CFEPS DIGEST

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Center for Full Employment and Price Stability

The Center for Full Employment and Price Stability is Inaugurated at UMKC

Robert Heilbroner delivered the keynote lecture at the C-FEPS inauguration.

After two years of independent operation, the Center for Full Employment and Price Stability (C-FEPS) has joined the University of Missouri-Kansas City (UMKC). The center began sponsoring research, organizing conferences and panels at professional meetings, and promoting public discussion of issues related to macroeconomic and monetary policy in the fall of 1997. Discussions with UMKC began in early 1999 and culminated in an agreement that makes the University C-FEPS' permanent institutional home.

"We are very excited about the innovative research that the center is undertaking," said Chancellor Martha Gilliland. "In addition, it will serve as a community resource by attracting premier scholars to our campus for its lectures and speaker series."

The center's director, Mathew Forstater, joined the Department of Economics as an assistant professor. Forstater came to UMKC from Bard College, where he served as a visiting scholar at the Jerome Levy Economics Institute and as a fellow of the Bard Center.

Forstater, who remains a research associate with the Levy Institute, began his professional career at Gettysburg College in Gettysburg, Pa. He is also an associate of Columbia University Seminars and an affiliated faculty member with the Missouri Institute of Public Policy.

The center invited Robert Heilbroner, author of *The Worldly Philosophers*, to present the keynote lecture at its inauguration ceremony in October 1999. Forstater, who wrote his Ph.D. dissertation under the well-known author, introduced Heilbroner, the Norman Thomas Professor of Economics in the Graduate Faculty of Political and Social Science at the New School for Social Research. C-FEPS sponsors the Program on Transformational Growth and Full Employment at the New School.

Heilbroner has been an enthusiastic participant in C-FEPS activities, including the conference on "Functional Finance and Full Employment," held at the New School, and the "Commitment to Full Employment" conference, held at Columbia University in memory of Nobel Prize-winning economist William S. Vickrey. Mrs. Cecile Vickrey enthusiastically gave the Center permission to issue two of her late husband's previously unpublished papers as the first two papers in its Working Paper Series.

Following the ribbon-cutting ceremony, Heilbroner and Forstater were guests on "The Walt Bodine Show," a popular talk radio show on KCUR, Kansas City's public radio station. The discussion focused on the deflationary impact of the U.S. federal government budget surplus. Heilbroner is the co-author of *The Debt and the Deficit: False Alarms, Real Possibilities*, and is a long-time advocate of a sensible approach to budgetary policy.

In the early 1960s, Heilbroner co-authored *A Primer on Government Spending*, which influenced then President

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From the Director

Welcome to the first edition of *C-FEPS Digest*. Having just completed our first year at our new home at the University of Missouri-Kansas City (UMKC), we at the Center for Full Employment and Price Stability (C-FEPS) thought it appropriate to take stock of our activities and accomplishments.

Because we are concerned with macroeconomic policy, our activities have reflected the issues arising from recent developments in the global economy: the Asian financial crisis (with the fallout in Latin America and the transition economies); the Russian default; ongoing recession in Japan; weaknesses in the structure of the new European EMU; continued volatility on Wall Street; the debates over Social Security and 'what to do' with the Federal government budget surplus in the U.S. (with its ever-increasing household indebtedness); deflationary pressures in the global economy; the WTO fiasco in Seattle (followed by more demonstrations at the IMF meetings in Washington, D.C).

These and other related developments invite a reconsideration of some of our most deeply held beliefs concerning economic theory and public policy. Even within the hallowed halls of mainstream economics, voices of dissent can be heard. Such periods of impending crisis and open expressions of self-doubt, questioning our most deeply held beliefs about the way the world works, create a climate in which fresh perspectives are welcomed and new ideas may be seriously considered.

Charles Goodhart of the London School of Economics, Robert Heilbroner of the New School for Social Research, Wynne Godley of the Jerome Levy Economics Institute of Bard College, the late Robert Eisner of Northwestern University, the late William Vickrey of Columbia University (and recipient of the Nobel Prize in Economic Science), James Duesenberry and Richard Musgrave of Harvard University, and Jan Kregel of the United Nations Conference on Trade and Development (UNCTAD) and UMKC are just some whose voices have been heard at recent C-FEPS-sponsored events and in C-FEPS publications who have not only expressed concern about potential economic instability, but also offer positive policy approaches as we enter the new millennium.

At the Center for Full Employment and Price Stability, we believe that the key to understanding many of these crises is to go back to the basics of double-entry bookkeeping and the principles of functional finance, first outlined by Abba Lerner when he was a professor at the University of Kansas City (as UMKC was then known). C-FEPS is committed to supporting fresh perspectives based on common sense, in the hope that effective practical policies with popular support may result, promoting full employment and price stability, with decent jobs and rising living standards for the average family struggling to get by.

We invite you to join us in our project and welcome your thoughts on our ideas and activities.

Mathew Forstater

C-FEPS Digest
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Address

Center for Full Employment
and Price Stability
University of Missouri-Kansas City
Economics Department; 211 Haag
5100 Rockhill Road
Kansas City, MO 64110

Phone: (816) 235-5835
Fax: (816) 235-6558
Email: cfeps@umkc.edu

Relay Missouri (800) 735-2966 (TT) or (800) 735-2466

UMKC is an equal opportunity institution.

The Center for Full Employment and Price Stability is a non-profit, non-partisan policy institute at the University of Missouri-Kansas City dedicated to promoting research on and public discussion of issues related to macroeconomic policy.

In an effort to generate policy-relevant research, the Center sponsors interdisciplinary scholarship, collaborates with universities, organizes symposia, lectures, and conferences and participates in community programs.

For the Record

Budget Surpluses – Economists Object

The Center for Full Employment and Price Stability has drafted the following petition which is being distributed to a variety of economists. We intend to have the signed document published in the media, as well as read into the Congressional Record. We feel that the time is short to respond to a potentially severe crisis.

We, the undersigned, hereby go on record stating that:

- the current U.S. policy of allowing a federal budget surplus is an extremely high risk strategy that will likely end in a severe and prolonged recession, and furthermore that,
- lowering interest rates (the most likely initial policy response to an economic slowdown) by itself cannot be relied upon to restore prosperity (as the Japanese economy has demonstrated).

Therefore, it is recommended that the federal government relax its fiscal stance by increasing spending and/or cutting taxes at the earliest sign of economic weakness.

Background to Petition Statement:

Budget surpluses occur as tax revenues exceed government spending, reducing non-government nominal wealth by an amount equal to the size of the surplus. (A reduction of nominal wealth due to a budget surplus primarily takes the form of a reduction in outstanding treasury debt.) Therefore, the Congressional Budget Office's projection of a $3 trillion surplus over the next 10 years is simultaneously projecting that net private nominal wealth will be reduced by the same $3 trillion.

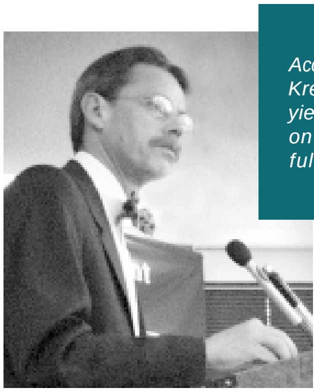
Can our economy withstand such bloodletting? Our own history suggests this is highly improbable. The U.S. has experienced six depressions in its history and every one followed close on the heels of federal government surpluses. The last two Treasury buy backs of its debt were in 1928 and 1930. For a recent example, we can again look to the experience of Japan, whose economic deterioration followed government budget surpluses at the end of the 1980s. Furthermore, after more than four years of near zero percent interest rates, monetary policy has not succeeded in restoring economic growth.

Many point to the long and robust expansion as evidence of the wisdom of deficit-cutting and budget surpluses. However, our expansion is fully explained by unprecedented private sector deficits (private sector spending in excess of income). Currently, the domestic private sector is deficit spending an amount equal to 5 percent of GDP. This is already the largest private sector deficit the U.S. has ever experienced. For continued economic growth in the presence of government surpluses, the non-government sector must continue to spend beyond its income.

Logic does not permit that this excess consumer spending can increase indefinitely. As federal government surpluses reduce non-government wealth, aggregate demand will stall and the U.S. will lapse into a full-blown recession. CBO projections will not materialize. Instead, tax revenues will slow and transfer payments will increase due to the increasing number of unemployed, sending the budget into deficit. ◆

Jan Kregel Discusses the Aftermath of Seattle WTO Meeting

High Level UN Financial Expert Addresses UMKC Students and Staff



According to Jan A. Kregel, free trade yields benefits only on the condition of full employment.

With the Seattle demonstrations still fresh in the public's memory and another wave of protests against IMF policies sweeping the streets of Washington, D.C., C-FEPS invited Dr. Jan Kregel to share his thoughts on trade and the role of the World Trade Organization (WTO) with students and faculty at the University of Missouri-Kansas City. Dr. Kregel, a high-level financial expert at the United Nations Conference on Trade and Development (UNCTAD) and Distinguished Research Professor at UMKC, is a regular participant in C-FEPS sponsored events.

The message of Kregel's presentation was clear: "One of the most paradoxical aspects of the current economic environment is that after numerous UN 'development decades,' global summits, and conferences, little advance has been made

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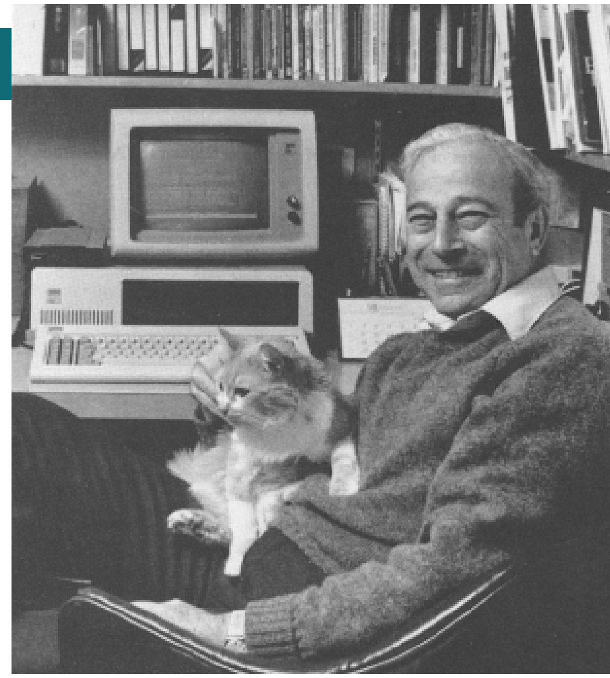

Enthusiastic Participant in C-FEPS Activities

When C-FEPS Director Mathew Forstater invited Robert Eisner to participate in the Association for Evolutionary Economics' "Roundtable on Employment Policy" at the Allied Social Science Association Annual Meetings in New York in January 2000, he not only accepted on the spot, but also immediately said he would speak about "Employment Policy and the NAIRU."

For years Eisner, an active and enthusiastic participant in C-FEPS-sponsored activities at the end of his life, insisted that the NAIRU (the "non-accelerating inflation rate of unemployment") is a theoretically flawed and socially harmful concept justifying the politically induced unemployment of millions of workers in the name of price stability. Eisner saw the recent drop in the official rate of unemployment to well below 5 percent without any signs of inflation whatsoever as an opportunity to slay the NAIRU dragon once and for all. Fiscal policy should be used to push the official rate down even further and promote true full employment.

Following Eisner's death on November 25, 1998, at age 76, Forstater suggested to the other Roundtable participants—William A. Darity, Jr. of the University of North Carolina at Chapel Hill and co-author (with Samuel L. Myers, Jr.) of *Persistent Disparities*, James K. Galbraith of the University of Texas at Austin and author of *Created Unequal*, Philip Harvey of Rutgers Law School at Camden and author of *Securing the Right to Employment*, and C-FEPS Senior Research Associate L. Randall Wray of the University of Missouri-Kansas City and author of *Understanding Modern Money*—to dedicate the Roundtable to Robert Eisner's life and work.

Previously, Eisner had participated in the C-FEPS-sponsored conference "Functional Finance and Full Employment" at the New School for Social Research in spring 1998 (see p. 6), the C-FEPS-sponsored Post Keynesian Workshop at the University of Tennessee at Knoxville in the Summer of 1998 ("his very last trip away," according to his wife, Edith Eisner; see p. 17), and he accepted an invitation to deliver the final keynote address at the C-FEPS-sponsored "Commitment to Full Employment" conference in memory of Nobel-prize winning economist William Vickrey at Columbia University in the fall of 1998 (see p. 8). He had to cancel his appearance at the Vickrey conference due to ill health, but he was still planning to attend the roundtable right up until his untimely passing.

