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Policy Note

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ECONOMIC POLICY FOR THE REAL WORLD

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Introduction: Economic Reality

I recently received an e-mail from one of my former students, a young woman who graduated in May of this year. "I've applied to job after job after job, and am not getting anywhere," she wrote of her attempt to find work related to her academic field of study.

This woman is no slacker. As a Utica College graduate, she holds a Syracuse University degree, well respected across New York State.[1] Aware of the upward trend in aging within the United States, she majored in health care management, with the expectation that it would offer robust employment opportunities. And, she got a jump start on the job search by visiting the campus career center well before graduation, and by seeking work through formal and informal channels.

"I just took a job at Macy's," she continued, "because I'm absolutely desperate for money!" I understand her situation. She's from a rural community, her family is not wealthy, and the tuition alone at Utica is nearly $27,000 per year. Making the investment in college was not easy—and now there was no return on the horizon.

On the same day, I received an e-mail from James K. Galbraith mentioning a *New York Times* opinion piece presenting his and other economists' views on unemployment and job creation.[2] One of those economists was Heather Boushey, of the Center for American Progress. In her commentary, Boushey cites research on the labor-market impact of graduating from college in a recession.

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The consequences—for graduates like my former student and her peers—are "large, negative and persistent" (Boushey 2010).

Boushey also mentions recent research on dislocated workers. The data show that experienced workers who lose their jobs suffer an average income loss of 20 percent upon reemployment—and that the income losses persist over time.

Reading her comments, I experienced déjà vu. At first, I thought it was because I had met Boushey through my affiliation with the Levy Institute in the mid-1990s; in fact, she participated in the Eastern Economic Association (EEA) conference session at which Hy Minsky and I presented a paper on money-manager capitalism in 1996.[3] But then it hit me. Digging through my files from that era, I located my own essays on worker insecurity. Sure enough, one of the dimensions addressed was the cost of employment dislocation for experienced workers—and the average and persistent income losses were of the same magnitude as indicated by Boushey (Whalen 1996).

In addition to my student and Jamie Galbraith, a friend contacted me recently from Massachusetts. He is nearly 50 years old and also holds a Syracuse degree—in engineering. His son enters college in the fall; two other children are in high school.

My friend understands quite a bit about dislocated workers. He has a temporary position that will end in a few weeks. Except for a few short-term project assignments, he's been unemployed since the current recession began. Over his career, he has been in multiple jobs—often with well-known companies like IBM—that have moved offshore. He is persistent and has tried the entrepreneurial, small-business path, but the economic insecurity endures.

Retirees are also struggling in the current downturn. For example, my parents have seen their medical insurance premium increase more than 6 percent this year. Their experience is consistent with research that shows health care has become a large and rapidly growing expense for retirees—a trend not likely to be reversed by recent federal health care reform (Jewel 2010).

Years ago, my father expected that his employer, Polaroid Corp., would be paying his health care expenses following retirement. Then the company made unilateral benefits changes. Actually, that was just one in a string of job-related bumps in his road to retirement. Before the company reneged on retirement benefits for him and other former employees, my dad was part of a wave of downsizing. And before that, he and fellow workers were assigned to help relocate Polaroid machinery to a factory overseas. Today, even more companies are turning their sights on retiree benefits and other labor costs as a way to cope with the global downturn (Karvounis 2008).

A Silent Depression

The reminiscences above illustrate the fact that what we now face in the United States is not simply a *cyclical* crisis. Indeed, it is not merely an *employment* crisis. Rather, it is a standard-of-living-and-economic-opportunity crisis. In fact, what we are currently experiencing is just the latest phase in a decades-long "silent depression" (Peterson 1994).

The 1990s dot-com boom—and to some extent, the more recent housing boom—masked this long-simmering problem. But signs of worker insecurity appeared even then. Contingent work was on the rise, pension and health care benefits continued to erode, and job "off-shoring" remained persistent.[4]

If we are truly going to resolve the current crisis, then our policy response must reflect that we are dealing with a deep-seated structural problem, one rooted in the evolution of U.S. economic development. And interestingly, that was precisely the point Minsky and I sought to make in our 1996 paper. This also explains what I found so compelling about Minsky's work on money manager capitalism: I was studying the mounting challenges facing working families, and Minsky's analysis helped explain what was happening.

Economic Policy

What needs to be done? The short answer is that there must be an agenda of recovery and reform.

At present, the *recovery* policy agenda requires another fiscal stimulus, including a major assistance package for state and local governments—entities that cannot easily engage in deficit spending and that are now counteracting the federal stimulus by laying off workers and raising taxes. Advocates of a larger federal stimulus in early 2009 warned that states required more help, and that mounting concerns about rising deficits would make a second stimulus bill more difficult to enact.[5] They were right.

There is also a need for more relief for the unemployed, and for those who are facing foreclosure on their homes. As of this writing, however, the U.S. Senate is blocking an extension of unemployment benefits, as well as legislation that would allow bankruptcy judges to mandate the restructuring of a residential mortgage. While the federal Troubled Assets Relief Program propped up financial institutions, there has been extraordinarily little assistance provided to borrowers saddled with the underlying "nightmare" mortgages (see Hall 2010, AP 2010).

