FULL EMPLOYMENT AND ECONOMIC GROWTH

AS THE OBJECTIVES OF ECONOMIC POLICY:

SOME THOUGHTS ON THE LIMITS OF CAPITALISM

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1. This is a quite broad reworking of a paper I presented in Milan Italy March 18th-20th 1993 at a Conference on ---

The call for that conference read

"When the whole world, so to speak, is capitalist it is timely and useful to question the limits of capitalism, its ability to provide answers to new contemporary problems, and the scope for intellectual innovations capable, to some degree at least, of remedying such limitations."
I. Resonance between 1933 and 1993.

I participated in a Conference on Financing Prosperity in the 21st Century at my home base, the Jerome Levy Economics Institute of Bard College on March 4, 5, and 6 1993.

March 4 was the 60th anniversary of the inauguration of Franklin D. Roosevelt as President of the United States. The climactic event of the great collapse of American Capitalism that took place between October 1929 and March 1933 was the bank holiday that accompanied the inauguration: officially the bank holiday began on March 6 1933. Our conference bridged the 60th anniversary of these events. Obviously the combination of the dating and the topic made one think of the differences and the similarities between the scene as Roosevelt was inaugurated and as Clinton was starting his term.

In what follows I argue that the problems President Roosevelt faced sixty years ago and the problems that now confront President Clinton resonate. Both inherited failed economies. In the situation Roosevelt confronted the failure was so great that almost all did agree that something quite dreadful was wrong.

In the current situation the American and the capitalist world, to date, have dodged the bullet of a debt deflation, such as took place in 1929-33, but, borrowing a concept attributed to Yogi Berra, the Fat Lady has not sung:
Full Emptinent and Economic Growth.

we may be in the midst of a debt deflation that is being played out on a longer time scale. The wholesale bankruptcies, massive asset price deflation, and a collapse of GNP and large scale unemployment, which would create unanimity around the need for drastic action, have not occurred (as yet) to play it safe. In some ways President Clinton's call for change is not well focused whereas the 1933 crisis and the recession nature of the current crisis—necessity for change which was the environment within which President Roosevelt operated.

That which is wrong with the American economy and the other rich countries who recently met in Tokyo is much more subtle than what had gone wrong 60 years earlier. What is wrong now is that in spite of massive government deficits these economies seem unable to achieve and sustain a close approximation to full employment. Policies are undertaken in order to increase the rate of growth and yet the economies neither achieve satisfactory rates of either expansion or unemployment.

Note that I shifted my language from growth to expansion. I did this because I want to introduce an aside in the argument. In a world where quite clearly production is far less than capacity production we can measure the amount, and therefore the rate, of an economy's GNP

2. The mid year 1993 data indicates that the expansion that The National Bureau of Economic Research tells us we are in the midst of is "a sometimes thing": the debt deflation prospects are still alive.
expansion. What happens to growth during this period depends upon what happens to the quantity and quality of the inputs to productive processes. It is more honest to say that the expected or forecast rate of expansion of real GDP over the next year is "X %". If we need to admit that we can not estimate what the change in productive capacity over any run of years is except as we measure the change in realized output between dates at which the economy operated at "close approximations" to full employment.

By a process of trial and error between 1933 and 1938 the Roosevelt administration responded to the failure of the virtually laissez faire capitalism of the first third of the 20th century by creating a new interventionist capitalism, which had a thoroughly revised financial system and a greatly expanded government, that was involved in both creating resources and using resources. 3

In retrospect, we can now see that the financial structure reforms reflected two principles: transparency and compartmentalization. The greatly expanded government was deeply involved in resource utilization and creation.

3. In a current book, The New Dealers (Alfred A. Knopf, New York, 1993) Jordan A. Schwartz argues that the New Deal was largely an exercise in State Capitalism, in which the creation of financing vehicles, the production of infrastructure and the initiative in innovative productions became government functions. In Schwartz's view the resource creation and the funding of innovation was transferred to the Military in the "Cold War" era. The development of a post cold war institutional structure for the production and processing of innovation is one way in which the Clinton era resonates with the New Deal era.
Roosevelt's big government Capitalism was not a transfer payments government. The welfare state, which emphasized transfer payments in lieu of income from work and owned property is more of a post World War II development.