The roundtable papers by Darity, Forstater, Harvey, and Wray appeared, along with an introduction by Forstater entitled "Robert Eisner's Common Sense Commitment to Full Employment and Activist Fiscal Policy," in the June 1999 issue of the *Journal of Economic Issues* (Vol. XXXIII, No. 2).

In addition, C-FEPS organized another memorial session, "Robert Eisner's Contributions to Economics and Public Policy," including David Colander of Middlebury College, Paul Davidson of the University of Tennessee-Knoxville, Edward J. Nell of the New School for Social Research, Ingrid Rima of Temple University, and Sumner Rosen of Columbia University, and chaired by C-FEPS Director Mathew Forstater, at the Eastern Economic Association Annual Meetings in Boston in the spring of 1999. Eisner's paper from the New School conference will appear in the conference volume, *Functional Finance and Full Employment: Reviving Real Macroeconomics*, edited by Edward J. Nell and C-FEPS Director Mathew Forstater, to be published by Edward Elgar.

While Eisner was a gifted technical economist, no doubt contributing to his recognition within the mainstream of the discipline (e.g., he was elected president of the American Economic Association in 1987), his ideas were rooted in something missing from much of the profession: common sense. Eisner believed that failure to understand the logical fallacy of composition was at the root of many of the theoretical errors and misguided policy views that plague us.

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," wrote Eisner in his 1994 book, *The Misunderstood Economy*:

> 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 secure the wherewithal to purchase dinner? (Eisner, 1994, pp. xiii-xiv).

The logic of an economy with unemployed resources is very different than that of an economy running at full employment and full capacity. It is a grave error to apply the logic of full employment—the logic of scarce resources—to the society in which we actually live.

Eisner's common-sense approach led him to repeat often the truism that "for every buyer there is a seller and for every borrower there is a lender." If someone or some institution is in deficit, some other person or institution must be in surplus. Reducing the federal budget deficit must reduce the private sector surplus on the other side of the ledger, and this has economic implications. If the federal government runs a surplus, the private sector is going to have to go into deficit (currently, with consolidated federal, state, and local governments running a surplus and the foreign sector running a trade deficit, the private sector has been forced into record high deficit; given that firms remain profitable in the aggregate, this currently takes the form of household spending in excess of income). For Eisner, if you want to reduce the federal budget deficit or pay down the national debt, you are going to have to face the (dire) economic consequences.

In response to what he called the "hysteria" surrounding government deficits and the debt, Eisner devoted a lifetime of effort and thousands of pages of scholarly articles and books, newspaper editorials and letters to the editor, as well as hours of testimony before various congressional committees, demonstrating that there is no logical or empirical support for the claims that deficits cause high interest rates and inflation or crowd out private expenditure. Most often, such claims are derived from the assumptions that all resources are fully employed and that investment must be financed out of a fixed "pool" of savings.

Recently, Eisner's common sense was additionally focused on the "myths" concerning Social Security, which he considered "perhaps the worst of all the deficit scare stories" because they "frighten millions of elderly" and provide "cover for insidious efforts to diminish or destroy a system of social insurance that has served its purpose well for six decades" (Eisner, 1997, p. 43). According to Eisner, the claim that the trust funds are in prospective deficit and projections of insolvency are, in his word, "nonsense" (Eisner, 1997, p. 43). Likewise, the claim that the federal government is "masking" the deficit by spending workers' contributions and replacing them with worthless paper in the form of non-negotiable Treasury securities is:

> Also nonsense! The budget deficit … is the excess of total outlays by the Treasury over total revenues. All "contributions for social insurance" go directly to the Treasury, and Social Security checks—as retirees can readily attest—come directly from the Treasury. And if Treasury securities or promises to pay are worthless, then so is all our money. (Eisner, 1997, p. 43).

There is no justification for cutting benefits, investing benefits in the stock market, or raising taxes in the name of "saving" Social Security.

Robert Eisner was a giant in his common sense commitment to full employment and his insistence that, despite the "deficit scares," sensible fiscal policy is available for its achievement and maintenance. The Center for Full Employment is honored by Eisner's enthusiastic support for and participation in its activities at the end of his life, and pledges to carry forward the banner of a common sense commitment to full employment and a better life for all. ◆

Robert Eisner discusses Social Security at the New School's "Functional Finance and Full Employment" conference, with James Duesenberry in rear.

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L. Randall Wray, 1999, "Subway Tokens and Social Security," Policy Note 99/02, Center for Full Employment and Price Stability.

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L. Randall Wray, 2000, "A Primer on Government Surpluses," Special Report 00/02, Center for Full Employment and Price Stability.

Stephanie Bell and L. Randall Wray, 2000, "Financial Aspects of the Social Security Problem," Working Paper No. 06, Center for Full Employment and Price Stability.

Renowned Scholars Gather to Express Support for Functional Finance

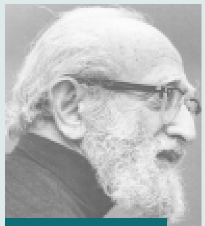
In 1941, Professor Abba Lerner of the University of Kansas City (later renamed UMKC) laid out the principles that he believed should guide the government's budgetary policies. These principles were offered as an alternative to the orthodox principles of so-called "sound finance" and were spelled out in his article, "The Economic Steering Wheel," which appeared in the *University of Kansas City Review*. Lerner later moved to the New School for Social Research, where he elaborated his ideas in "Functional Finance and the Federal Debt," published in the New School's Graduate Faculty journal, *Social Research*, in 1943.

The C-FEPS-sponsored Program on Transformational Growth and Full Employment, headed by the New School's Edward J. Nell, Malcolm B. Smith Professor in the Economics Department, held a conference on Functional Finance and Full Employment, attracting a group of world-class economists from around the globe, who expressed their commitment to Lerner's principles and celebrated their importance for contemporary monetary and budgetary theory and policy.

Among the participants were Harvard University Professors Richard Musgrave, the father of modern public finance, and James Duesenberry, who is best known for formulating the relative income hypothesis, an alternative to the permanent income and life cycle theories of consumption. The late Robert Eisner of Northwestern University, who had been a frequent participant in C-FEPS-sponsored activities until his untimely death in November 1998, David Colander of Middlebury College, and the New School's own Robert L. Heilbroner, also presented papers.

Robert Heilbroner

In the *Social Research* paper, Lerner proposed his principles of functional finance, which he believed the government should implement in order to bring about full employment. In his words:



Abba Lerner

The central idea is that government fiscal policy, its spending and taxing, borrowing and repayment of loans, its issue of new money and its withdrawal of money, shall all be undertaken with an eye only to the results of these actions on the economy, and not to any established traditional doctrine about what is sound and what is unsound. This principle of judging only by effects has been applied in many other fields of human activity, where it is known as the method of science opposed to scholasticism.

The principle of judging fiscal measures by the way they work or function in an economy we may call Functional Finance… Government should adjust its rates of expenditure and taxation such that total spending in the economy is neither more nor less than that which is sufficient to purchase the full employment level of output at current prices. If this means there is a deficit, greater borrowing, "printing money," etc., then these things in themselves are neither good nor bad, they are simply the means to the desired ends of full employment and price stability. (Lerner, 1943, p. 354).

James Duesenberry

The papers from the conference will be collected in a volume, *Functional Finance and Full Employment: Reviving Real Macroeconomics*, edited by the New School's Edward J. Nell and C-FEPS Director Mathew Forstater, to be published by Edward Elgar Publishing, 2000. ◆

Edward J. Nell and Richard Musgrave

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Mathew Forstater, 1998, "Toward a New Instrumental Macroeconomics: Abba Lerner and Adolph Lowe on Economic Method, History, Theory and Policy," Working Paper No. 254, Jerome Levy Economics Institute, October.

Mathew Forstater, 1999, "Functional Finance and Full Employment: Lessons from Lerner for Today," *Journal of Economic Issues*, Vol. 33, No. 2, pp. 475-82, June.

Mathew Forstater, 1999, "Functional Finance and Full Employment: Lessons from Lerner for Today," Working Paper No. 272, Jerome Levy Economics Institute, July.

Stephanie Bell, 1998, "Can Taxes and Bonds Finance Government Spending?," Working Paper No. 244, Jerome Levy Economics Institute, July.

Stephanie Bell, 1999, "Functional Finance: What, Why, and How?," Working Paper No. 287, Jerome Levy Economics Institute, November.

Launching of Euro is Subject of C-FEPS Conferences and Publications

On January 1, 1999 the Euro was launched. Although actual notes and coins denominated in Euro will not begin circulating until January 1, 2002, the exchange rates between the currencies of the eleven participating countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain) and the Euro have been irrevocably fixed, so that their currencies for practical purposes stand in a relation much like nickels, dimes, and quarters do to the dollar in the U.S. In anticipation of this event, the Center for Full Employment and Price Stability (C-FEPS) organized a number of events addressing the common currency, resulting in a variety of publications.

Eminent monetary economists (representing France, Italy, and the U.K., as well as Canada) were invited by C-FEPS to participate in a Roundtable on the European Economic and Monetary Union (EMU) at the Eastern Economic Association annual meetings in New York in March, 1998. The papers, along with an Introduction by C-FEPS Director Mathew Forstater and an invited comment by Princeton University's Walker Professor of Economics and International Finance Peter B. Kenen, were published in the Winter 1999 issue of the *Eastern Economic Journal*.

Taken as a set, the papers were frankly pessimistic about the Euro. This pessimism is rooted in a rejection of the underlying theoretical basis of the plan, which famed theorist of the French Circuitiste School Alain Parguez of the Université de Franche Comté referred to in his paper, "The Expected Failure of the European Economic and Monetary Union: A False Money Against the Real Economy," as "Euro-economics." Euro-economics is first and foremost pre-Keynesian in its basic outlook and assumptions. Inflation is clearly Public Enemy No. 1 (if not the only public enemy recognized), and the principles of "sound finance" rule the day (with strict limits on deficit-GDP and debt-GDP ratios). The papers thus express a natural concern about the ability of member countries to respond effectively to deficiencies in aggregate demand and conditions of unacceptably high unemployment with its negative effects on human welfare.

But there is a more fundamental, albeit related, issue. Even if there were no imposed limits on countries' deficits and national debts, the structure of the EMU makes it nearly impossible for a country to enact a counter-cyclical fiscal policy even if there were the political will. This is because, by giving up their national monetary sovereignty, countries are no longer able to coordinate their fiscal and monetary policies, essential for a comprehensive and effective remedy for periodic demand crises. Why would countries voluntarily sacrifice the ability to conduct a coordinated macroeconomic policy, especially with official unemployment rates in double digits and clear deflationary pressures? The papers suggest that the answer can be found, again, in Euro-economics (and perhaps more than a bit of Euro-politics).

As Charles A. E. Goodhart, Norman Sosnow Professor of Banking and Finance at the London School of Economics (LSE), pointed out in his paper "The Two Concepts of Money and the Future of Europe," presented at a C-FEPS-sponsored symposium at the New School for Social Research in April, 1999, most of the analytical work on the Euro has been conducted within the Optimal Currency Area Paradigm, itself rooted in a metallist/monetarist view of the origins, nature, and evolution of money. According to Goodhart, whose paper, "Credit Risks and European Government Bond Markets: A Panel Data Econometric Analysis" (co-authored with Jan J. G. Lemmen of the Netherlands Bureau for Economic and Policy Analysis), appeared in the *Eastern Economic Journal* symposium, very different conclusions concerning the Euro are reached when seen from the perspective of an alternative, "Cartalist" (or Chartalist) view that money is a creature of the state. The state has the power not only to tax, but to designate what will suffice to retire tax (and other) obligations to the state, that is, what it will accept at its pay offices. By determining public receivability, the state can create a demand for otherwise worthless bits of paper, leading to general acceptability. The state can issue this currency, and can use it to purchase goods and services from the private sector. Thus, a variety of state powers, such as government's ability to tax, declare public receivability, create and destroy money, buy and sell bonds, and administer the prices it pays for goods and services purchased from the private sector, constitute a menu of instruments through which macroeconomic policy may be conducted based on the principles of functional finance. Under such a system, national budgets may be freely utilized as means to promote full employment, price stability, and other macroeconomic goals.

