draining of excess reserves through bond sales to maintain short term interest rates. It might therefore be better called the “IRMA” (interest rate maintenance account) than the national debt.

**10. The national debt is not a burden on the future, because there can be no financial burden on a money monopolist in a modern money economy!** The only financial constraints are those that are self-imposed.

Understanding modern money and macro balance sheets enables a society to use the government budget for achieving economic and social policy goals. We can afford prosperity under such institutional arrangements, and the good news is that this is exactly the way our current system operates. The question then becomes whether we can find the political will to move forward, or whether we will continue to choose austerity over expansion. In a nation with millions unemployed and living in poverty, and in a world with billions living under similar and worse conditions, economic prosperity is the only long-term solution to the challenges of the twenty-first century. In the U.S., both political parties must decide to call a truce on the “deficit” scares. This is what a “Freedom Budget” must mean today.

### **FULL EMPLOYMENT: A NEW FREEDOM BUDGET**

A public service employment program based on the principles of functional finance can guarantee full employment without the rigidities associated with very high levels of private sector employment, can provide public and community services that are in short supply, and may be used as the basis for humanistic social policy. The huge economic and social costs associated with unemployment can be eliminated, and the national economy can be managed in a sensible way that is consistent with the idea, formalized in the United Nations Declaration of Human Rights, that every individual has the right to earn a livelihood in a self-respecting way.

A public service employment approach to full employment and price stability can also serve as the basis for humanistic social policies. Under such a program, a wide variety of social policies may be introduced that otherwise wouldn't fare a chance. To understand how this might work, consider that workers will always have the option to take a public service job. Now imagine what might happen if the public service wage-benefits package included health insurance. Employers in the private sector would have to match the public service wage-benefits, either line by line, or in some other compensating way. Private businesses would be encouraged by “market” pressures to either offer health insurance or compensate in some alternative way (higher salary, more chance for advancement, other benefits, or some other attractive part of the

offer). Likewise, since the public sector wage would be the *de facto* minimum wage (remember that the real minimum wage in an economic society with a semi-permanent pool of unemployed is zero), increases in the public sector wage could also be used to pressure businesses to raise wages (or some other compensating feature of their offer). Consider what might happen if the public sector job came with child-care. Likewise, worker health and safety issues, and general job environment. The list of ways in which public sector employment might be used as a 'benchmark' to increase the quality of private sector jobs is limited only by the imagination.

Next, consider the possibilities offered by millions of new workers available to do public service. Suddenly, there is no longer any financial or labor constraint to the provision of public and community services (other than the “real” constraints of population size, skills, and education, etc.). Habitat for Humanity and Meals on Wheels are never wanting for labor, public libraries and community centers are open every night, additional helping hands on playgrounds, at subway stations, in nursing homes, and recycling centers. The environment benefits are numerous, from clean-up to parks and recreation to tree-planting to new hiking trails. We know from the history of the WPA and other successful public service programs just how productive the contributions can be (we can also learn from the mistakes of such programs—e.g., race and gender discrimination must not be tolerated).

A public service jobs program could also be used to redefine just what constitutes valuable work in our society. Presently, the market is used as the measuring rod, so if you can't make your way in the private sector, your life-calling must not be valuable. Under the public service employment program, society is free to decide what qualifies as a public service job. Musicians and artists might be free to follow their calling. Oral histories can be documented and preserved through interviews with the elderly. Community gardens can thrive, with public service chefs preparing meals. Addressing the historical legacy of patriarchy and gender exploitation, care for one's own children and one's own home can be considered valid public service work. Even getting additional education or training may be considered a public service. It follows that individuals that stay employed rather than unemployed, and that are able to take advantage of education and training opportunities, will likely boost productivity in the private sector when the demand for labor rises during an economic upturn.



The choices for the future are clear: functional finance or dysfunctional finance? A pool of unemployed to hold prices down or a flexible system of public service to maintain stability? Exploding prison systems and deteriorating skills or increased community services and more social cohesion? Poverty wages, no health care, no child care, or living wages and universal care? Fallacy of composition or sensible macroeconomic common-sense? Technocratic individualism or humanistic social policy? Involuntary part-time, involuntary flex-time labor market treadmill or life-sustaining, life-enhancing employment?