Roosevelt inherited a capitalism that not only failed but was also discredited. A new model capitalism, with an extended set of government interventions in the economy was put in place. This did not take place in the first 100 days, during which the immediate problems of the acute crisis were tackled. The new model was mainly put in place in the second half of the first term and the first part of the second term. The new model, as adulterate by the transfer payments of the Welfare State, served the United States, and the rest of the rich world which more or less moved in the same direction, well for almost half a century.

The failures of contemporary capitalism that Clinton has to face are more a weakening rather than a breakdown. Over the past dozen or so years the new model of 1933-1937 has developed ailments that may be due to age and to the infusion of laissez faire adulterants during the decades in which conservatives administered the economy.

Structural economic policy during the Reagan administrations and the Bush administration resurrected

4. Little in the way of entitlements existed; I dont even know if the word had been coined. Two premises, no one will starve in America and a dole is anathema, led to the "made work programs of WPA."
attributes of the capitalism that failed in the late 20's and early 30's. Quite clearly the current performances of the rich countries are not up to the standards of success that were established during the first two decades after World War II. A thorough overhaul of our in place capitalism is needed if the low levels of unemployment, the relative price stability, and the readily observed improvement in the standards of living that characterized the first 20 or so years after the Second World War are once again to characterize capitalism.

In the light of the prat falls and comedy skits of the past four months of the Clinton administration it seems quite far fetched to propose that its historic task is to discover and put in place a new model capitalism. This new model needs to build upon the new model that was put in place in 1933-1937. It needs to put in place government programs and institutions which contribute to the creation of resources, human, physical and knowledge and to the full utilization of resources (full employment). If the Clinton administration henceforth emphasizes policies to achieve full employment and create resources as the government's contribution to turning the economy around and keeps the programs simple then the misreading of the power of the presidency and the process of legislation of the first period can be overcome.
II. A BIT OF HISTORY

The usual description of the 1933 bank holiday is "Roosevelt closed the banks." This is not true. By March 4th 1933 the banks in some 30 states had been closed by the Governors of the states. On Saturday March 4, as Roosevelt was being inaugurated, he was informed that the New York banks would not open on Monday March 6. The bank holiday was a preemptive strike - it moved the resolution of the problem of illiquid and insolvent banks and other financial institutions from the Financial Community to the Federal Governmmt.\(^5\)

The United States bank holiday was the climactic event of a great contraction of the world economy that began in October 1929 and lasted until March 1933 - more that 40 months of well nigh monotonic decline. The decline was not only long, it was also deep. In the United States, and the United States was by no means the worse case, output fell by about 33%, prices fell by about 33%, and the indices of

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5. In the 1907 financial crisis the House of Morgan, as the dominant force on Wall Street, took the initiative in resolving the crisis. The general dissatisfaction with this state of affairs led to the Aldrich Committee which was a major input to the founding of the Federal Reserve System. Roosevelt's proclamation of the Bank holiday was a preemptive strike for the banks in 30 states had been closed by their Governors and it on the inauguration day (a Saturday) it was apparent that the New York banks would not open on Monday. Roosevelt's action made it certain that the resolution of the crisis would be forged in Washington, not in Wall Street.
During the Roosevelt years the reconstitution of the financial structure was a major policy task and it involved a great deal of thought and negotiation. It was not until 1936 that the new financial structure was in place. The 1936 financial structure of the United States was based upon two principles, compartmentalization and transparency. The financial structure was reconstituted with special financial organizations for delineated functions i.e. for housing, for agriculture, for imports and exports, for commercial banking, for investment banking and for deposit insurance. A government investment bank, the Reconstruction Finance Corporation, was part of the control and support mechanism for the financial structure and for the financing of resource creation: it operated by infusing government equity into transportation, industry and finance.  

The operations of the publicly traded corporations and the markets in which the trading took place were to be transparent. In addition the Federal Reserve was reorganized so that the gold standard rules of central bank behavior no longer forced the Federal Reserve to be deflationary when prices were drastically dropping and unemployment was high.

7. The immediate resolution of the banking crisis of 1933 was led by The Reconstruction Finance Corporation which took equity positions in about 50% of the banks that reopened after the bank holiday. The Federal Reserve which had been created in an effort to control systemic bank failures failed on its assigned mission in the 1930's.
The financial institutions of the post 1936 era differed markedly from that which broke down between 1929 and 1933. This system once in place began to evolve in response to the profit seeking efforts of the various institutions: any institutional structure which sets limits to the behavior of economic units will set off actions designed to evade or avoid the limits. Furthermore technological changes impinge upon units in the financial structure in quite varied ways. As a result even though the Roosevelt structure remained in place, the details of financial operations and institutions changed.