Charles A. E. Goodhart

Goodhart, whose New School paper was discussed by a panel including Duncan Foley and Edward J. Nell of the New School, Michael Hudson of New York University, Perry Mehrling of Barnard College, Robert Guttmann of Hofstra University, and C-FEPS Senior Research Associate L. Randall Wray of the University of Missouri-Kansas City, and moderated by C-FEPS Director Mathew Forstater, went on to argue that the alternative,

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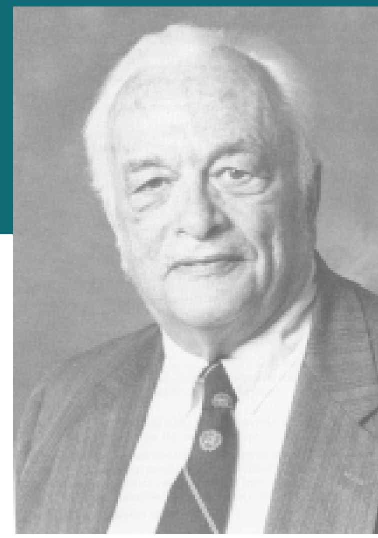
Columbia University Conference Celebrates William Vickrey's "Commitment to Full Employment"



William Vickrey's single-minded commitment to full employment was evident in a series of papers written in the last years of his life. In this work, Vickrey formulated an assets-based approach to macroeconomic analysis with definite implications for budgetary and employment policy. In Vickrey's approach, the difference between desired and actual holdings of net financial assets is the crucial relation in understanding macroeconomic processes, and the federal government budget is the key policy instrument in the necessary recycling of net nominal savings to bring the desired and actual levels into equality at the full employment level of output and income.

Vickrey believed that the major task for economists and policymakers is to devise the means whereby the necessary recycling of net nominal savings at full employment can take place without unexpected changes in the rate of either inflation or deflation. Vickrey considered government deficit-financed guaranteed public employment as an automatic stabilizing policy instrument capable of serving as just such a means.

The Center for Full Employment and Price Stability joined forces with Columbia University Seminars, the Jerome Levy Economics Institute of Bard College, the Center for Economic and Policy Analysis (CEPA) of the New School for Social Research, and the National Jobs for All Coalition to present the "Commitment to Full Employment" conference in celebration of the life and work of the Nobel Prize-winning economist.

The two-day conference, which took place in the fall of 1998, began with a keynote address by Paul Davidson of the University of Tennessee at Knoxville on "Commitment to Full Employment in a Global Economy," in which he discussed alternative arrangements for dealing with international financial instability. In his paper—which was discussed by John Langmore, director of the Division for Social Policy and Development with the United Nations, and Thomas Palley, assistant director of public policy with the AFL-CIO—Professor Davidson rejected recent proposals for more "transparency" as well as transactions taxes, such as the Tobin tax, as ineffective in dealing with the problems brought on by international speculative flows, instead promoting his ideas for reforming the international payments system, in which he advocates a fixed exchange rate system.

It was pointed out in discussion moderated by Dimitri Papadimitriou, president of the Levy Institute, that Vickrey was in favor of flexible exchange rates. Vickrey worried that a fixed exchange rate system such as is entailed in the Maastricht agreements makes it difficult for a small open economy (e.g., Denmark) to pursue an effective full employment policy on its own, because fixed exchange rates or rates confined to a narrow band can only be maintained by coordinated fiscal policies among the countries involved, or by imposing extreme austerity measures that involve deleteriously high unemployment rates.

The next morning's activities began with the second of the three keynote speeches of the conference. C-FEPS Director Mathew Forstater introduced the New School's Norman Thomas Professor of Economics Emeritus Robert L. Heilbroner, who employed one of his trademark methods of interrogating key words and phrases often taken for granted or commonly used to evoke certain emotions by the press, politicians, and even economists, including "full employment," "the natural rate of unemployment," and "the debt" and "the deficit" (often written out by Heilbroner as "thedeficit" with no space between the two words, to indicate just such a state in which a phrase is repeated over and over again without ever stopping to consider what it really means).

"Full employment," the author of the best seller *The Worldly Philosophers* pointed out, is often used not to indicate the absence of involuntary unemployment—the state in which every person ready, willing, and able to work at the going rate has employment—but rather to indicate the level of unemployment at which there is no or little inflation. Such a situation is little different than that described by the novelist George Orwell in his classic work, *1984*. The "natural rate of unemployment," Heilbroner continued, implies that joblessness is divinely ordained, or at least either without social cause or beyond social correction.

Vickrey himself promoted what he called "chock-full employment," which he described as holding when "there are at least as many unfilled job openings as there are unemployed individuals seeking work" or a situation in which individuals "can find work at a living wage within 48 hours." Not surprisingly, Vickrey vehemently rejected the notion of the NAIRU (non-accelerating inflation rate of unemployment) or any kind of "natural" rate, calling the latter, "one of the most vicious euphemisms ever coined." For Vickrey, "unemployment is not needed to control inflation."

Adherence to the view that price stability requires maintaining a reserve army of labor, which Vickrey believed was "especially strong in influential financial circles and among monetary authorities," means that the fiscal and monetary brakes have to be slammed every time economic growth causes unemployment to drop below a certain level. One implication of such an approach, according to Vickrey, is that efforts such as worker retraining become "a cruel game of musical chairs" with the "keepers of austerity" making sure the total number of chairs stays fixed.

Heilbroner demonstrated the problems with "thedebt" and "thedeficit" with examples of imagery utilized by politicians of dollar bills corresponding to the budgetary values piled up half-way to the moon, without ever clearly stating what such accounting categories actually mean.

Heilbroner hailed Vickrey for his commitment to true full employment and his courage to speak the truth about the importance of the government budget as a policy tool promoting prosperity to colleagues and students over his many years as a professor and public figure. For Vickrey, since the private sector is incapable of creating net nominal assets, there is "no adequate solution without long-term and continued increases in government debt." "The 'deficit' is not an economic sin," wrote Vickrey, "but an economic necessity."

There may be political or ideological reasons why a capital budget may make deficits more palatable. While many have promoted the use of capital budgeting by the federal government, for Vickrey, from a scientific point of view, this is beside the point:

> The savings-recycling budget is possibly the most important of budgetary concepts from the standpoint of day-to-day policy. This budget would reflect the effect of government outlays… in recycling savings, in excess of those absorbed by private investment, into the stream of demand for output. It is the crucial element in curbing the business cycle and bringing employment of resources up to a satisfactory level. From this point it matters relatively little whether outlays are for current or for capital-account items. (Vickrey, 1992, p. 307).

As far as "the debt" is concerned, Vickrey noted that government investment that spurs further private investment ("crowding in") or otherwise benefits the public refutes the argument that the national debt is a burden on future generations, arguing instead that much of the activity undertaken for the purpose of recycling savings "will form part of the real heritage left to the future." Because savings recycling through government deficits permits chock-full employment economic growth, "this means an increased heritage of real capital plant and equipment, to say nothing of the human capital induced by fuller employment."

Vickrey rejected many of the other common myths and misconceptions concerning deficits and the debt held by the economics profession and politicians, and repeated *ad nauseam* by the press, including the assertions, backed up by neither careful analysis nor the historical record, that deficits cause inflation and high interest rates, or crowd out private investment. Vickrey pointed out that not only have deficits and the national debt not resulted in these effects, but that the "existence of a large government debt may be one reason why we have not had a recurrence of a depression of the severity of the 1930s."

Mrs. Cecile Vickrey has kindly given C-FEPS permission to issue two previously unpublished papers by her late husband—"The Fifteen Fatal Fallacies of Fiscal Fundamentalism" and "We Need a Bigger 'Deficit'"—as the first two papers in its Working Paper Series.

Following Heilbroner's morning keynote, Columbia University Professor Emeritus of Social Work Sumner Rosen chaired a session on "Work and Welfare" that included presentations by Gertrude Schaffner Goldberg of Adelphi University and the National Jobs for All Coalition, and Helen Ginsburg of Brooklyn College.

Goldberg, the author of *Washington's New Poor Law*, began by noting that while Welfare "reform" as enacted by Congress (the Personal Responsibility Act of 1996) imposes stricter work requirements on welfare recipients, it overlooks the fact that about 17 million people in the U.S. either want jobs and don't have them or are forced to work part-time because they can't find full-time employment.

Welfare reform requires recipients to enter a labor market in which there aren't enough jobs to go around and in which the job shortage is worsened by policies of the federal government itself, such as politically enforcing unemployment in the name of fighting inflation. By driving welfare mothers into a labor market with a chronic shortage of jobs, welfare "reform" will actually create more unemployment.

Professor Ginsburg, author of *Full Employment and Public Policy*, gave a detailed history of successful employment programs of the past, including New Deal programs such as the Works Progress Administration and the Civilian Conservation Corps and more recent programs such as CETA. Consideration of this history refutes many of the criticisms of government jobs programs, such as the claim that such employment constitutes "make-work." It would do us well, Ginsburg stated, to remind ourselves of the contributions made by WPA workers, such as building or reconstructing 617,000 miles of roads, 124,000 bridges and viaducts, and 120,000 public buildings, adding thousands of new parks, playgrounds, and athletic fields to the nation, draining malarial swamps, organizing nursery schools, and teaching illiterate adults to read and write. A revitalized public employment program could today address important public concerns such as environmental protection, while increasing the number of positions available for job-seekers.

Vickrey rejected draconian workfare that is not combined with increases in aggregate demand:

> Attempts to move selected individuals or groups into jobs by training, instruction in job search techniques, threats of benefit withdrawal or denial, and the like, merely move the selected individuals to the head of the queue without reducing the length of the queue. Merely because any one traveler can secure a seat on a flight by getting to the airport sufficiently early does not mean that if everyone gets to the airport sufficiently early that 200 passengers can get on a flight with seats for 150. (Vickrey, 2000, p. 27).

But when financed by deficit spending, he argued, public employment "can indeed" result in net job creation, while bringing a number of other benefits as well.

Vickrey argued that public employment "can indeed" result in net job creation, while bringing a number of other benefits as well.

Such "Direct Job Creation" by the government was the topic of the next session, chaired by C-FEPS Director Mathew Forstater, with a paper by Rutgers University Law Professor Philip Harvey and comments by David Howell of the Program on Urban Analysis and Management at the New School's Robert J. Milano Graduate School. Harvey distinguished those approaches to employment policy that focus on reducing the aggregate level of joblessness in the economy from those that merely redistribute employment opportunities among population groups. Among the former, he made the further distinction between public job creation programs and fiscal stimulus intended to increase employment opportunities in the private sector (i.e., traditional Keynesian macroeconomic management). Harvey pointed out that direct job creation has some important advantages over Keynesian demand management, for example, in controlling inflation, providing important public goods and social services, combating labor market discrimination, and providing job training. Harvey also argued that direct job creation is the only approach that can secure the right to employment.

Vickrey emphasized that there are huge social and economic costs of unemployment. Among these are the direct and real costs of loss of potential output and income, as well as the nominal costs of lower tax revenues because of the smaller tax base and higher rates of government expenditure in the form of unemployment compensation and various forms of "welfare" assistance. But Vickrey also continuously emphasized the social and economic costs linked to unemployment in the form of poverty, crime, drug addiction, homelessness, malnutrition, poor prenatal care, ethnic antagonism, school dropouts, broken families, and other social problems. He also recognized that unemployment differentially affects certain sectors of the population, so that an overall official unemployment rate of 5 percent can mean rates of "10, 20, and 40 percent among disadvantaged groups." The benefits of full employment thus include improved security for society's most downtrodden, alleviation of a variety of social ills, and expanded output and income. In addition, full employment also can stabilize business expectations and have a positive impact on the wages and status of unskilled workers.

Vickrey emphasized that savings-recycling public employment does not replace either private sector or other public sector employment. Under such a program, all the benefits of full employment outlined by Vickrey are obtained, and the social and economic costs of unemployment drastically reduced. To the extent that savings-recycling public employment involves the enhancement of worker skills, the benefits of the program as a means of job training are actualized, as net job creation means the program is not simply a cruel game of musical chairs, while the retraining effect may prove "essential in abating structural mismatch between job requirements and individual qualifications."

A lunch-time talk on "Rewarding Work to Widen Self Support and Add Jobs" was delivered by Edmund Phelps, who was recently appointed the McVickar Professor of Economics at Columbia University, the chair formerly held by Vickrey himself. Phelps, who was introduced by Lowell Harriss, also from Columbia's Economics Department, summarized the proposal put forward in his 1997 book, *Rewarding Work*, for government to partially subsidize wages paid by firms to hire additional workers. In the discussion period, it was pointed out that employers may seek to substitute subsidized workers for those currently employed, resulting in no net employment creation. If the plan is successful in promoting higher levels of private sector employment, it could lead to inflation and system rigidities that would hinder growth. The consensus of the audience was that the public employment approach discussed by Harvey during the morning session had significant advantages over Phelps' wage subsidies.

James K. Galbraith

The first afternoon session, "Monetary and Fiscal Policies for Full Employment," moderated by Perry Mehrling of Barnard College, included a paper on "Vickrey, Macro Policy, and Full Employment" by David Colander of Middlebury College (and a former student of Vickrey), with commentary by Edward Nell of the New School. This was followed by a session on "Discrimination," moderated by Kevin Parker of the Graduate Center of the City University of New York, with a paper on "Unemployment, Wages, and Race" by Heather Boushey of the New York City Public Housing Authority (and currently of the Economic Policy Institute), with comments by Brendan O'Flaherty of Columbia University's Economics Department. The sessions further demonstrated the wide-ranging influence of Vickrey's work, as Colander and Nell debated the relative importance of multiple equilibria models and Boushey and Flaherty discussed the relationship between unemployment and inequality, especially as it affects African Americans.