## REFERENCES

- A. Philip Randolph Institute. 1966. *A "Freedom Budget" for All Americans: Budgeting Our Resources, 1966-1975, to Achieve Freedom from Want*. New York: A. Philip Randolph Institute.
- Alexis, Marcus, Thadeus Spratlen, and Charles Z. Wilson. 2008. "Robert Browne and the Caucus of Black Economists." *Review of Black Political Economy*, vol. 35, nos. 2-3, pp. 61-66.
- Anderson, Bernard. 2008. "Robert Browne and Full Employment." *Review of Black Political Economy*, vol. 35, nos. 2-3, pp. 91-101.
- Bell, Stephanie. 2000. "Do taxes and bonds finance government spending?" *Journal of Economic Issues*, vol. 34, pp. 603-620.
- Benavie, Arthur. 1998. *Deficit Hysteria*. Westport, CT: Praeger.
- Black Radical Congress. 1998. "The Freedom Agenda," in M. Marable and L. Mullings, eds., *Let Nobody Turn Us Around*. New York: Rowman & Littlefield, 2000.
- Buchanan, James. 1958. *Public Principles of Public Debt*. Homewood, IL: R. D. Irwin.
- Cavanaugh, Francis X. 1996. *The Truth about the National Debt*. Boston: Harvard Business School Press.
- Darity, Jr., William A. 2010. "A Direct Route to Full Employment." *Review of Black Political Economy*, vol. 37, no. 3.
- Eisner, Robert. 1986. *How Real is the Federal Deficit?* New York: The Free Press.
- Eisner, Robert. 1994. *The Misunderstood Economy*. Cambridge: Harvard Business School Press.
- Eisner, Robert. 1997. *The Great Deficit Scares: The Federal Budget, Trade, and Social Security*. New York: The Century Foundation Press.
- Evans, Paul. 1985. "Do Large Deficits Produce High Interest Rates?" *American Economic Review*, vol. 75, no. 1, pp. 68-87.
- Forstater, Mathew. 1999. "Functional Finance and Full Employment." *Journal of Economic Issues*, vol. 33, pp. 475-482.
- Forstater, Mathew. 2002. "Jobs for All: Another Dream of the Rev. Dr. Martin Luther King, Jr." *Forum for Social Economics*, vol. 31, no. 2, pp. 45-53; reprinted in D. Menkart, et al., eds., 2004. *Putting the Movement Back into Civil Rights Teaching*. Washington, D.C.: Poverty & Race Research Action Council.

- Forstater, Mathew. 2007. "From Civil Rights to Economic Security: Bayard Rustin and the African American Struggle for Full Employment, 1945-1978." *International Journal of Political Economy*, vol. 36, no. 3, pp. 63-74.
- Friedman, Benjamin. 1988. *Day of Reckoning*. New York: Random House.
- Greenspan, A. 2005. *Hearing on Monetary Policy Report*. US House Committee on Financial Services, 20 July 2005, Washington D.C.
- Hawkins, Augustus F. 1975. "Full Employment to Meet America's Needs." *Challenge*, November/December, pp. 20-28.
- Heilbroner, Robert L. and Peter L. Bernstein. 1963. *A Primer on Government Spending*. New York, Random House.
- Heilbroner, Robert L. and Peter L. Bernstein. 1989. *The Debt and the Deficit: False Alarms, Real Possibilities*. New York: W. W. Norton.
- King, Jr., Martin Luther. 1986 [1968]. "Showdown for Nonviolence." *Look*, vol. 32, pp. 23-25, reprinted in J. M. Washington, ed., *A Testament of Hope: The Essential Writings of Martin Luther King, Jr.* New York: Harper & Row.
- King, Jr., Martin Luther. 1971 [1963]. Letter requesting support for the March on Washington, in R. Goodman, *After the Planners*. New York: Simon & Schuster.
- Lerner, Abba. 1943. "Functional Finance and the Federal Debt." *Social Research*, vol. 10, pp. 38-51.
- Lerner, Abba. 1946. "Money." *Encyclopedia Britannica*.
- Lerner, Abba. 1951. *Economics of Employment*. New York: McGraw Hill.
- Marable, Manning. 1997. "Full Employment and Affirmative Action," in *Black Liberation in Conservative America*. Boston: South End Press.
- Mincy, Ronald B. 1994. "The Underclass: Concept, Controversy, and Evidence," in Sheldon H. Danziger, Gary D. Sandefur, Daniel H. Weinberg, eds., *Confronting Poverty*, Cambridge: Harvard University Press.
- Mosler, Warren B. 1997-98. "Full Employment and Price Stability." *Journal of Post Keynesian Economics*, vol. 20, no. 2, pp. 167-82.
- National Urban League. 1996. *The State of Black America 1996*. New York: National Urban League, Inc
- Peterson, Peter G. 1993. *Facing Up*. New York: Simon and Schuster.

- Peterson, Peter G. 2004. *Running on Empty*. New York: Farrar, Straus and Giroux.
- Rustin, Bayard. 1971 [1965]. "The Influence of the Left and Right in the Civil Rights Movement," paper prepared for the Negro Leadership Conference, January 30-31, 1965, reprinted in *Down the Line: The Collected Writings of Bayard Rustin*. Chicago: Quadrangle Books.
- Rustin, Bayard. 1971 [1968]. "The Anatomy of Frustration." Address to the Anti-Defamation League of B'nai B'rith, May 6, 1968, reprinted in *Down the Line: The Collected Writings of Bayard Rustin*. Chicago: Quadrangle Books.
- Savage, James D. 1988. *Balanced Budgets and American Politics*. Ithaca: Cornell University Press.
- Tyner, Jarvis. 1994. "Crime—Causes and Cures," in M. Marable and L. Mullings, eds., *Let Nobody Turn Us Around*. New York: Rowman & Littlefield, 2000.
- Ussher, Leanne. 1998. "Do Budget Deficits Raise Interest Rates? A Survey of the Empirical Literature." *Transformational Growth and Full Employment Project*. Working Paper no. 3, New York: New School for Social Research.
- Wilson, William Julius. 1996. *When Work Disappears: The World of the New Urban Poor*, New York: Knopf.
- Wray, L. Randall. 1998. *Understanding Modern Money*. Cheltenham, U.K.: Edward Elgar.