In as particular households, firms, government units as well as financial institutions learned how the system worked they modified their behavior so that they could best exploit the now new financial environment. These changes led firms to use more debt relative to internal finance for investment financing as well as the greater use of debt to acquire existing assets. As a result a once robust financial system become increasingly fragile, this implied that the likelihood that a small stimuli would lead to large changes increased, a fragile structure is an unstable structure.

Whereas there was no threat of a financial crisis between the end of world war II and 1968, the repercussions of the commercial paper market, to the default of the Penn Central Railroad on its commercial paper, rudely awakened the rather complacent Federal Reserve Board of Governors
that it has responsibilities for maintaining the stability of the financial system. Since 1968 the Federal Reserve has often been forced to take steps to abort what it deems to be an embryonic financial crisis.

The Capitalisms that failed and the Capitalisms that succeeded were different in details that are significant for their performance. The big government capitalisms of the 1950's and 60's succeeded in moderating business cycles because the big governments were able to sustain business profits when investment lagged. One significant result of profits being sustained was that the absence of long recessions strengthened trade unions. The combination of strong trade unions, a lack of severe labor redundancy and social legislation led to the lot of those at the "bottom" of the income distribution improving.

President Kennedy caught the flavor of the experience of these years in an aphorism "A rising tide lifts all bottoms." This aphorism was validated by the experience of the 1950's and 60's. It has been negated by the experience of 1980's, when even though aggregate income presumably rose, the lot of those at the bottom stagnated or deteriorated. It seems clear that Capitalisms can function in a variety of different ways and that preference systems and the technical conditions of production do not lead to a "law of distribution".
If capitalisms are to be successful in the 21st century they are likely to be quite different from the models we are familiar with. Now that Roosevelt's new model of Capitalism has shown that Kennedy's aphorism can be true, the ends that a successful economy needs to achieve includes a wide distribution of the fruits of prosperity than was achieved over extended periods of time by the pre 1930's model capitalism.

Reagan and Thatcher tried to overthrow the big government interventionist capitalisms that they inherited. In the United States the major substantive changes in the economy of the Reagan years were 1) the destruction of the revenue system, 2) the emergence of an economy that was structurally dependent upon the government's deficit financing of a budget that was mainly devoted to military spending and the support of consumption by way of entitlements, 3) the fall in the real wage of a large portion of the labor force and 4) a rising tide of un and under employment.

After a spurious prosperity, largely based upon 1) an unproductive government deficit, 2) an enormous expansion of the financial services industry and 3) Ponzi financing schemes that left the country with an excess supply of office structures, highly indebted firms and non-performing assets, the Reagan-Bush years saw the economy of the United States stagnate. Furthermore government spending was even
more inefficient as an instrument create resources than before Reagan and Bush took office, because the great expansion of the government deficit left the budget with a huge item "interest on the debt".

The Reagan-Bush experience is a second failure of the laissez faire model. It showed that the laissez faire model cannot meet the standards established in the 1950's and 1960's, the era when capitalism achieved a practical best.

Clinton in his still new administration is groping towards the invention of a "new" new capitalism. This "new" new model accepts the central tenet of Rooseveltian capitalism, which is that effective capitalism requires a large government sector, but it shifts government spending from financing defense and consumption to financing resource creation and the efficient delivery of services for which the fee for services mechanisms for the recovery of costs are not effective. This leads to another question:

3). "Can we din the general outlines of a new capitalism that may emerge in the United States?"

I have raised six rather overlapping questions. I have addressed some in my exposition of the problems. I have not addressed the questions of what are the flaws that made capitalism a failure in 1933 and whether these flaws are the result of attributes of capitalism which are essential characteristics of capitalism. We will also address the
question of what turned the failed system into at least a transitory success.

One striking flaw of capitalism - which was identified by Marx and Keynes - is its inability to maintain a close approximation to full employment over extended periods of time. Keynes recognized that capitalism is not merely a market economy: it is also a financial system. A fundamental aspect of the Capitalism of Keynes' time and ours is that there are two sets of prices. One set consists of the prices of current output and the other set consists of the prices of assets, both the capital assets used by firms in production and the financial instruments that firms issue in order to gain control of the fixed and working capital they need. The price of current output carries profits and is the mechanism by which costs are recovered. In the abstract these prices are keyed to the money wage rate. The price of capital assets and financial instruments are present prices for future streams of incomes. As these two sets of prices reflect what happens in two different sets of markets they will vary independently.