The closing address was delivered by James K. Galbraith of the University of Texas at Austin and author of *Created Unequal*, replacing Robert Eisner, who was originally slated to deliver the final keynote, but was unable to attend due to his deteriorating health. Galbraith, who was introduced by Duncan Foley of the New School, began by paying tribute to both Vickrey and Eisner. He then continued with several themes that had been raised earlier in the day. First, he repeated the belief, put forward by Boushey, that unemployment contributes to inequality. Second, he agreed with Colander and Nell that Walrasian microeconomics and Keynesian macroeconomics are incompatible. Finally, he echoed the sentiments put forward by virtually all the participants that full employment should never be sacrificed to the fear of inflation; that Social Security should not be cut—rather, it should be expanded; and that deficit reduction is a dangerous policy course with a sharp contractionary bias.

The conference papers have been collected together in *Commitment to Full Employment: The Macroeconomics and Public Policy of William S. Vickrey*, edited by Aaron Warner, C-FEPS Director Mathew Forstater, and Sumner Rosen (M. E. Sharpe, 2000). The book includes an "Introduction" by Robert L. Heilbroner, papers by Colander, Davidson, Forstater, Galbraith, Ginsburg, Goldberg, Harvey, Nell, Papadimitriou, and Rosen, and comments by Palley and Langmore. ◆

For Further Reading

Vickrey, William, 1992, "Chock-Full Employment Without Increased Inflation," *American Economic Review*, Vol. 82, No. 2, May, pp. 341-45.

Vickrey, William, 1993, "Today's Task for Economists," *American Economic Review*, Vol. 83, No. 1, March, pp. 1-10.

Vickrey, William, 1993, "The Other Side of the Coin," *American Economist*, Vol. 37, No. 2, pp. 5-16.

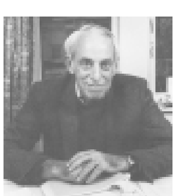
Vickrey, William, 1994, "Why Not Chock-Full Employment?," *Atlantic Economic Journal*, Vol. 25, No. 1, pp. 39-45.

Vickrey, William, 1997, "A Trans-Keynesian Manifesto (Thoughts about an Asset-Based Macroeconomics)," *Journal of Post Keynesian Economics*, Vol. 19, No. 4, pp. 495-510.

Forstater, Mathew, 2000, "Savings-Recycling Public Employment: An Asset-Based Approach to Full Employment and Price Stability," *Journal of Post Keynesian Economics*, Vol. 22, No. 3, pp. 445-59.

Quotable *continued from p. 28 (Back Cover)*

"Unlike private investors, public investors are not hampered by uncertainties about future demand, because they themselves determine the purpose that investment and its final output is to serve, for instance, the items that make up the infrastructure."
— Adolph Lowe, *Has Freedom a Future?*, 1988



"By its willingness to accept a designated asset in settlement of taxes and other obligations, the government makes that asset acceptable to any who have such obligations, and in turn to others who have obligations to them, and so on."
— James Tobin, *Money, Credit and Capital*, 1998

"The permanent programs will provide outputs—public services, environmental improvements, etc. that transfer-payment government does not yield, as well as the creation and improvement of human resources. In our urban centers, where there are concentrations of unemployed and welfare recipients, the improvement in public environment should be marked. WPA, CCC and NYA will succeed precisely because they are job programs that perform useful tasks and yield benefits."
— Hyman P. Minsky, *Stabilizing an Unstable Economy*, 1986 ◆

Public Service Employment Assurance — Lessons from the Past, Looking to the Future

True to its name, the Center for Full Employment and Price Stability is committed to true full employment—meaning zero involuntary unemployment—and supports Public Service Employment Assurance as a viable policy option for its attainment. In its first annual Interdisciplinary Conference held at the University of Missouri-Kansas City, C-FEPS invited scholars and policy makers representing the fields of law, social policy, economics, political science, social work, and public policy to present their work on various aspects of public employment programs. The conference, "Public Service Employment Assurance—Lessons from the Past, Looking to the Future," explored the strengths and weaknesses of government jobs programs from the past and considered the prospects for effective direct job creation in the future.

Morning Session: Public Service Employment in Historical Perspective

Following an introductory welcome by C-FEPS Director **Mathew Forstater**, the morning session, "Public Service Employment in Historical Perspective," was called to order by UMKC Economics Professor **James Sturgeon**, who is also Director of UMKC's Social Science Consortium, an innovative core of the University's Interdisciplinary Ph.D. Program.

Robert Heilbroner, James Duesenberry, and Robert Eisner at the conference on "Functional Finance and Full Employment"

The first paper, "Full Employment: The Missing Entitlement, 1935-Present," by **Gertrude Schaffner Goldberg** of Adelphi University and the National Jobs for All Coalition, reviewed the developments in inter-related employment and welfare policies from the passage of the Social Security Act in 1935 to the repeal of Title IV. Goldberg, who is author of *Washington's Poor Law*, argued that job creation efforts during periods of high unemployment, even if large, fell far short of employing the jobless and were not, in any case, sustained; that full legislation was debated but passed without employment guarantees; that a program of "economic opportunity" largely ignored employment opportunity; and that proposals for welfare "reform" either excluded job creation altogether or included too few new jobs, even if they required recipients to work.

Next **Philip Harvey** of Rutgers Law School and author of *Securing the Right to Employment*, considered "Designing Policies to Combat Joblessness." Harvey considered the strengths and weaknesses of a variety of approaches to eliminating unemployment, concluding that direct job creation has a number of distinct advantages over other approaches. First, it is attractive as an inflation-minimizing strategy for reducing joblessness. Second, it attacks poverty and other social problems not only by reducing joblessness, but also by increasing the provision of public goods and services.

Third, direct job creation programs actually increase national wealth. The policy therefore represents a wealth-enhancing response to joblessness, a strategy that would permit the economy to expand output above the level where inflationary tendencies normally are thought to create a barrier to further economic growth. This additional wealth could be devoted to the expansion of poverty-reducing goods and services, as suggested above, but it could also be devoted to other public purposes, such as the improvement and beautification of public spaces. In either case, society in general would benefit. Fourth, a large-scale direct job creation program could serve as a powerful automatic stabilizer. Unemployment Insurance (UI) functions in a similar fashion; but its coverage limitations and limited wage replacement policy diminish its counter-cyclical effects. A jobs program that automatically expanded as unemployment rates rose could have a stronger impact. Finally, direct job creation is the most immediate and effective means of securing the right to employment recognized in international human rights agreements.

Nancy Rose of the University of California-San Bernardino and author of *Put to Work: Relief Programs in the Great Depression* and *Workfare or Fair Work: Women, Welfare, and Government Work Programs*, spoke on "Historicizing Government Work Programs: A Spectrum from Workfare to Fair Work." Rose pointed out that while workfare and other "welfare-to-work" programs received a significant boost from the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), the United States has a history of another type of government work program as well. Fair work, or job creation programs, have been implemented periodically since at least the early 1800s to provide jobs for people. The best known of these programs are the Works Progress Administration (WPA) in the 1930s and Public Service Employment (PSE) which was part of the Comprehensive Employment and Training Administration (CETA) in the 1970s. Rose explored the differences between workfare and fair work; presented brief histories of both types of programs; and outlined how work programs have been implemented since 1996. Her presentation concluded by proposing an agenda for fair work and related programs, including responses to time-worn criticisms that inevitably emerge when public sector job creation is raised as a possible policy.

In the final paper of the morning session, C-FEPS Director **Mathew Forstater** explored the possibilities of a full employment approach to reducing Black poverty and eliminating Black unemployment. Forstater's paper began with a summary of the current economic plight of the African American, a sobering example of poverty amidst plenty and of boats the rising tide of U.S. economic expansion during the past decade has failed to lift. Forstater then called for a rejection of the behavioralist approach to the problems of Black poverty and unemployment, and offered in its place an alternative structuralist analysis for understanding the Black political economy. The last half of the paper documented the wide-spread support among African American leaders, social scientists, and community organizations for what the National Urban League has called a policy that "has a laser-like focus on jobs for the inner city poor." Recognizing the inability of affirmative action policies by themselves to contribute to net job creation, the adoption of a permanent equivalent of a revived Works Progress Administration was put forward as the key to job creation in the African American community, while contributing to the provision of crucial social services and programs to address important community needs.

Keynote Address: "If We're So Smart…Why Good Ideas are Not Enough"

The Keynote address for the conference was delivered by **Sumner Rosen,** Professor Emeritus of Social Policy of Columbia University, and co-editor (with Aaron Rosen and C-FEPS Director Mathew Forstater) of *Commitment to Full Employment: The Macroeconomics and Public Policy of William S. Vickrey*. Rosen's address, "If We're So Smart…Why Good Ideas are Not Enough" reminded the audience that without taking our policy programs and proposals from the level of theory to the level of political realization, we will never actualize the dream of full employment. In addition to holding distinguished appointments at prestigious universities around the globe, including Harvard University, Cornell University, and Columbia University, Rosen has spent a lifetime as an advisor and consultant for labor unions, governments, and international organizations, including the U.S. Departments of Labor and Health, Education, and Welfare, the International Labour Organization (ILO), and the AFL-CIO. He thus has the knowledge based on real life experience to depart to his younger colleagues seeking to implement Public Service Employment Assurance programs.

Humphrey Hawkins legislation makes it clear that full employment should be Greenspan's number one priority.

In an interview with **Kevin B. O'Neill**, Publisher of the *Labor Beacon*, during a break at the conference, Rosen and C-FEPS Director Mathew Forstater were asked why it seems that Federal Reserve Chairman **Alan Greenspan** and the financial market generally consider the announcement of lower official unemployment rates to be bad news? In his column, "The Economy" in the April 1, 2000 edition of his newspaper, O'Neill reported their replies. The scholars explained that Greenspan and the markets have traditionally held a notion not unlike Marx's idea of unemployed workers constituting a reserve army of labor, ready to work should there be an expansion, but serving as potential replacements for the employed, and thus disciplining workers and holding down money wages. In short, unemployment is used as a tool for price stability, which Rosen explained is a clear violation of the Fed's obligation: "Humphrey Hawkins legislation makes it clear that full employment should be Greenspan's number one priority," he stated.

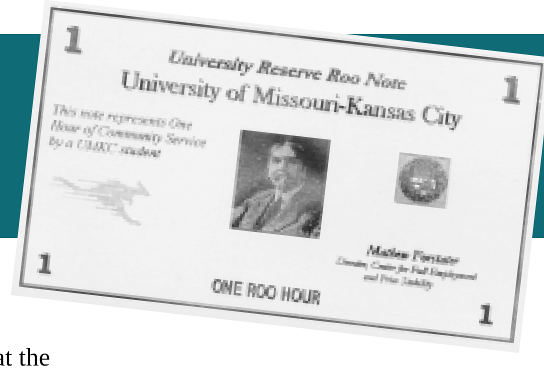
Afternoon Session: Toward Full Employment: Challenges and Opportunities for the 21st Century

The afternoon session, "Toward Full Employment: Challenges and Opportunities for the 21st Century" was moderated by UMKC Economics Professor **Peter Eaton**, who also serves as Director of the Center for Economic Information. In the first presentation, C-FEPS Senior Research Associate **Dr. L. Randall Wray** proposed a Public Service Employment Assurance Program such as that put forward in his recent book, *Understanding Modern Money: The Key to Full Employment and Price Stability* (see p. 19). Wray also took the opportunity to explain C-FEPS' unique community service program for UMKC students, which also serves as an educational tool for understanding modern monetary systems (see p. 14).

In "Political Constraints on the Development of a Universal Public Employment Program," **Joel Blau**, Director of the Ph.D. Program in the School of Social Welfare at the State University of New York at Stony Brook and author of *Illusions of Prosperity: America's Working Families in an Age of Economic Insecurity*, outlined the challenges facing any serious job creation program on the national level. He first pointed to what he called "American Exceptionalism," the notion that the U.S. system of checks and balances, the separations of power within

continued on p. 26

C-FEPS Launches Community Service Program at UMKC



There is a growing movement on college campuses to increase student involvement in their communities, particularly through what is known as "service-learning," in which students participate in community service activities organized by local community groups. The Center for Full Employment and Price Stability has inaugurated a community service program at the University of Missouri-Kansas City that also aims to demonstrate the workings of a modern monetary system. This novel approach to public service not only helps meet important local needs, but also provides a unique perspective on modern money and the way it operates.

