

**Life-Sustaining, Life-Enhancing
Employment: Public Service as the
Center-Piece of a Humanistic Post
Keynesian Economic Policy Program**

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KEYNES'S LEGACY: THE TROUBLE WITH CAPITALISM AND THE CHALLENGE FOR POLICY

In *The General Theory of Employment, Interest, and Money*, Keynes begins with the warning that although the basic ideas he will put forward are simple, because they are a radical departure from the orthodoxy of neoclassical economics, they will not be easy to accept. “The difficulty lies,” he writes in the “Preface” to *The General Theory*, “not in the new ideas, but in escaping the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds” (1936, p. viii). Those aspects of the neoclassical theory on which Keynes’s critique focused were its neglect of aggregate analysis and inability to comprehend the operative role of monetary variables; its adherence to Say’s Law and thus its analysis of the savings-investment relationship; and its abstraction from the role of the uncertainty of investor expectations. When these problems are considered the free market is transformed from a harmonious self-adjusting full-employment equilibrium system into an under-employment (and therefore socially undesirable) demand-constrained system, latent with crisis and instability.

With Keynes, a conception of capitalism emerges which stands in stark contrast to the neoclassical view. Modern capitalism is a ‘monetary production economy’ with advanced credit instruments, where money is a store of value and production is for profit and the accumulation of wealth, where there have developed highly organized markets for investment, and firms are characterized by the separation of ownership and

management. In such an economy, aggregate investment in no way depends on a pool of savings. It is ruled by the complex of expectations of both investors and lenders, may be highly volatile, and is very unstable. Investment is the independent variable determining aggregate demand and thus aggregate output and employment via the relatively stable propensity to consume and the multiplier's feedback effects. The economy will be at full-employment only by a fluke; most likely, its demand-constrained character will cause it to operate well below full capacity, with significant involuntary unemployment.

Keynes considers the major problems of modern capitalism to be involuntary unemployment and "its arbitrary and inequitable distribution of wealth and incomes" (1936, p. 372), but it is clear that he believes that the social irrationalities stemming from *laissez-faire* pervade virtually all aspects of capitalist society. The alleviation of these requires foremost a transformation in the role of government from a minimalist one to that of the interventionist State. Since the system absolutely cannot guarantee the full-employment level of private investment, it is up to the State to ensure that this is accomplished. Moreover, if capitalism "cannot ensure a satisfactory volume of investment, who is to say that the *composition* of investment will accord with social objectives? Within Keynes's critique lay the potential rationale for...guiding the structural development of the economy" (Eatwell, 1985, p. 65).

Keynes believed that the nature of the capitalist economy demanded "much more central planning than we have at present" (1982, p. 492) and "that a somewhat comprehensive socialisation of investment will prove the only means of securing an

approximation to full employment (1936, p. 378). But while Keynes saw the solutions to nearly all the ills of the free market to be found in some form of State intervention, and fought for such policies throughout his life (often referring to the need for ‘semi-socialism’, ‘liberal socialism’, ‘nationalisation’, etc.), he equally if not more harshly opposed ‘doctrinaire State Socialism.’ Much of this opposition to socialism was expressed in moral or philosophical terms, but he had specifically economic concerns as well. Keynes believed that State intervention was necessary in some areas, but that in others it was unnecessary and even inefficient (1936, pp. 380-81). This then points to the task that Keynes believed faced the modern world:

The true socialism of the future will emerge, I think, from an endless variety of experiments directed toward discovering the respective appropriate spheres of the individual and the social, and the terms of fruitful alliance between these sister instincts. (1981, 222).

From such experimentation, he hoped, it would become possible to identify those parts of socio-economic life “which are *technically social* from those which are *technically individual* (1926, pp. 66-67). What Keynes was not arguing for was complete socialization either of production decisions at the level of the firm or of individual consumption:

Leave individuals to go on doing what they are doing more or less satisfactorily, even though individual action is not perfect—where it exists and is functioning, leave it alone—but do from the centre those things which, if not done from the centre, will not be done at all. (1981, p. 647).