The financial instruments issued by firms are held by households and financial institutions such as banks. Ever

9. In a modern economy household and government debts exist and are held by financial institutions and directly by households. These other liabilities complicate the cash flows and offer routes which can dampen and amplify the
since the corporation became the dominant form of business organization, the liabilities of firm's include equity shares as well as various forms of debts. The equity shares and some of the debts of some companies are freely traded on public markets: the market value of these instruments depends upon publicly available information. In principle the second price level of capitalist economies is an index of the market price of existing capital assets but in practice it is an index of the market price of shares and debts. The growth of the holding company form of corporate capitalism means that entire lines of business are sold and bought. The model of the second price level needs to incorporate how such components are valued.

The reforms of the financial system during the Roosevelt era made transparency the over riding principle, guiding the information available about the operations of corporations and of markets on which equity shares are traded. Other debts of corporations do not depend upon publicly available information but rather on negotiation and discovery: these are debts to banks and private placements to other financial institutions. Such debts, which are not marketable can be syndicated among institutions, such as banks, which are knowledgeable about processing private information.

effect of the debt structure on the performance of the economy.
As a result of the security market reforms of the Roosevelt era the law caught up with the fact that modern capitalism is corporate capitalism.

Over the more than 40 months of the great contraction the price level of current output fell by 33% whereas the price level of equities on the stock exchanges fell by 85%. In 1933 it would cost 67% of the 1929 price to produce investment output but it would only cost 15% of the 1929 price to purchase a firm on the stock exchange. Similar ratios held for commercial buildings such as office towers. If the ratio of the prices of old and new capital assets was greater than 1 to 1 before 1929, in 1933 the ratio of old to new was 1 to 4. In 1933 no one would order new investment output when the second hand market for investment, the market for capital assets, was full of bargains.

In standard economic theory prices are the terms upon which alternative goods and services are available. As the theory is set up all that really matters are relative prices. However to producers in a capitalist economy output prices recapture wage and material costs and carry profits. Profits enable a firm to pay the interest and principle that is due on debts, and to provide funds for dividends and retained earnings. Inasmuch as debts are almost always denominated in money, to producers nominal prices matter. In the markets where assets, financial and real, are traded
the prices are the present money price of future money flows. The market value of a firm is a capitalization of its nominal profits and therefore is stated in nominal terms.

In a progressive capitalist economy investment outputs are a part of current output. When investment outputs are completed they are assimilated to the stock of capital assets: the investing firm pays the investment producer for the investment good. This payment is made with internal funds (retained earnings), funds raised by the sale of equities and funds raised by debts, either as borrowings from banks or as the receipts from the sale of bonds. At the moment of purchase the value of a particular investment output changes from being determined by the sales price to being determined by the present value of the future incomes that operating and otherwise using this asset is expected to generate.

No one would use current resources to produce items for the stock of capital assets if the present value of capital assets, as determined by markets which transform expected future profits of firms into the market value of debt and equity liabilities of firms, is not equal to or greater than the price the producers of the investment good need to charge in order to recover the costs of producing the investment good and to earn the profits that enable the investment goods producers to be viable firms.
In a modern rich capitalist economy corporations are the proximate owners and the actual operators of the non-housing, non-agricultural capital stock of the economy and the principal purchasers of investment output: corporations are also the principal proximate recipients of capital income or gross profits.

A capitalist economy can be viewed as a set of interrelated balance sheets and income statements. There are two ultimates in this formalization: firms, which own the capital stock of the economy, and households, which own the financial liabilities of other units as assets. Financial institutions stand between firms and households. Today to a large extent the liabilities (equities and debts) of firms are owned by financial intermediaries of one type or another and the assets of households are largely liabilities of financial intermediaries.

These intermediaries - banks, savings institutions, insurance companies, mutual funds and pension funds to identify the most prominent financial intermediaries - are self, or profit, seeking institutions. In a modern capitalist economy maximizing behavior is not restricted to households and firms that own capital assets, for the entire array of financial intermediaries seeks profits. Each profit seeking financial intermediary has an agenda of its own: they are not charitable institutions.
Of these profit seeking private agenda financial organizations one set plays an exceptionally delicate role in capitalist economies. This set consists of the investment or merchant bankers who either as brokers - who bring buyers and sellers together - or dealers - who take financial liabilities into their own accounts - act as midwives to the start up of companies and the financing of continuing operations.

