3-14-1977

Comment on Lane Kirkland

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Dear Editor

On Unemployment

As Lane Kirkland has argued ("Putting America Back to Work," NL, February 14), the Carter Administration economic package is too small and ill-focused to promise the economy substantial, speedy recovery. The loss is not only to today's unemployed. With each year of 7-8 per cent unemployment we sacrifice $150-$200 billion of output that would be produced with reasonably measured full employment. That is a loss to most of the nation, for those who are working pay with the fruits of their production—whether through taxes or inflation—to support those who are idle. What is more, as we bring up a new generation of youth lacking in jobs, hope and the habit of productive contributions to society, we lay a heavy burden on the years ahead in a continued and repeated cycle of welfare, dependence and crime.

The inadequacy of the Administration's economic package can be measured by comparing it with the relatively successful 1964 tax cuts. The legislation then reduced 1964 taxes by 1.4 per cent of 1963 gross national product and 1965 taxes by 2.4 per cent. Since GNP then was $590 billion while in 1976 it was in the neighborhood of $1,700 billion, we can quickly see that comparable tax reductions now would be approximately $40 billion per year and not $15 billion. And in 1964 we were starting with an unemployment rate of some 5.5 per cent rather than the 7-8 per cent figure we were suffering at the end of 1976!

The Administration's economic package is inefficient and ill-focused in its heavy emphasis on income tax rebates. Well established economic theory of consumer expenditures, both from the conservative quarter of Milton Friedman and the Keynesian side of Franco Modigliani, should remind us that temporary changes in tax rates are likely to have only slow and modest effects upon demand.

The Administration's business tax reductions are unfortunate, however, not essentially because they are presumed to lower the tax burden on business but rather because of their nature. There is no point to a further windfall in widening the already notorious investment tax credit loophole, allegedly to stimulate business investment. It is highly doubtful that the $10 billion or so this would cost annually in lost tax revenues would bring anywhere near that amount of increased investment. To the extent it does stimulate investment at all, it does so by distorting the production process, leading firms to acquire a certain amount of additional machinery that would not be profitable without the tax subsidy.

The Administration's proposal of an employment payroll tax credit of 4 per cent is, on the other hand, a step in the right direction—although so miniscule as to be a sad joke. For it is 4 per cent not of payrolls but of the 5.85 per cent of payrolls constituted by the employer payroll tax for Social Security—in other words, it amounts to only .234 per cent, or, not much more than two-tenths of 1 per cent, of actual payroll costs.

Fortunately, the House Ways and Means Committee has come up with a much more imaginative and helpful proposal which, in one form or another, I think Kirkland and the AFL-CIO would do well to look upon with favor. It would offer a 40 per cent tax credit to any firm for up to $4,200 of wages on *increases* in employment above 103 per cent of employment of the previous year. This would be a major incentive to firms to hire all workers—the unemployed, the young and others about to enter or reenter the labor force. And it would involve a relatively modest loss of revenues and windfall to firms who are not serving the purpose of increasing employment more than they would otherwise.

The Ways and Means Committee amendment could be improved by modifying, raising or eliminating the $40,000 limit of the tax credit per firm, which generally eliminates its effect on large companies. It might also be improved by raising the $4,200 tax credit base per worker. Otherwise firms may in fact be unduly encouraged to hire part-time workers, or workers for part of the year, rather than to generate genuinely full employment.

The House Committee's proposal is not necessarily a substitute for the public employment Kirkland and the AFL-CIO recommend. But it represents a very hopeful direction in which to move, with the potential for becoming a major step bringing the private sector of the economy up to its full potential. Compared to the tax rebates and investment credits that are such tired, inadequate echoes of the past, it offers a new direct focus on our number one economic problem: getting this nation to work again. It also has the secondary yet not trivial advantage of doing so by lowering the critical marginal labor cost to employers, and hence actually working to lower prices and combat inflation.