What emerges from Keynes is a vision of capitalism that is crisis-ridden, but one that is in many respects reformable. So we need to distinguish Keynes's vision from that of Marx, but also from that of the neoclassical economics that he rejected—including the watered-down 'neoclassical synthesis' Keynesianism that just doesn't 'get it': aggregate analysis reveals that the logic of the whole is not the same as the logic of the part; historical time means that money serves an important institutional function where individuals can hedge in the face of an uncertain future, so 'barter' models are unacceptable; involuntary unemployment is not due to 'sticky wages' but to deficiencies of aggregate demand. For every borrower there must be a lender, and basic National Income Accounts demonstrate that if the consolidated government budget is in deficit, that must come up as net wealth on the other side of the ledger. If we want to decrease the public sector deficit, we are going to have to live with a reduction in the private sector surplus, and if you want to run a public sector surplus, you are going to have to accept a private sector deficit; the national debt is national wealth, and reduction of the national debt is destruction of national wealth. This kind of Keynesian 'common-sense' is today all too uncommon. Instead we have sound money, sound finance nonsense, which presently amounts to something of a mass psychological disorder, that could easily ruin our economic system and cause real hardship for average working families struggling to get by.

FUNCTIONAL AND DYSFUNCTIONAL PUBLIC FINANCE: SOME FISCAL
SOCIOLOGY

Or fiscal political history. What Keynes showed is that there is never any *financial* constraint to aggregate economic activity. This view was perhaps understood best by Abba Lerner, who dubbed the alternative conception and the policy implications that followed “functional finance” (Lerner, 1943):

The central idea is that government fiscal policy, its spending and taxing, its 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...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. (1943, p. 354)

The principle is so simple, yet apparently so difficult to understand. If one wants to argue that a balanced budget, a budget surplus, or paying down the national debt are means to some economic goal(s), then that is perfectly consistent with the *principle* of functional finance. It is not the balanced budget that is ‘sacred,’ it is simply the means to the ends that are desired. Anyone so arguing should thus agree, in principle, that if some other relation between government expenditure and tax receipts is the best means to attaining those ends, the balanced budget should be abandoned and those other means instituted. But if one promotes a balanced budget or a budget surplus in and of itself, irrespective of economic conditions—that it is the “right thing to do,” it would be “irresponsible to do

otherwise”—without regard to the potential effects, then this is not consistent with the principle of functional finance, this is in fact best referred to as *dysfunctional finance* (see Forstater, 1999).

When the fiscal sociology or fiscal political history of the late 20th century is written, it will begin with Nixon’s remark: “we’re all Keynesians now.” It will then proceed to the inability of Keynes’s followers to articulate a response to the decline of the ‘Keynesian consensus’ in the face of stagflation. Ronald Reagan will then appear as the last great Keynesian, with massive deficits explaining the so-called “Reagan recovery.” This will mark the end of any semblance of reasonable debate about budgetary policy in the political mainstream, but due to something even David Stockman or Marty Feldstein did not anticipate: Democrats made the strategic political decision to use the Reagan deficits as an opportunity to call the Republicans ‘fiscally irresponsible.’ Thus by the early 1990s, “it’s the economy stupid” economics included deficit reduction *as an end in itself*, removing from the mainstream political discussion any supporters of common-sense budgetary policy, with both Repubs and Dems trying to out-fiscally-responsible each other at every turn. Rising incomes and thus tax receipts coinciding with austerity rates of government spending relative to GDP during the Clinton expansion by the end of the century give us Gore running on budget surpluses and paying down the debt, and President-elect W. ‘talking down’ the economy to justify his tax cut, while continuing to predict a \$256 billion budget surplus in 2001, and \$1.3 trillion in surpluses over the next decade! That would be a \$1.3 trillion reduction in private wealth, only the surpluses will never materialize, because the recessionary, deflationary impact of such dysfunctional

budgetary policies will, absent a change in priorities, result in a fall in output, income, and employment causing tax revenues to decline and government spending on the direct and indirect costs of unemployment to increase, moving the budget back into deficit, but at huge economic and social costs.