Essentially these operators have superior knowledge about their customers who need financing (they have a need for funds) and their customers who have a need for outlets in which money can be placed. They turn this private knowledge of the conditions under which funds are desired and the conditions under which funds are available to their own advantage, even as they perform the social function of selecting the investments that the economy makes.

These financial intermediaries are of critical importance in determining the values attached to capital assets as collected in firms. In a balance sheet the difference between the sum of the values entered for capital and financial assets and the value of debts on the liability side is the book value of the owners interest in the firm. Dividing the book value of the owners equity by the number of outstanding shares yields the book value of a share. However for the main companies in a large economy there is a
thick market for equity shares and this market value may be less than, equal to or greater than book value. A main consideration in decisions to invest is that the market valuation of the capital assets needs to exceed the supply price of the investment output, with a margin of safety that allows for the riskiness of the project.

One consequence of the introduction of these layers of profit seeking organizations in the markets which determine the value of financial instruments is that the value of financial instruments and therefore the value imputed to capital assets can and does vary independently of the cost of investment outputs. Furthermore the extent to which internal funds are available to finance investment depends upon the excess of anticipated cash flows from operations over the amount needed to service liabilities that were issued to finance such acquisitions in the past.

Because the capitalization rate depends upon present views of the future and the value of the secure assets in portfolios, the ratio of market price of capital in firms to the market price of investment outputs can vary. The very structuring of the argument in terms of a demand for investment output that depends upon the capitalizing of future profits and the determination of the supply price of outputs as dependent upon labor costs of producing these outputs assures that the supply and the demand relations would not, in economist jargon, be homogeneous of degree
zero in either money or in money wages. The result would also not be independent of the extent to which positions of market power are capitalized into the price level of capital assets.

Thus 1) the capitalist technique of valuing outputs and valuing capital assets, 2) the market determination of liability structures and 3) the possibility of sharp increases and decreases in the market price of capital assets and financial instruments leads to systematic increases and deceases in the price of assets relative to the price level of current output. This feeds into the amount of investment financed, which in turn leads to the flow of current profits.

Once current profits fall by enough, or the carrying costs of debts increases by enough, so that the cash flows earned by operations or from financial assets by highly indebted operations are insufficient to meet commitments on liabilities then the pressure of the need to validate debts (and to meet withdrawals by depository institutions) leads to a proliferation of attempts to make positions by selling out positions. The result can be a sharp fall in asset values. A downward spiral is a possibility in which

10. The relation between the price level of capital assets and current output along with other factors determines the volume of aggregate demand and the excess or deficient demand for labor at the current wage rate. The excess or deficient demand will affect the movement of wages and thus the price level of investment output.
investment ceases and profits evaporate: the end result of
over indebtedness can be a great or a serious depression.

Although the obvious flaw in capitalism centers around
its inability to maintain a close approximation to full
employment, its deeper flaw centers around the way the
financial system affects the prices and demands of outputs
and assets, so that from time to time debts and debt
servicing rise relative to incomes so that conditions
conducive to financial crises are endogenously generated.
Such a crisis, if not contained by a combination of Central
Bank lender of last resort interventions, which sustain
asset prices, and government deficits, which sustain
profits, leads first to a collapse of investment and then to
a long lasting depression accompanied by mass unemploym“nt.11

This financial flaw cannot be eradicated from the
 corporate form of market capitalism, in which liabilities
exist that are prior commitments of the gross nominal profit
flows of corporations. Reforms which constrain the
possibility of using excessive debts for specified purposes
were part of the new model capitalism of the 1930's. Many
aspects of these constraints were relaxed by the 1980's,
especially critical constraints upon the assets eligible for
the portfolios of the Savings and Loan Associations were
relaxed. The result was a series of crises of financial

11. In this view the intervention by a deposit insurance
authority to assure that deposits at "protected
institutions" are paid at par is a central banking action.
institutions and corporate indebtedness. A big depression did not happen in the early 1990's because the government validated the debts of the financial institutions that became insolvent and the huge government deficits sustained profits.\footnote{This validation has been called a bailout.}

The new model capitalisms that emerged out of the great depression and the second world war had much larger government sectors than the failed model of the 1920's. Central banks were no longer constrained by the gold standard: they were now expected to use their ability to affect the behavior of banks to sustain income and employment and contain any thrust to an accelerating inflation or a deep deflation. The ability of a country to float its currency was much greater and the responsibility for maintaining aggregate demand by government and even by international cooperation was acknowledged.