C-FEPS has proposed that UMKC students, like students at many colleges and universities across the country, perform community service as a requirement for graduation. Each student will perform

C-FEPS Director Mathew Forstater with keynote speaker Robert Heilbroner

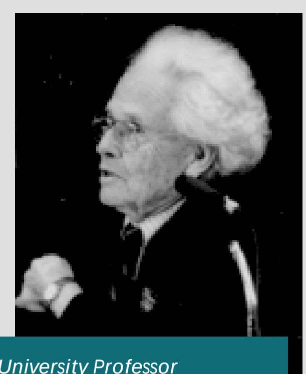
a fixed number of hours of community service per semester. The novelty in this program is that it operates as a "monetary system." UMKC has issued a paper note, called the "buckaroo" (after the University's mascot, the kangaroo), with the inscription "this note represents one hour of community service by a UMKC student," and denominated as "one roo hour." (The notes also feature a portrait of renowned economist Thorstein Veblen, who once held a position at the University of Missouri!)

Each UMKC student would have a "community service tax" of, for example, 25 buckaroos (B25), payable in buckaroo notes. The requirement is met when students return B25 one-hour "roo notes" to the UMKC "Treasury." It is the University that issues the roo notes to students for performing community service, while the providers of public service opportunities are given special drawing rights (SDR's) at the University "Treasury" in order to pay the students in buckaroos for the hours of service performed. The number of roo notes issued is linked to the community tax on the students, which in turn is determined by the number of public service hours desired by the community. As students perform the 25 community hours, they are paid in roo notes. When students pay their tax liability to the University with the obtained roo notes, their graduation requirement is met.

The program immediately sheds light on capitalist monetary systems as they operate analogously to the UMKC Buckaroo Program. Just as UMKC is the sole issuer of the roo notes so is the Government (consolidating the Federal Reserve and the Treasury) the sole issuer of the dollar. And just as returning roo notes to the University can only satisfy the UMKC graduation requirement, so do U.S. citizens retire their tax liability in terms of dollars payable to the U.S. Treasury.

Several implications follow directly from the UMKC program. First, the University cannot collect any buckaroo taxes before it has spent some buckaroos. As the only source of buckaroos, the Treasury has to emit some buckaroos before they can be collected in taxes. Second, the Treasury cannot collect more buckaroos in taxes than it has previously spent. The theoretical minimum for UMKC is to run a "balanced budget," with tax revenues equaling buckaroo spending. Actually, it is almost certain that the Treasury will run a deficit—at least in the first year—as some buckaroos are hoarded for future use, "lost in the wash," or saved as souvenirs. While it is possible that the Treasury could run a surplus in subsequent years, this would be limited by the previously hoarded buckaroos that could be used to pay taxes. Third, and most importantly, it should be obvious that the Treasury faces no "financial constraints" on its ability to spend buckaroos. While the Treasury might decide to limit the amount of buckaroos it issues to an individual service provider, there would be no reason to limit the aggregate quantity of buckaroos issued to the entire community. Indeed, the quantity of buckaroos provided would be determined by the students desire to work to obtain buckaroos and by the providers who need student labor.

Furthermore, it should be obvious that the Treasury's spending is in no way dependent upon its receipt of buckaroos from tax payments. To drive the point home, we can assume that the Treasury always burns every buckaroo received in



Harvard University Professor Richard Musgrave, the father of modern Public Finance payment of taxes. While it is possible that the Treasury might find it more cost effective to inventory buckaroos rather than to burn them, buckaroos received by the Treasury are nothing more than pieces of paper with a (sunk) printing cost. From the perspective of the Treasury, the buckaroos have already done their part in mobilizing student labor resources before they have been received in payment of taxes. That is, when students supply labor to community service providers in order to earn the means of paying taxes (buckaroos), the Treasury has already accomplished its goal of inducing students to volunteer their time in community service. Actual payment of taxes comes later and is important only in maintaining the incentive for students to continue to supply labor in order to earn buckaroos. In other words, the Treasury does not impose taxes in order to ensure that buckaroos flow into its coffers, but rather to ensure that student labor flows into community service.

More generally, the Treasury's budget balance or imbalance would not provide any useful information to UMKC regarding the community service program's success or failure. Rather, a Treasury deficit, surplus, or balance would provide useless accounting data. Program success would be determined by careful assessment of the actual accomplishments of the service providers, by improvements in University-community relations, and by the impact that community service had on the students themselves. In a sense, these are all "real" effects as opposed to the purely "monetary" accounting data that is provided by looking at the Treasury's budget balance. It would be senseless to cut the Treasury's spending of buckaroos merely because it ended a fiscal year with a budget deficit. It would be equally silly to increase the tax on students (say, from B25 to B35) in an attempt to eliminate a budget deficit. It might, however, make sense to reduce the tax (say, from B25 to B15) if it were found that students were providing too much community service (relative to the demand for student labor coming from providers) or that students were devoting too little time to class work. Likewise, the tax could be increased if it was believed that the university, the community, or the student body would benefit by greater provision of student labor hours to community service.

Again, UMKC does not rely on the collection of roos in taxes to make sure it can pay for future public service hours. The University can opt to burn all collected roo-notes and issue brand new ones for additional public service hours. The UMKC Treasury does not impose taxes to ensure it can collect Buckaroos for spending, rather it imposes them to guarantee that students perform community service. Similarly, the government, as the sole issuer of the currency, does not rely on tax collections for spending. Taxes only ensure that the private sector transfers (sells) goods and services to the public sector in an effort to obtain dollars for retiring the imposed tax liability.

Note that the UMKC Treasury does not "need" to borrow its own buckaroos in order to deficit spend—no matter how high the deficit, the Treasury can always issue new buckaroos. Indeed, the UMKC Treasury could only "borrow" buckaroos that it has already spent, in fact, that it has "deficit spent". It cannot borrow buckaroos that it has not yet spent, nor would it sensibly try to "borrow" buckaroos that students need for payment of taxes. For this reason, it makes little sense to call this "borrowing." Suppose the Treasury agrees to offer interest-earning savings accounts or bonds to students who earn more buckaroos than their "tax liability." All it is really doing is offering an interest-earning alternative to non-interest-earning hoards of buckaroos. And it does not need to hold any buckaroos in reserve in interest-earning savings accounts. As discussed above, we can continue to assume that all buckaroos received "on deposit" are simply burned. This in no way affects the ability of the Treasury to liquidate accounts if buckaroo savers decide to withdraw their funds. Similarly, the Treasury can retire buckaroo bonds at any time simply by issuing new buckaroos.

Another important implication is immediately clear from the UMKC program: printing more roo notes does not diminish the value of that note. As long as the University pays one roo note for one hour of public service performed, the value of the buckaroo will be stable and equal to one hour of community service. Printing more roo notes does not change this fact! Each student must supply an hour of labor to obtain a buckaroo. As such, the buckaroo will command an hour of labor. From the perspective of the student, the "cost" of a buckaroo is the hour of labor that must be provided; from the perspective of the community service provider, a buckaroo buys an hour of student labor.

Note that we can determine the value of the buckaroo without reference to the quantity of buckaroos issued (or received)

David Colander and Robert Heilbroner at the "Functional Finance and Full Employment" Conference by the Treasury. Whether the Treasury spends a hundred thousand buckaroos a year, or a million a year, the value will be determined by what students must do to obtain them. If the Treasury leaves the value at one buckaroo per hour of labor provided to a community service provider, it makes no difference whether tax liabilities are raised from B25 to B50, or lowered to B15. Nor does it matter whether the Treasury runs a deficit, a balanced budget, or a surplus in a particular year. So long as students can, and must, work for an hour to obtain a buckaroo, the value of the buckaroo will remain equal to an

Wallace Peterson, L. Randall Wray, Max Skidmore and UMKC Chancellor Emeritus James Olson at the C-FEPS inauguration

hour of student labor. If, however, the Treasury decided to reduce the value of the buckaroo by allowing public service providers to pay two buckaroos per hour of labor supplied, then the value of the buckaroo would fall to a half hour of labor. On the other hand, the Treasury could require that service providers pay only half a buckaroo per hour of labor, in which case the value of the buckaroo would rise to two hours of labor.

We have proposed that the Treasury issue as many SDRs as community service providers request (although it might impose limits on individual providers). At a minimum, the Treasury will expect to spend as many buckaroos as students will need to meet the total tax liability. If we presume that 10,000 students will participate and that each will have a tax liability of 25 buckaroos per semester, then we know that the Treasury will have to issue at least B250,000 per semester. In practice, students will want to earn, on average, more than 25 buckaroos per semester—to replace lost buckaroos, to save buckaroos or lend them to roomates, to make donations to campus charity, and to make purchases of goods and services by spending buckaroos on—and off—campus. Let us presume that all of these alternative uses lead to an "extra" demand for buckaroos equal to 50,000 buckaroos per semester. Thus, the Treasury might find that it spends B300,000 per semester and receives B250,000 per semester in tax revenues, for a deficit of B50,000 per semester. Note that the Treasury's deficit each semester is equal to the "extra" demand for buckaroos coming from students; indeed, it is the "extra" demand that determines the size of the Treasury's deficit. We might call this "net saving" of buckaroos, and it is equal—by definition—to the Treasury's deficit over the same period.

What if the Treasury decided it did not want to run such large deficits, and so proposed to limit the total number of SDRs to 250,000 per semester in an effort to ensure balanced budgets? In this case, it is almost certain that some students would be unable to meet their tax liability. Their shortfall would be exactly equal to the buckaroos hoarded by other students. Students who by luck, good connections, or foresight obtained community service jobs early and who quickly earned B25 to meet their tax liability might be able to continue to work in order to obtain extra buckaroos to hoard. Unlucky, procrastinating students without connections might then find it impossible to find a community service job to earn required buckaroos simply because all SDRs had already been used by providers. These students would find themselves "unemployed," desperately trying to work for buckaroos. Finding no job openings, they would be forced to borrow, beg, or steal buckaroos to meet their tax liabilities. Some in the community might conclude that these unemployed students were deficient in character, perhaps lazy and unskilled as demonstrated by the fact that they were unable or unwilling to obtain community service jobs. Others might suggest that special training programs are required to raise the skills of the unemployed students so that they might find jobs. Hard-nosed Malthusian realists might assert that poverty and unemployment will always be with us, so that it is best to just let the unemployed "die" (fail to meet degree requirements).

Of course, any objective analysis would find the source of the unemployment in the Treasury's policy, and not in the characteristics of the unemployed. Unemployment at the aggregate level is caused by insufficient Treasury spending. Improving the skills or motivation of today's unemployed students will merely shift the unemployment to other groups. If there is any (positive) desired net saving, the Treasury must run a deficit in order to prevent unemployment from occurring. Further, as we have discussed above, there is no rational reason for the Treasury to limit its deficits because the cost to the Treasury of running deficits is simply the printing and other costs of issuing buckaroos—certainly not much higher than the cost of providing letterhead stationary to University departments. Thus, the only rational policy is for the Treasury to provide as many buckaroos as community service providers request.

C-FEPS co-founder Warren Mosler and Kansas City Board of Trade President Michael Braude at the C-FEPS inauguration

It is possible that the total number of hours of student labor desired by community service providers might be less than the number of buckaroos desired by

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Center-Sponsored Research in the U.S. and Abroad

DOMESTIC: C-FEPS Co-Sponsors Post Keynesian Workshops in Knoxville, Tennessee

Paul Davidson, the Holly Chair of Excellence in Political Economy at the University of Tennessee-Knoxville (UTK) and the editor of the *Journal of Post Keynesian Economics* (JPKE), has been an active participant in activities of the Center for Full Employment and Price Stability (C-FEPS) since its inception. Davidson has served on numerous C-FEPS-organized panels at the Allied Social Science Association and the Eastern Economic Association annual meetings; he delivered a Keynote address at the "Commitment to Full Employment" conference at Columbia University (see p. 8); and was the second C-FEPS visiting scholar (after Robert Heilbroner) to deliver a seminar and lecture at the University of Missouri-Kansas City (UMKC) during the 1999-2000 academic year.

Davidson, who is the author of numerous books—including *Post Keynesian Macroeconomics*—and who is considered by many to be the world's leading authority on the work of John Maynard Keynes, has organized Post Keynesian Workshops at UTK that have attracted scholars from around the globe and resulted in a number of important volumes. Beginning with the Fifth Post Keynesian Workshop in 1998, C-FEPS has joined forces with Paul and Louise Davidson, the JPKE, and UTK to sponsor the important event. Among the 1998 workshop participants were Keynes biographer Professor Lord Robert Skidelsky of the University of Warwick, Robert Clower of the University of South Carolina, and the late Robert Eisner (see p. 4). Selected papers from the Fifth Post Keynesian Workshop are published in *Full Employment* and *Price Stability* in *A Global Economy*, edited by Davidson and Jan Kregel of the United Nations Conference on Trade and Development (UNCTAD) and UMKC, co-organizer of the Workshops and another frequent participant in C-FEPS activities (see p. 3). C-FEPS is again co-sponsor of the Sixth Post Keynesian Workshop in June, 2000. Among the Sixth Workshop's participants are Luigi Pasinetti of Universitá Cattolica, Milan, and author of *Structural Economic Dynamics* and *Structural Change and Economic Growth*.