THE POST KEYNESIAN ALTERNATIVE: PUBLIC SERVICE EMPLOYMENT AS A POWERFUL AUTOMATIC STABILIZER

Is there no alternative? There is an economic alternative, and we cannot allow politics to stop us from developing and articulating it. Traditional Keynesian policies based on demand management might help some, but they will be unlikely to produce true full employment, and to the extent that they succeed in providing higher levels of employment in the private sector, they may be inflationary. An alternative to demand management that is consistent with a Keynesian analysis of the macroeconomy and the principles of functional finance (as well as an institutionalist analysis of structural and technological change), and that also provides the basis for progressive social policy, is a government-sponsored Public Service Employment program (see Wray, 1998; Forstater, 1998a, 1998b).

Under a Public Service Employment Program, the federal government offers a WPA-style public service job to anyone ready and willing to work, no means tests, no time limits. In some versions of the proposal, federal government pays the basic Public Service wage, but community service groups employ the labor. Those who cannot find work in the private sector thus can always find work in the public service sector. There is

never any job shortage in the economy as a whole, as government guarantees an infinitely-elastic demand for labor. As long as there are any unemployed workers, this is evidence that aggregate demand is too low. As workers get hired into public service, government spending increases, and continues to increase until full employment. Such a program thus serves as a powerful automatic stabilizer ensuring that aggregate demand is always at the full employment level. As private sector demand declines (rises), the public service sector grows (shrinks), with full employment a constant and only the ratio of private to public employment varying. Inflationary pressures, production bottlenecks, and other rigidities associated with high levels of private sector employment are avoided, as spending is always kept at just that rate noted by Lerner, with traditional fiscal and monetary policies available for ‘fine-tuning’ the size of the Public Service sector. The Greenspan-Marx reserve army of unemployed approach to maintaining price stability is no longer justifiable, with the huge economic, social, and real human costs that entails.

TOWARDS A HUMANISTIC POST KEYNESIANISM: PUBLIC SERVICE

EMPLOYMENT AND HUMANISTIC SOCIAL POLICY

The Public Service employment approach to full employment and price stability can also serve as the basis for humanistic social policies. Under such a program, a wide variety of social policies may be introduced that otherwise wouldn't fare a chance. To understand how this might work, consider that workers will always have the option to take a Public Service job. Now imagine what might happen if the Public Service wage-benefits package included health insurance. Employers in the private sector would have to match the Public Service wage-benefits, either line by line, or in some other

compensating way. Private businesses would be encouraged by ‘market’ pressures to either offer health insurance or compensate in some alternative way (higher salary, more chance for advancement, other benefits, or some other attractive part of the offer). Likewise, since the Public Sector wage would be the *de facto* minimum wage (remember that the real minimum wage in an economic society with a semi-permanent pool of unemployed is zero), increases in the Public Sector wage could also be used to pressure businesses to raise wages (or some other compensating feature of their offer). Consider what might happen if the Public Sector job came with child-care. Likewise, worker health and safety issues, and general job environment. The list of ways in which Public Sector employment might be used as a ‘benchmark’ to increase the quality of private sector jobs is limited only by the imagination.

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

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

THE RIGHT TO LIFE-SUSTAINING, LIFE-ENHANCING EMPLOYMENT

A Public Service Employment program based on the principles of functional finance can guarantee full employment without the rigidities associated with very high levels of private sector employment, can provide public and community services that are in short supply, and may be used as the basis for humanistic social policy. The huge economic and social costs associated with unemployment can be eliminated, and the national economy can be managed in a sensible way that is consistent with the idea,

formalized in the United Nations Declaration of Human Rights that every individual has the right to earn a livelihood in a self-respecting way.

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

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