For much of the period in which the new interventionist model worked well the sole governor of the international system was the United States' commitment to maintain its domestic economy at a relatively close approximation to full employment and willingness of the United States to run a trade deficit.

Capitalism failed in 1929 because of the flaw inherent in the two price system nature of capitalism.
was reconstructed in the 1930's and after World War II with a much greater government sector, which in the United States was largely devoted to sustaining consumption and military spending. Nevertheless private investment remained the major determinant of the increase in productive capacity and the value of private investment still rested upon the price level of capital assets being greater than the supply price of investment outputs. The flaw that over indebtedness can lead to a sharp decline in the ability to validate debts and therefore to a sharp fall in the value of capital assets as collected in firms remained.

The recent history of the United States is a history of a thrust towards a debt deflation that was contained by a combination of central bank intervention and massive government deficits. The contained depression of the early 1990's ultimately led to a sharp fall in first short term interest rates that, with a lag, is being followed by a fall in longer term interest rates. This fall in interest rates led to a rise in the present values of income streams: Asset values increased and as a result the turbulence in financial markets in the United States has abated.

The capitalism that failed over 1929-33 was a small government constrained Central Bank essentially laissez

faire economy. The capitalism that had a good run after the second World War was a big government interventionist economy with Central banks that were less constrained than during the inter war years.

The post World War II model of capitalism was so successful over the first twenty plus years after the War that some are given to calling that period a Golden Age. While in truth it was not a utopian Golden Age, each of us can find fault with some details of the economy of the 1950's and 1960's, it might very well be a practical best. On an absolute scale the most recent twenty plus years after World War II were not bad, but they suffer by comparison. However a clear path of deterioration is discernable over these years, in part because of policies such as those which Reagan and Thatcher exemplify, in part because of the way in which protracted success leads to an acceptance of commitments to pay which erode the margins of safety which make capitalist firms and financial institutions resilient.

The junk bond episodes and the commercial construction excesses are built into the way in which business men and bankers interact in a capitalist economy. Only capitalist economies in which the regulatory agencies have stronger and more sophisticated controls than the regulatory agencies have in the United States can avoid the financial excesses that bring financially complex economies to the brink of collapse.
"Why are the welfare states of post world war II Capitalist economies now in crisis?" is the fifth question. I can answer for the United States. The Social Security System, which is the keystone of the welfare state in the United States, was never adjusted for the enormous increase in life expectancy over the past sixty years. If the life expectancies now were as they were 60 years ago there would be no crisis in the social security part of the United States' welfare state. The solution to this is rather simple: increase the age at which people retire. However this would increase the labor force. Therefor there is a need to increase the number of available jobs.

Another problem of the welfare state in the United States is with what is called welfare in the United States. This system, Aid to Families with Dependent Children (AFDC), provides cash and in kind (medical care, housing and food subsidies) support to families with children, if income from work or assets is not able to support the children. In practice significant part of the population that is welfare dependent is seemingly locked into a pattern of dependency: women who themselves were illegitimate and recipients of AFDC having children on AFDC. This welfare problem is increasingly viewed as a disaster in terms of the well being of the recipients. However the alternative to welfare is work for the mother and child care for the children.
Initially the corporation was a private organization chartered by a special act to carry out a public function. We can expect the new new model capitalism to create corporations which mix private and public funding to carry out programs that have a social purpose. We can see glimpses of this in ideas that are floating for health maintenance organizations, for the development of technologies and for Community Development banking. It is not a matter of picking winners in some technological struggle but rather a matter of defining needs that can be filled with known techniques but which require special organizations to carry them out.

There may well be some experimentation in taxation. The progressive income tax was compromised by Reagan. The argument that income should not be taxed but that consumption is a fairer basis for taxation is gaining some following. It is doubtful whether the political courage exists to recognize that the logic of a consumption tax requires that the fair rental value of owner occupied housing enter into the base used for the calculation of the tax. However a thorough and logical consumption based tax system would simultaneously reintroduce meaningful progression into the tax system and cut through the confusions relating to pension schemes. As was mentioned earlier, pensions are a policy problem due to the American system of a government Social Security System supplemented
by private pension schemes, which are publicly supported by the way taxable income of corporations and households are calculated.

The Clinton administration is in a tentative way trying to discover the contours of a new model of capitalism: I don't think it is a conscious quest as yet. But as one item in the menu of unmet needs leads to another a new model will emerge which is more explicit in the partnership of public and private agencies in the development of resources than anything we have had in the States to date.