Paul Davidson


Robert Clower


Luigi Pasinetti

ABROAD: C-FEPS Collaboration with University of Newcastle, Australia

The activities of the Center for Full Employment and Price Stability (C-FEPS) are in no way confined to the U.S. C-FEPS has sponsored research and activities in countries such as Australia, Canada, and England, and C-FEPS scholars have additionally traveled to such nations as Mexico, Germany, Italy, Japan, and Hungary to present their ideas. In addition, scholars and policy makers from these and other countries visit the U.S. to participate in C-FEPS events. One of the most important C-FEPS collaborations is with Professor William F. Mitchell and his Centre of Full Employment and Equity (CofFEE) at the University of Newcastle in Australia.

In 1998 and 1999, C-FEPS scholars traveled to Newcastle to participate in CofFEE's annual "Path to Full Employment" Conference. The conference brings scholars from the U.S., Asia, and Europe together with Australian social scientists and policymakers to discuss issues related to full employment.

CofFEE Director William Mitchell's Buffer Stock Employment (BSE) model, while developed independently, is similar to C-FEPS Senior Research Associate L. Randall Wray's Public Service Employment Assurance proposal. Both models target zero involuntary unemployment without inflation, and show that there is no problem "financing" or "funding" full employment with modern money. In an interesting contrast to conventional views, Mitchell not only rejects the opinion that stable prices require unemployment, he argues that stable prices require *full* employment! Mitchell has previously visited the U.S. twice to present his Buffer Stock Employment model at C-FEPS events: the New School's "Functional Finance and Full Employment" conference (see p. 6) and an Association for Evolutionary Economics session at the Allied Social Science Association annual meetings, both in 1998. Mitchell will visit the University of Missouri-Kansas City for an extended stay in July-August of 2000.

Other participants in CofFEE's 1998 "Path To Full Employment" conference included renowned Australian economist Bob Gregory, University of Newcastle Professors and CofFEE scholars Martin Watts and John Burgess, Newcastle Professor Glenda Strachan, University of New South Wales Professor Peter Kreisler, C-FEPS Director Mathew Forstater, C-FEPS Senior Research Associate L. Randall Wray, C-FEPS co-founder Warren Mosler, and the New School's C-FEPS-sponsored Program on Transformational Growth and Full Employment Director Edward J. Nell. UMKC Assistant Professor and C-FEPS Research Associate Stephanie Bell joined many of the same scholars and policy makers for the second "Path to Full Employment" conference in 1999, and the third annual conference is already planned for December, 2000. Selected papers from the first two conferences appear in special issues of *Employment and Labour Relations Review*. ◆

C-FEPS Brings European Scholars to UMKC Campus

From England, Frederic S. Lee, UMKC Bernardin Haskell Lecture Series Visiting Scholar, Co-Sponsored by C-FEPS

C-FEPS, in cooperation with the UMKC Bernardin Haskell Lecture Series, co-sponsored Dr. Frederic S. Lee (Department of Economics, De Montfort University, Leicester, England) as a visiting scholar March 9-13, 2000. Dr. Lee is widely regarded as the world's foremost authority on empirically-grounded pricing models. His work can be regarded as an attempt to discover how prices in the real world are administratively set. Dr. Lee has written seven books and published over twenty-five articles and sixteen book chapters.

Dr. Lee spoke to graduate students and faculty about "Cartels in Action: Case Study of Market Governance in the American Gunpowder Industry, 1865-1880." For his Bernardin Haskell lecture, Dr. Lee spoke on "Inflexible Prices and the Great Depression."

Dr. Frederic S. Lee will join the Economics Department faculty at UMKC beginning with the fall semester, 2000. Dr. Lee's areas of teaching specialty are Microeconomics, History of 20th Century Economics, U.S. Economic History 1870-1940, and Industrial Economics.

The Center for Full Employment and Price Stability welcomes Dr. Lee and looks forward to his involvement in the Economics Department, the Interdisciplinary Ph.D. Program, and the Social Science Consortium.

From Germany, Harald Hagemann, Theodore Heuss Professor at the New School for Social Research, NYC, Analyzes Technological Unemployment

During three C-FEPS-sponsored lectures, Dr. Harald Hagemann provided an extensive analysis covering closely related controversies relating to employment effects of structural and technological change. His presentations addressed the contentious issues involved with several theoretical and real-world disputes.

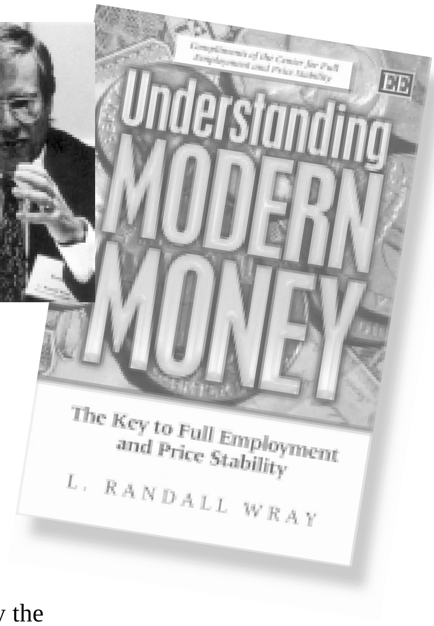
On April 20th, Dr. Hagemann lectured to social science graduate students and faculty about the controversy regarding "technological unemployment." He examined the debate over the impact of technological development upon (un)employment, which involves arguments about the displacement versus compensation effects. For undergraduate students, Dr. Hagemann spoke on April 21st about the economic challenges that have confronted Germany since the fall of the Iron Curtain. Regarding some of the macroeconomic consequences of unification, Hagemann talked about the dramatic changes that have taken place and the impact on the relation between unemployment, productivity and real wages in the former East Germany.

C-FEPS provided a dinner-seminar on the 21st for economics graduate students and faculty, where Dr. Hagemann presented "Traverse Analysis of the Employment Consequences of New Technologies: A Comparison of the Pioneering Contributions by John Hicks and Adolph Lowe," with an emphasis on the strengths and weaknesses of the horizontal versus vertical representations of economic structure.

Professor Hagemann remarked that he appreciated how C-FEPS, through its involvement with UMKC's Social Science Consortium program, was able to provide him with the opportunity to engage faculty and graduate students from multiple disciplines. In this regard, Dr. Hagemann particularly mentioned that he enjoyed meeting UMKC faculty members Professor Peter Singelmann of Sociology, Dr. Andrew Bergerson of History, and Professor Reginald Bassa of Political Science.

Harald Hagemann is Professor at Hohenheim University, Stuttgart, Germany. During the 1999-2000 academic year, he is the holder of the prestigious Theodore Heuss Professorship in the Graduate Faculty of Political and Social Science at the New School for Social Research in New York. ◆

C-FEPS Scholar Wray: “Understanding Modern Money is the Key to Full Employment and Price Stability”



Zero involuntary unemployment with stable prices is possible according to L. Randall Wray, Senior Research Associate with the Center for Full Employment and Price Stability (C-FEPS) and Professor of Economics at the University of Missouri-Kansas City (UMKC). In *Understanding Modern Money: The Key to Full Employment and Price Stability* (Edward Elgar Publishing, 1998), Wray draws on economic history, the history of economic thought, and economic theory to support an employment proposal based on the principles of functional finance. Wray proposes a federally funded job-assurance program, referred to as the Employer of Last Resort (ELR) plan, which he argues follows logically from the nature of a modern monetary system.

Governments have the power to issue money and to declare that this money be used to settle tax obligations. It is the private sector, not the public sector, which is in need of government money, and this need allows the government to exchange its debt (government fiat money) for various real resources. These resources, including labor power, are supplied by the private sector in order to acquire the means with which to settle their tax liabilities. Wray refers to this as the “taxes-drives-money” view, which he documents in work of Adam Smith, J. M. Keynes, Abba Lerner, G. F. Knapp, and Hyman Minsky, among others.

Wray recognizes that his employment program might generate substantial, on-going deficits, but he argues that this should not to be feared. Like Lerner, Wray argues that the government should use its budget to generate the appropriate amount of aggregate spending, which he defines as that quantity that is sufficient to employ all who are ready, willing and able to work at the announced government wage. “Unemployment,” writes Wray, “is by definition evidence that the government’s budget is too small.”

In the ensuing discussion, Wray addresses a number of common misconceptions about deficit spending, including:

1. The belief that if deficits are financed by “printing” money, or that if the central bank accommodates the sale of government debt, this will prove to be inflationary.

2. An adherence to the notion that government borrowing is likely to “crowd-out” private borrowing, thereby bidding up the price of loanable funds (i.e., the interest rate).

3. The idea that, owing to some financial constraint, the government will be unable to run persistent deficits.

One of Wray’s major conclusions is that, “the orthodox view seriously misunderstands what monetary policy is all about.” The problem, he maintains, is that monetary policy is primarily concerned with the determination of interest rates, while fiscal policy determines the value and quantity of money – exactly the opposite of the orthodox view.

Wray points out that the government is, by law, charged with the pursuit of high employment, stable prices, and reasonably strong growth, but that the first two are usually viewed as inconsistent goals due to some perceived trade-off between unemployment and inflation. Against this commonly held view, Wray suggests that the realization of full employment <u>and</u> price stability is not only possible, but that they are *complementary* goals under the ELR proposal. ◆

Praise for *Understanding Modern Money*

“Pivoting on his fresh rereading of the history and nature of money, Wray generates insight after insight, and will challenge forever the way in which we think about key macroeconomic variables and relationships.”
— John Adams, Northeastern University

An excellent text containing a challenging new perspective on the role of money and the role of government.”
— John Groenewegen, Erasmus University, The Netherlands

This is a most important work, one that should be read by all serious economists regardless of their particular theoretical persuasions.”
— John Henry, California State University at Sacramento

“*Understanding Modern Money* breathes a whiff of fresh air over the desert of unimaginative, and only too often irrelevant though lofty sophisticated technical difficulties, in which macroeconomic writing has landed us in the last decades.”
— Y. S. Brenner, Utrecht University, The Netherlands

“An innovative and carefully argued proposal for solving the most pressing economic issue of our times – how to eliminate unemployment without reigniting inflation.”
— Paul Dalziel, Lincoln University, New Zealand

Launching of Euro *continued from p. 7*

Chartalist system is predicated on a one-to-one correspondence between money and the state—"One Nation, One Money"—and only with such a strict correspondence does government debt become truly risk-free, enabling the state to buy anything for sale—and, indeed, settle any obligation—in terms of the money of account. There may of course be real economic constraints (those imposed by resources and technology), and, as is only too well-known, political constraints, but there are no financial constraints under such a system. When nations forfeit their monetary sovereignty and the one-to-one correspondence is severed, however, as is the case under the present arrangements of the EMU, they do face financial constraints. Nations become, in effect, like U.S. states, subject to fiscal discipline and in danger of default. The analogy with a private firm or household—a false analogy under a state money system—becomes appropriate, as governments now have to finance their spending, and suffer over their budgets.

As Bernard Connally, Managing Director of International Economics with AIG, pointed out at another C-FEPS-sponsored conference on "The Launching of the Euro" in London in May, 1998, under the EMU arrangements, member nations must now compete with other borrowers when issuing bonds to finance deficits. If investors are at all hesitant about any one member's debt, they can buy another member's debt without incurring currency risk, since there is no exchange rate variability among the currencies of member countries. Because member nations are now dependent on investors for funding their expenditures, failure to attract investors results in an inability to spend. Furthermore, should a member's revenues fail to keep pace with expenditures due to an economic slowdown, investors will probably demand a budget that is balanced, most likely through spending cuts. In other words, market forces can demand pro-cyclical fiscal policy during a recession, compounding deflationary influences.

Jan Kregel of the United Nations Conference on Trade and Development (UNCTAD) and UMKC (see p. 3), in papers presented at the Eastern Economics Association symposium, the "Launching of the Euro" conference, and at the C-FEPS-sponsored Fifth Post Keynesian Workshop in Knoxville, Tennessee, Summer, 1998 (see p. 17), points out that one alternative to coordinating fiscal and monetary policy at the national level would be to coordinate policy at the Euro level. In other words, if member nations cannot conduct counter-cyclical fiscal policy (as U.S. states cannot) because of their loss of monetary sovereignty, the ECB might be assigned the responsibility of undertaking necessary fiscal actions (as is the federal government in the U.S.). In "Currency Stabilization Through Full Employment: Can EMU Combine Price Stability with Employment and Income Growth?" (*Eastern Economic Journal*) and "Price Stability and Full Employment as Complements in a New Europe" (*in Full Employment and Price Stability in A Global Economy*, edited by Kregel and Paul Davidson), Kregel outlines a plan that goes beyond generic aggregate demand management to propose a public works program that at once guarantees full employment while controlling the value of the currency. The plan is essentially C-FEPS Senior Scholar L. Randall Wray's Public Service Employment Assurance proposal tailored for the European Union.

