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Memo for Potential Labor and Economy Program

Hyman P. Minsky Ph.D.

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Memo for potential labor and the economy program. HPM

In my last conversation with Joan Robinson she raised the question of "What will the employment picture of an economy look like when "chips make chips"? It was not until after I left Joan that I had the answer "Every one will work in advertising".

Although we have not as yet reached the position where chips make chips, it is nevertheless true that in process after process chips have reduced the need for human labor. One bit of evidence for this is the chronically high levels of unemployment that now exists in the rich countries of the United States and the Economic Union.

Even as there has been downward pressures on employment and wage income, capital values and capital incomes have done well. In standard economic language the distribution of incomes has shifted in favor of capital.

Some issues that immediately arise out of the new nature of industrial processes and the new sophistication of communications and control are:

- 1.. The protection of local employment by the costs of transportation and communication has been much reduced. Given that the "chips making chips" economy downgrades the skills of the labor force needed for serial productions, the equalization of factor prices which follows from low barrier international trade will be an equalization "downward" of wages in the initially rich countries. The returns to non human capital may increase because of high returns in the initially poor countries and a downward movement of wages in the rich countries.

2. The security of particular employments, which followed from the stability of the market positions of firms and of production processes, may well be a thing of the past. This is true of both "blue collar" production workers and professional and staff employees.

3. A growing disparity of incomes, downward pressure on the real private incomes of the "only their labor to sell" parts of the working class. The broad dispersion of insecurity through those populations whose position in society is hostage to product and process competition, undermines the rational view of life that is hospitable to democracy.

It follows that the reliance upon the market technique for managing economic affairs needs to be qualified by the overriding need to maintain (or create) economic conditions that help sustain democracy. I take this to require that a

close approximation to full employment be maintained even as a broad improvement of living standards takes place. The standard of living can be considered to be divided into three parts: One is derived from the private disposable incomes, another is derived from the social entitlements, and the third is derived from "family".

What we are seeing is downward pressure on the living standards private disposable incomes can provide from those who's output in the market must compete with the output of the labor surplus countries.

The need is to combine low private incomes with a full measure of universal entitlements.

The family environment is the most difficult one for policy.