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All Democratic Party Needs is to Implement Old Ideas

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THE ECONOMY

from the not-so ivory tower

By Hyman P. Minsky

The Democratic Party has set up a Policy Commission "to explore new ideas and alternative policies." In a form letter I was invited to submit my "thoughts and ideas" on how to link "traditional Democratic principles to contemporary issues." They asked for a 15- to 30-page paper; this column is my short reply; it is addressed to Scott M. Matheson, chairman of the Democratic Policy Commission.

The country and the Democratic Party do not need "new ideas," what is needed are constructive programs for the realization of tried and true old ideas. Each of us could write a long list of old ideas which have not been realized. Such a list would include "equality of opportunity," "the elimination of poverty in the midst of potential plenty," and "a laborer is worthy of his hire." New programs which draw upon the lessons of history are needed in order to realize these, and other, old ideas.

Full employment in a free society is perhaps the most important old, or at least middle-aged, economic idea which requires government interventions if it is to be realized. The idea that full employment can be attained and sustained is a large part of the patrimony of the Democratic Party.

The evidence is clear that a close approximation to full employment cannot be achieved and sustained by unaided markets. Reagan Republicanism rests on the assumption that the "market can do it all," full employment which can be achieved only by government support is an idea conservatives cannot tolerate.

Without full employment a free

society is an elusive goal. Repressive measures to control its underclass are "necessary" in societies with chronic, large-scale unemployment. Full employment is a prerequisite for opportunity, let alone equality of opportunity. In a market economy laborers will be worthy of their hire only if

All Democratic Party needs is to implement old ideas

there are jobs for all. With full employment the deadweight burden of transfer payments can be contained, so that society can afford to treat those not able to work in a humane manner.

The Great Depression of 1929-33 demonstrated that the idea that markets know best is false. In 1969, 1974, and 1982 government deficits and Federal Reserve interventions contained and reversed market processes that threatened to develop into a serious depression. Even as the Reagan administration pays lip service to a balanced budget, it raises spending, cuts taxes, and doubles the national debt so that the depressive forces are contained and an expansion is induced.

The first two decades (1947-1966) after World War II were the best years the American economy ever enjoyed. That period of sustained high employment with little in the way of inflation. Tranquil expansions, interrupted only by short and mild recessions, eased what Orwell called the "haunting fear of unemployment."

Since 1967, the economy has not been a great success. Three serious

recessions, a spate of financial crises and inflation have occurred. The current business cycle expansion—now entering its fourth year—is the least successful post World War II expansion. Unemployment rates are at levels that earlier characterized recessions. Success in containing inflation is due to the high unemployment rates and the weakening of unions.

During the Reagan years, Orwell's "haunting fear of unemployment" has been born again and has been joined by an enervating dread of impoverishment. Until Reagan's time, post World War II unemployment largely took the form of recession-caused layoffs. Laid off workers knew they had jobs to return to once the economy recovered. Today, unemployment is likely to be due to the closing of a plant, the bankruptcy of a firm, or the Wall Street game of mergers and acquisitions. Unemployed workers fear

they have been permanently impoverished.

A commitment to the dignity of labor, the elimination of poverty, and a worker is worthy of his hire implies that the Democratic Party is committed to free and independent trade unions. But if full employment is to be sustained then the market power that full employment gives to unions must not be used to accelerate inflation. A revised and revitalized National Labor Relations Board which is mandated to encourage trade unions and contain those urges of market power by unions that lead to inflation is part of the commitment to full employment.

If a non-inflationary close approximation to full employment is to be sustained, then firms must not be able to translate the market power they gain from full employment into inflationary price increases. This likely will require a restructuring of industry so that competitive enterprises are favored over corporate giants. The quiet acceptance of ever-increasing corporate size and power has to stop; a vigorous anti-trust policy is part of the commitment to full employment.

A positive program for full employment will need instrumentalities which do not now exist. Youth unemployment and the evidence that post-secondary schooling is not appropriate for all, means that a modern version of the 1930s Civilian Conservation Corps is needed. A modest CCC which enrolls 500,000 will do wonders for youth unemployment, the preparation of the young for the world of work, tranquility in our secondary schools, safety on our streets and our national parks.

The revival of a modern version of another Roosevelt-era instrument, Works Progress Administration, is a necessary part of any program that aims to achieve non-inflationary full employment. W.P.A. is especially necessary if the dead weight burden of transfer payments is to be erased.

The idea that it takes positive government programs to achieve and sustain full employment is a good part of the political capital of the Democratic Party. The only Republican reply to this old idea is the pious hope that markets will someday, by some unexplained means, achieve what they have never been able to achieve to date, a sustained close approximation to full employment. A Democratic Party that has practical programs that ease the fears of unemployment and impoverization has a powerful antidote to the Republican pie in the sky promises that the market will do the job.

The quest for new ideas will bring both a full measure of gadgets and gimmicks. All policy must recognize the primacy of the "Law of unintended consequences." Policies inspired by novel gadgets and gimmicks are likely to do little good and to have unintended adverse consequences.

From the experience of 1946-1966, we know the good that sustained non-inflationary full employment does. We also know that some adverse unintended consequences followed. What we need are policies that incorporate the lessons from history so that the unintended adverse consequences are contained. For the rest of the twentieth century the main new idea of the Democratic Party should be the old idea that full employment can be realized by appropriate policies.



Hyman P. Minsky is a professor of economics at Washington University, St. Louis, and a regular SJR columnist.

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