Kregel's proposal, along with commentary by Goodhart, Sean Shepley of Credit Suisse First Boston, and C-FEPS co-founder Warren Mosler, also appears in *The Launching of the Euro*, available through C-FEPS. In addition to Kregel's "Price Stability and Full Employment as Complements in a New Europe: A Market-Based Stabilization Policy for the New ECB," *Full Employment and Price Stability in A Global Economy*, the volume of selected papers from the C-FEPS-sponsored Fifth Post Keynesian Workshop in 1998, includes two other papers on the European Union: "Economic Integration, the EMU, and European Regional Growth" by John S. L. McCombie of Downing College, Cambridge University, and "Prospects for the Single European Currency and some Proposals for a New Maastricht" by Philip Arestis of South Bank University and Malcolm Sawyer of Leeds University. "Money and National Sovereignty in the Global Economy" by John Smithin of York University, rounded out the *Eastern Economic Journal* symposium. Smithin, who also participated in the C-FEPS sponsored conference on "Functional Finance and Full Employment" at the New School (see p. 6) is the author of *Controversies in Monetary Economics* and editor of *What is Money?*, which includes a chapter on "Modern Money" by C-FEPS Senior Research Associate L. Randall Wray. Wray's chapter contains a good summary of the Chartalist approach that Goodhart and Kregel claim is fundamental to the analysis of the European EMU:

Princeton University's Walker Professor of Economics and International Finance Peter Kenen

> Governments issue money to buy what they need; they tax to generate a demand for that money; and then they accept the money in payment of the tax. If a deficit results, that simply indicates that the population wishes to hoard some of the money. The deficit is of no consequence to the government; it merely allows the population to save in the form of government money. If the government wants to, it can let the

> population trade the money for interest-earning government bonds, but the government never *needs* to borrow its own money from the public. Taxes and bonds, therefore, have nothing to do with *financing* a government's spending. (Wray, 2000, pp. 61-62)

By forfeiting the powers of the State Money system, member nations of the European EMU have relegated themselves to the status of local governments that *do* need to finance their spending, severely limiting their ability to respond with coordinated fiscal and monetary policies in the event of an economic downturn. ◆

For Further Reading

Forstater, Mathew (ed.), 1999, "Symposium: The European Economic and Monetary Union" (contributions by J. A. Kregel, John Smithin, Alain Parguez, and Charles A. E. Goodhart and Jan J. G. Lemmen), *Eastern Economic Journal*, Vol. 25, No. 1, Winter.

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The Launching of the Euro: A Conference on the European Economic and Monetary Union (with J. A. Kregel, C. A. E. Goodhart, et al.), Annandale-on-Hudson, N.Y.: The Bard Center.

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Kregel *continued from p. 3*

in increasing the economic well-being of the majority of the world's population living in developing countries." It is this failure, which Kregel says can be traced to the success of the Washington Consensus in dominating economic development policies in the 1980s, that underlies the protests in Seattle and Washington. The protests were a response to the abandonment of development strategies that were sensitive to individual country's circumstances in favor of a uniform policy promoting the full integration of all developing countries into the global trading system—which meant, above all, the lowering of import tariffs by African and East Asian countries.

This singular focus on "free trade" is ironic, according to Kregel, because for such a strategy to be consistent it could and should have also included policies aimed at promoting full employment. Standard economic theory posits that liberalization of trade is desirable because it brings benefits from enhanced competition and efficient utilization of resources. However, those results *only* hold under conditions of true full employment (i.e., zero involuntary unemployment). "The failure you saw in Seattle was due to the fact that the WTO does not include in its mandate or agenda some sort of agency to ensure high, stable levels of employment" said Kregel.

The initial charter of the WTO recognized that free trade invariably affects employment levels by reducing them in the short run and, in fact, aimed to address this problem. Throughout the years, free trade has remained the main objective of the WTO, but the employment concerns have been dropped from the agenda. The WTO had no agency or framework to address the impact of trade liberalization on domestic employment. Since trade not only affects employment but also the environment, pay-rates, and other variables, numerous Non-Governmental Organizations (NGOs) surfaced to represent the interests of those affected—but not protected—by WTO free trade policies. The goal of these agencies is to provide essential forms of protection against some of the more deleterious effects of free trade.

Dr. Kregel stressed the importance of C-FEPS' work and its support of a unique and viable policy option for achieving full employment. In several recent scientific papers and speeches, Kregel has proposed that governments can act as an employer of last resort to ensure full employment with stable prices (see, for example, "Currency Stabilization Through Full Employment," *Eastern Economic Journal*, vol. 25, no. 1, Winter 1999). In particular, he has supported such a program for the European Union, but his remarks now indicate that such a policy approach might also prove viable for developing countries in Africa, Asia, and Latin America. Dr. Kregel, whose paper "Economic Development in the UN" is available as C-FEPS Working Paper No. 7, will be teaching at UMKC beginning in the fall. ◆

Community Service Program *continued from p. 16*

students. In this case, unemployment might result even though the Treasury is willing to increase its deficit. If the University cannot find a sufficient number of jobs for students in order to increase its deficit to the level of desired net saving by students, then the recommended policy would be to reduce the tax liability (say, from B25 to B15).

Finally, there may well be some level of unemployment even in the presence of job openings at community service providers. This could be attributed to the sorts of "micro" factors that are often cited as causes of unemployment: inadequate

Edward J. Nell, Director of the Program on Transformational Growth and Full Employment at the New School

motivation or skills mismatch between unemployed students and desires of employers. In this case, counseling and training may indeed be necessary. However, unless the number of job vacancies exceeds the number of job seekers, counseling and training alone cannot resolve unemployment problems but would only shift unemployment from one group to another.

Graduation from UMKC is equivalent to retirement from the University, or, more accurately, from the community service hours program, because graduates will no longer need to work in order to pay taxes. The University may wish to provide an "alumni package" of benefits that would include an annual buckaroo retirement benefit, of, say, 10 buckaroos per year. This would allow alumni/retirees to purchase student labor to mow lawns, run errands, or even to conduct library research. How can the Treasury ensure that, when the time comes, it will be able to provide 10 buckaroos per year to retirees? One option would be to run the UMKC retirement plan much like the U.S. Social Security system: place a "payroll tax" on current student workers (say, 10 percent on each hour of labor such that students would have to work an hour and six minutes to obtain a buckaroo) and pay retirement benefits out of payroll tax receipts. The Treasury would keep separate accounts for the retirement system, showing expenditures, revenue, balance, and accumulation of buckaroos in a trust fund. As the number of retirees will grow (tremendously!) relative to student workers, the UMKC retirement system would presumably begin to run deficits. Thus, like the U.S. Social Security system, it would need to build up a huge trust fund by running surpluses today in order to meet expected deficits in the future. One option would be to issue interest-earning Treasury bonds to be held by the retirement system trust fund. All of this would be consistent with the current operation of the U.S. Social Security system. No doubt, within a year or two the Treasury's accountants would recognize that the retirement system would be "bankrupt" a few years down the road, leading to much hand-wringing and plans to slash retirement benefits, increase taxes, or invest buckaroos in riskier assets to increase the rate of return on the trust fund.

However, it should be obvious that running a retirement system surplus today, accumulating a buckaroo trust fund, or earning more interest on the buckaroo trust fund will in no way help to provide for future retirees. First, there is no reason to accumulate hoards in the retirement system trust fund—the Treasury can always pay retirement benefits by issuing buckaroos when payments come due. There is thus no reason to keep separate books for the retirement system. Buckaroos will be supplied as community service providers draw down SDRs and as retirees receive annual buckaroo benefit payments (together, these represent total treasury spending). The total demand for student labor will depend on the demand coming from community service providers, plus retirees, plus other holders of excess buckaroos. It is possible that as the retirement community grows, the demand for student labor coming from retirees, alone, might become sufficient to meet student needs for buckaroos to pay taxes. Thus, the University may have to make a decision concerning the appropriate allocation of student labor—is it better to allocate more labor to community service providers or to retirees? Note, however, that this is a "real" decision and not a monetary decision—it cannot be resolved simply by running larger buckaroo surpluses or by earning more interest on trust fund assets. The university could, for example, (temporarily) resolve the problem by raising taxes on students—not to "balance" the retirement system's budget, but to increase the supply of student labor. Or, it could cut retiree benefits—not to balance the budget but to reduce retiree demand for student labor. Indeed, the retirement system's annual budget provides no useful information regarding the operation of the retiree system. Rather, the Treasury must set tax rates and retirement benefits at the level that will ensure that a sufficient supply of student labor is directed to providing services both to retirees and to the UMKC community.

Some of the analysis above applies directly to our economic system as it actually operates, while some of it would apply to the operation of our system if it were to adopt an employer of last resort (or buffer stock employment) program.

1. Government budget: In our current national system, the dollar is issued by the government whenever it spends, just as the buckaroo is issued by the UMKC Treasury when it spends (that is, when providers draw SDRs to pay student labor). Dollars are then drained through tax payments, just as UMKC taxes drain buckaroos. Government surpluses allow U.S. households (and firms and financial institutions) to hoard dollars, just as UMKC Treasury deficits allow students and others to hoard buckaroos. As government surpluses would drain dollars, they are made possible only by previous budget surpluses; a balanced budget is the "best" that is sustainable. In a system (such as the American) in which the central bank is allowed to issue dollars as it "lends" or buys assets (such as foreign currencies), central bank provision of dollars must be added to treasury spending to obtain total government spending. Admittedly, this is not normally done, and thus a country can appear to run continuous surpluses (on its treasury budget) because its central bank continually supplies currency not counted as government spending.

2. Bond sales: It is normally believed that a government budget deficit requires bond sales because the government must borrow to finance its spending in excess of tax revenue. The UMKC community service hours program demonstrates that this is not correct. The UMKC Treasury never needs tax revenue in order to spend buckaroos; indeed, it cannot collect buckaroos until it has spent/issued them. This is also true of any national government that issues the national currency (technically, the base or high powered money) accepted in payment of taxes. As the only supplier of "that which is necessary to pay taxes" (high powered money), the government (again, consolidating the treasury and central bank) must spend before it can tax. Bond sales thus come after the government has already spent and must serve some purpose other than "financing" government spending. In the UMKC system, bond sales are undertaken to provide students with an interest-earning alternative to non-interest-earning buckaroo hoards. In national economies, government bond sales serve the same purpose. They are really nothing more than an interest-earning alternative to non-interest-earning hoards of high powered money.

3. Interest rates: In our UMKC system, the Treasury decides what interest rate it will pay on buckaroo bonds; this then establishes the base interest rate on buckaroo lending. In national economies, the base interest rate is established by the central bank (in the US, this is the fed funds rate) while relatively simple arbitrage determines the rate on government bonds. In both the UMKC system and in national economies like that in the US, the "natural base rate" on high powered money hoards that result from government deficit spending is zero. In other words, government deficits do not place upward pressure on government bond interest rates, no matter how high the deficit may go. The base interest rate is always set "unnaturally" above zero as a result of monetary policy.

4. Social Security: As discussed, in any modern national economy in which government issues high powered money, it makes no sense to maintain separate accounts for Social Security. Furthermore, accumulating a trust fund cannot help to provide for future retirees, and thus it makes no sense to run a surplus today in order to deal with a "baby-boomer" bulge of retirees in the future. Tomorrow's student workers will have to provide all the labor demanded by tomorrow's UMKC retirees plus all other demands for student labor. Similarly, in national economies, tomorrow's workers will have to provide the real goods and services required by tomorrow's Social Security recipients—and no amount of financial fixes today can change that. In the year 2030, total government spending (including benefit payments to retirees) will be covered by issuing treasury checks (plus, as discussed above, creation of high powered money by the central bank as it purchases assets). Existence of a trust fund does not change this in any way. In the year 2030, tax revenue will drain high powered money created by government spending. The budget stance that will result (balanced, deficit or surplus) cannot be changed in any way by anything we do today regarding today's "financing" of Social Security.

5. Unemployment: In the buckaroo system, involuntary unemployment of student labor results only if the Treasury limits the supply of buckaroos. In our system the Treasury lets the supply of buckaroos expand as necessary to allow all community service providers to draw down as many SDRs as desired; if providers do not require all the offered labor, the university employs the remaining students seeking jobs. Alternatively, the Treasury could cut buckaroo taxes to reduce the supply of labor going to providers in order to match demand for labor. In the national economy, involuntary unemployment

Angela Bennett, UMKC Women's Council President and UMKC Alumni Association Past President, at the C-FEPS ribbon-cutting ceremony

results when government spending is too low, such that the supply of high powered money cannot keep pace with demand for high powered money. The solution is to cut taxes or raise spending.