In the realm of *reform*, there is, of course, a need for change in the financial sector. This legislation must include tougher supervision of a broad array of financial institutions, not just "banks." It must also provide supervisors the authority needed to contain innovations that threaten financial stability. Such reform should also address the "too big to fail" problem.[6]

There is also a need for fiscal reform, especially in the form of stronger automatic stabilizers.[7] This should include public service employment, which would enable the government to serve as employer of last resort.[8] Some economists worry that public service employment would be hard to administer and ineffective, but research by Vernon M. Briggs Jr., of Cornell University, and others shows that such employment in the 1970s directly targeted the unemployed, boosted aggregate spending more quickly than tax cuts, and did not substitute federal dollars for local funds (Whalen 2010, 102).

A third area warranting reform involves innovation policy. The United States needs a vigorous commitment to technological development and associated education. Singapore, China, and Denmark are among the nations that have made such a commitment, but the United States lags behind (see Kao 2007, Bradsher 2010). For example, while public universities are slashing jobs in New York State, the tiny island of Macau—with help from the Chinese government—is moving ahead with construction of a new university campus that will cost nearly a billion dollars and is designed to help transform the Pearl River Delta into a hub of technological development and scientific research (see *Macau News* 2009). Moreover, if green jobs are the focus of U.S. industrial policy, then it does little good for government incentives to spur domestic demand for wind turbines manufactured abroad (Schumer 2009).

A fourth, broad area involves issues that directly affect working families. In fact, attention to the concerns of working families must be at the top of the national economic agenda—not deficit reduction or vague notions of "fiscal responsibility," or even a focus on economic growth, price stability, and overall employment. As a guiding principle, policymakers must concentrate on fostering economic opportunities, especially as they relate to the development and utilization of the nation's human resources and the improvement of living standards. In the process, they must acknowledge—indeed, address—challenges of resource depletion and environmental sustainability.

Once the economy recovers, a key component of policy reform aimed at the well-being of working families must be a commitment to keeping aggregate demand high and the economy running hot. A retired United Auto Workers leader tells me that jobs were so plentiful in Buffalo during the 1950s and 1960s that workers could change employers simply by crossing the street; in fact, for a while he held two full-time jobs because the opportunities were too good to pass up.[9] Can we replicate the hot labor market of that earlier era? I'm not certain, but what the Nobel-winning economist William S. Vickrey called "chock-full" employment should surely be our goal (Warner, Forstater, and Rosen 2000).

Another component of this agenda should be the strengthening of retirement security. Providing older Americans with a secure retirement is good for individuals, the economy, and society. In his commentary in the *New York Times*, Galbraith (2010) suggests reducing the eligibility age for Medicare to 55 because it would "allow older workers to opt into early retirement." This makes sense, especially in the current labor market because it would make room for new workers. Another sensible policy reform would be to encourage a return to defined-benefit pension plans—in conjunction with a system that facilitates pension portability—and away from the defined-contribution plans that currently dominate the benefits world.

The U.S. Treasury has recently lobbied hard for an increase in the value of China's currency. But even with such a change, there will still be huge disparities between employment in the United States and employment in many nations overseas. Exchange-rate adjustments are not enough: a level international playing field for workers also requires an elevation of worker standards according to International Labor Organization conventions, the United Nations' Universal Declaration of Human Rights, and other international agreements.[10]

Of course, the United States is no worker heaven either. Employers frequently violate federal wage and hour laws, and workers often suffer reprisals for exercising their right to form a union (Orley 2007, Compa 2000). Thus, we need to better enforce worker rights and labor standards here at home. In addition, we need labor law reform that gives workers a more realistic chance to organize and bargain collectively—and an opportunity to have meaningful input when workplace decisions are made.[11]

Conclusion: The Road Ahead

The nation's economic challenges are daunting. Restoring robust American prosperity and widespread economic opportunity will not be easy. But, as Minsky stressed, "Economic systems are not natural systems. . . . Policy can change both the details and the overall character of the economy" (2008, 7). It's time to design an effective economic policy for the real world, and we must begin by recognizing the deep roots of the problems we now face.

Notes

1. Utica College was founded in 1946 as "Utica College of Syracuse University," a name it retained until beginning a recent transition toward institutional independence. At present, undergraduate degrees for Utica College students continue to be issued jointly by the college and the university.
2. See http://roomfordebate.blogs.nytimes.com/2010/06/24/can-obama-create-more-jobs-soon.
3. The session, titled "The Employment Act: Fifty Years Later," was organized as part of the EEA Annual Meeting, held in Boston on March 15, 1996; see Minsky and Whalen 1997.
4. For evidence that companies continued to press for workforce flexibility during the dot-com boom, see Mehring 2001, 30.
5. For a by-the-numbers analysis, see Krugman 2009.
6. Much of the policy discussion found in Minsky's 1986 book *Stabilizing an Unstable Economy* remains relevant to contemporary discussions of financial reform.
7. For a discussion of the erosion of automatic stabilizers prior to the Great Recession, see Whalen and Wenger 2002.
8. For Minsky's discussion of an employment strategy, see Minsky 2008 (1986), 343–49. For more on the notion of an employer of last resort, see Kaboub 2007, 495–502.
9. For more on the experience of that worker and on union efforts to improve the economy of western New York, see Whalen 2000, 22E4–E6.
10. For discussions of workers' rights in China, see Munro 2004, Chan 2004, and Brown 2004. For another view of the struggle for workers' rights, this time in Mexico, see Compa 2003.
11. For an overview of U.S. labor law, see Gould 2008, 110–22. For an examination of proposals for labor law reform, see Gould 2009, 1–46. For a discussion of ways to enhance the voice of workers in business organizations and society, see Kochan 2005.

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