6. Employer of Last Resort (ELR) policy: UMKC stands ready to employ all the student labor not required by community service providers. An ELR program could perform a similar function in national economies with governments that issue high powered money. (We will not address the relatively few cases of countries in which governments do not issue high powered money—for example, countries that operate with a currency board arrangement. These operate quite differently from the UMKC system.) In such economies, the government would stand by, ready to employ all ready, willing, and able labor at a fixed wage. Any labor not needed by the private and (non-ELR) public sectors would be able to find work in the ELR program. It is not necessary for the federal government to actually provide all the ELR jobs; indeed, we recommend that the ELR program follow the UMKC example in decentralizing employment as much as possible. Thus, just as in the UMKC system, the US treasury would supply dollars to all eligible community service providers (charities, not-for-profit organizations, state and local government) to hire as many ELR workers as they desire at the fixed ELR wage. If any involuntary unemployment still remained, the federal government would create jobs directly for the remaining job seekers. Note that under this arrangement, the ELR wage would become the base wage rate, with all other employers offering a wage that is a markup over the base wage. Furthermore, employment in ELR would fluctuate counter-cyclically: as aggregate demand rises, non-ELR employers hire workers out of the ELR pool; in recessions, workers shed by the private sector flow into the ELR pool. This means that government spending on the ELR program would also fluctuate countercyclically, moving strongly to deficits as the economy slowed while deficits would fall (perhaps even to the point that the budget swings to surplus) during booms. This would ensure that the supply of high powered money would fluctuate with demand, and that deficits would always be at just the right level to eliminate all involuntary unemployment. Note that none of this precludes discretionary "Keynesian" policy: if the ELR pool shrinks too much in a boom, the government could cut non-ELR spending or raise taxes to slow the economy and increase the size of the pool. On the other hand, if the ELR pool grows too much, the government can cut taxes or increase non-ELR spending.

7. Wage Inflation: In most countries today, situations of high employment are feared because it is believed this will lead to wage inflation and thus to overall price inflation. Thus, most economists recommend keeping government spending at a level sufficiently low to maintain a substantial portion of the labor force involuntarily unemployed. We will not comment on the wisdom of such an approach. However, in the UMKC system, we attempt to operate at continuously full employment with zero involuntary unemployment. Note, also, that this has no effect on buckaroo wages—which are fixed and hold steady at B1 per hour. With an ELR system in place, full employment and zero involuntary unemployment can be similarly maintained with no pressure on the base wage because it is set by government policy. Other wages are then set as a markup over that wage. When aggregate demand is high such that employers begin to draw workers out of the ELR pool, they will need to offer a markup over the ELR wage to obtain workers. So long as the ELR pool remains sufficiently large to serve as a buffer stock of employable labor, it will always help to dampen wage demand just as any buffer stock helps to dampen inflationary pressures on prices of the buffer stock commodity.

8. Exchange Rates: It has commonly been feared that government deficits raise interest rates which then cause currency appreciation and result in trade deficits. There is surprisingly little evidence of this. In any case, however, our analysis above has shown that interest rates are primarily determined by monetary policy, and far from placing upward pressure on interest rates, the "natural base rate" is zero in the presence of government deficits. As we have shown, the buckaroo/dollar exchange rate is primarily determined by buckaroo and dollar wage rates—although expectations of interest rate policy as well as trade imbalances can affect the exchange rate. However, because arbitragers can always choose to hire labor in either buckaroos or dollars, there is pressure to return the exchange rate back toward "wage parity"—the ratio of wages in terms of buckaroos to wages in dollars. Similarly, with an ELR program in place, foreigners always have the option of using dollars to hire workers out of the ELR pool. If the dollar depreciates too much relative to, say, sterling, there is an incentive to buy dollars in order to hire ELR workers in dollars rather than UK workers in pounds sterling—stopping the dollar depreciation. Thus, the labor buffer stock also helps to stabilize the external value of the currency.

In future issues of the digest, we will explore some of the further implications of the Buckaroo program. The program is at once a novel community service program and an educational tool for understanding the working of modern monetary systems and exploring monetary and fiscal policy options. Interest in the Buckaroo program is in no way limited to economic concerns. Within the context of UMKC's Interdisciplinary Ph.D. Program, students in sociology, psychology, anthropology, philosophy, and political science may all find a wealth of research possibilities as the program develops. Ethical questions may arise: should students be permitted to exchange dollars for buckaroos? Will any rules evolve concerning various aspects of the program? Will students decide to form political committees to oversee aspects of the program, or even pass "laws"? The program is rife with possibilities for examining the nature of institutions and their evolution. ◆

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C-FEPS Inaugurated *continued from p. 1*

John F. Kennedy's budgetary policy. More recently, Heilbroner was chosen to receive the first-ever Scholar of the Year award by the New York Council for Humanities. He has also received a Guggenheim Fellowship, the Veblen-Commons Award from the Association for Evolutionary Economics, and seven honorary degrees.

Also in attendance were C-FEPS co-founder Warren Mosler, C-FEPS Senior Research Associate L. Randall Wray, Economics Department Chair Jack Ward, and Professor James Sturgeon, director of Graduate Studies and the Social Science Consortium, each of whom was integral in bringing C-FEPS to UMKC. Wray, who was also appointed professor in the Economics Department, is the author of *Understanding Modern Money: The Key to Full Employment and Price Stability*, which serves as a good summary of the theoretical basis for much of C-FEPS' policy orientation (see page 19). Wray formerly taught at the University of Denver and Bard College, and he remains a Senior Scholar with Bard's Levy Institute. The audience also included Wallace Peterson, author of *The Social Security Primer* and *Silent Depression*, and UMKC Professor of Political Science Max Skidmore, author of *Social Security and its Enemies.*

While UMKC will be the focus of C-FEPS operations, the center also funds research at other institutions, including Harvard University, Columbia University, the London School of Economics, and the University of Newcastle, Australia. In an effort to produce policy-relevant research,

Mosler, Sturgeon, Heilbroner, Wray, Forstater, and Ward at the ribbon-cutting ceremony.

C-FEPS sponsors interdisciplinary, non-partisan scholarship, collaborates with universities, organizes symposia, conferences, and lectures and participates in community programs. ◆

the federal government, and a two-party system rather than proportional representation, all combine to make it extremely difficult to successfully launch large-scale social programs. Such factors, he stated, also contribute to a tradition of suspicion of government, a perception of government as incompetent, and a fear of potential conflict of government with the private sector. All this leads to a lack of institutional capacity and administrative mechanisms necessary for a large-scale public employment program. Blau then cited obstacles in the current political environment, such as the "low" official unemployment rate, that additionally present challenges. He concluded with some positive signs, such as a relative softening of the anti-government attitude on the part of the public since its low point in 1994, and proposed that any successful program in the current political climate must be universal rather than targeting specific groups and must be designed to build the institutional capacity of the agency within the federal government that runs it.

Many of Blau's points were underlined by **Bill Grady** in his presentation on "Challenges and Opportunities for Legislating Job Creation programs in Washington." Grady, Chief of Staff to Representative **Brad Sherman** (D-CA) and formerly Chief of Staff to the late Representative **George Brown** (D-CA), cited among the challenges facing any attempt to enact a public employment program in the current climate: the perception that the economy is doing well, so it should be left alone; the perception that welfare reform is working; a preference for job training programs over direct job creation; and a preference for tax incentives for private business rather than government hiring. Among the opportunities at present, Grady, whose key legislative projects include "Job Creation Program" advocacy in Congress, together with inclusion of language in the Fiscal Year 1998 Labor-HHS Appropriations Act to fund job vacancy surveys, included: the preference for jobs programs in general over transfers; Republican affiliation with a number of recent work programs; the existence of numerous small employment programs that could be expanded, which is always easier than new legislation; the view that under what is perceived as "the best of economic times" no one ought to be left behind; and a real concern with a number of social problems—especially those affecting youth—that could be addressed by increased employment opportunities.

In the final paper of the conference, **Dr. Harold Oaklander**, Founder and Director of the Alliance for the Prevention of Unemployment and formerly the Associate Dean of the Graduate School of Business at Pace University, outlined a number of creative ideas for addressing "Barriers to the Prevention of Unemployment." Arguing that unemployment should be thought of as a "social disease," Oaklander proposed that a Center for Unemployment Control be instituted that would be patterned after the Center for Disease Control. Oaklander then asked the audience to think of unemployment as a kind of "social pollution," and proposed that an Employment Protection Agency be inaugurated that would be modeled after the Environmental Protection Agency.

Community Leaders Participate in C-FEPS Conference

Among those in attendance at the conference and participating in the discussion following each session were Missouri State Representative **Sharon Sanders Brooks** (D-District 37, and a frequent participant in C-FEPS events); **Herman Wallace**, Regional Director of the Employment and Training Administration of the Kansas City, Missouri Office of the Department of Labor; and **Richard A. Morris**, Board of Commissioners of the Local Investment Commission (LINC—a citizen-driven community group selected by the State of Missouri to administer the Caring Communities Fund and involved in assisting the unemployed find jobs).

The conference papers are currently being assembled by Sumner Rosen and C-FEPS Director Mathew Forstater for a conference volume. The papers by Goldberg, Rose, Harvey, Forstater, and Wray are currently available in the C-FEPS Working Paper Series. ◆

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Edith Eisner has kindly given her permission for C-FEPS to issue a previously unpublished paper by her late husband, "The NAIRU and Fiscal and Monetary Policy for Now and Our Future," in its Working Paper Series.

Quotable

"A Prince, who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind, might thereby give a certain value to this paper money."
— Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776

"Make no mistake, inner city folk want to work. We've got to spread the job action around if inner city folk are to work—and if cities are to work. There is no macroeconomic policy, no economic growth scenario, no model cities approach, no black capitalism strategy and no enterprise zone experiment imaginable that can match the Depression-era Works Progress Administration in jumpstarting hope by driving unemployment down in a hurry. [There is] nothing un-American about spending public money to fill gaping holes in the labor market."
— The National Urban League, *The State of Black America 1996*

"At the cost of not conforming entirely with current usage, I propose to include as State-Money not only money which is itself compulsory legal-tender but also money which the State or Central Bank undertakes to accept in payments to itself or to exchange for compulsory legal-tender money… Knapp accepts as "Money"—rightly I think—anything which the State undertakes to accept at its pay-offices, whether or not it is declared legal-tender between citizens."

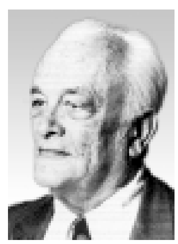
— John Maynard Keynes, *A Treatise on Money*, 1931

"We must develop socially useful forms of work, which enhance the creativity and involvement of workers… The most rewarding jobs are those which give opportunities for creativity, provide a living wage and have a beneficial effect. People like to do, and like to be seen to be doing, good works. Our cities provide numerous opportunities for congenial employment, from beautifying our cities with gardens to mending footpaths and building playgrounds… Real job-creation schemes involve the workers in the goals and strategies of the employment. Let us allow people the dignity of being involved in identifying, as well as doing, useful employment."
— John Short, *The Humane City*, 1989

"The modern state can make anything it chooses generally acceptable as money and thus establish its value quite apart from any connection, even of the most formal kind, with gold or backing of any kind. It is true that a simple declaration that such and such is money will not do, even if backed by the most convincing constitutional evidence of the state's absolute authority. But if the state is willing to accept the money in payment of taxes and other obligations to itself the trick is done. Everyone who has obligations to the state will be willing to accept the pieces of paper because they know that taxpayers, etc., will accept them in turn. On the other hand if the state should decline to accept some kind of money in the payment of obligations to itself, it is difficult to believe that it would retain much of its acceptability… What this means is that whatever may have been the history of gold, at the present time, in a normally well-working economy, money is a creature of the state. Its general acceptability, which is its all-important attribute, stands or falls by its acceptability by the state."

— Abba Lerner, "Money as a Creature of the State" (*American Economic Review*, 1947, p. 313)

"There is a serious danger that the bidding up of asset prices could create a bubble of unsustainable values that is likely to collapse disastrously, as occurred in 1929 after the budget surpluses of the preceding years. Sooner or later a reduction in production and national income will set in until the reduction in income reduces the demand for assets to conform to the supply."



— William S. Vickrey, "Fifteen Fatal Fallacies of Financial Fundamentalism" (C-FEPS Working Paper No. 1, 2000)

"The policy problem is to develop a strategy for full employment that does not lead to instability, inflation, and unemployment. The main instrument of such a policy is the creation of an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run profit expectations of business. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government."
— Hyman P. Minsky, *Stabilizing an Unstable Economy*, 1986

continued on p. 11