Evanston, Ill. ROBERT EISNER
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The real skeleton in the closet of the American economy is its inability to provide good jobs for all persons wanting work—young and old, black or white, men and women. On occasion, as happened because of the 1974-75 slump and the faltering recovery, the door swings somewhat open and we get a glimpse of the skeleton. Most of the time since World War II it has been safely hidden from view.

One reason for this is that the figure which gets lavish attention in the nation's press, the Bureau of Labor Statistics' monthly unem-

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ployment rate for all workers, is far too restrictive: It doesn't tell us about the worker who has dropped out because he or she has simply given up—the "discouraged worker"; it doesn't tell us how many are working part-time involuntarily, or include any adjustment for many thousands of workers whose wages are clearly substandard; and it conceals the depression-level joblessness situation that has confronted teenagers and nonwhite workers throughout the whole of the postwar period. Even if the latter tragedy is viewed as a "special problem," the "official" unemployment statistic probably understates the *real* rate by 4-8 percentage points.

It ought to be obvious by now that the real employment problem confronting this country is not going to be solved by Keynesian-style fiscal and monetary measures—the major ingredients in the Carter program. Short of a major war, pumping up demand pushes the inflation rate into an intolerable range long before there are any salutary effects on the unemployment rate. This is because of a basic—and deep—split in the labor force between the skilled and the unskilled, between those who can find a job when demand is high and those who are left out most of the time. Behind the rosy facade created by the long wave of post-World War II prosperity, the economy has spawned what Gunnar Myrdal calls an "underclass" of the permanently unemployed and the underemployed. No one knows for sure the size of the underclass, but it is large. Not only does it include the discouraged worker, but probably many more, including people forced into involuntary "retirement" by an obsolete and arbitrary age criterion.

One consequence of our efforts to use Keynesian tolls to cope with an employment situation vastly more complex than the mass unemployment of the 1930s is the drift of the economy into inflationary cycles of growing intensity. In the last decade we have had three such cycles: 1966-67, 1969-70, 1974-75. Each time the economy has emerged with a higher residue of inflation and unemployment, a condition aptly described by the ugly term "stagflation." We have arrived at something close to what Michal Kalecki a long while ago termed "the political business cycle." Unfortunately, it has not resulted in a cure for either chronic inflation or chronic unemployment.

Current folklore holds that the best way to "create" new jobs is through accelerated investment spending, an idea not unrelated to the notion that the nation is suffering from a massive "capital shortage." We have been assiduously pursuing the will of the wisp which sees more investment as the cure for our unemployment problems ever since the Kennedy Administration first introduced the investment tax credit in 1962. Where are all the jobs?

But one wonders about such dubious results. Even beginning students in economics understand that it is consumption which ultimately validates capital spending—not the other way around.

The conventional wisdom tends to ignore or play down the fact that investment spending induced by such gimmickry as the investment tax credit is highly capital intensive. Productivity in the conventional sense is no doubt boosted, but the social cost is more labor skills made obsolete and more workers tossed into the growing ranks of the underclass, of the not-needed. Equally serious is the energy-intensive nature of much investment, a luxury of dubious worth in this era of worsening shortages for such key fuels as petroleum and natural gas.

It is against the foregoing backdrop that the Carter economic plan must be evaluated. Within the frame of reference of the conventional Keynesian view of the economy, it is a modest program—more modest, relatively speaking, than either the Kennedy or Ford tax cuts. But if the economy won't behave in proper Keynesian fashion, then a program of public works, public service jobs, plus funds for job training, the kind of program outlined by Lane Kirkland, will have a larger and more immediate impact on America's jobless than another round of personal and corporate tax cuts.

Let's be straight on a fundamental matter, though. Even if the Administration did switch, this approach won't solve our fundamental problem. As matters now stand, the American economy cannot deliver either full employment or stable prices, not to mention other worthy social goals. Two things need doing. First, we must recognize that excessive inflation and excessive unemployment are endemic to the American corporate state; second, we have to begin to think seriously about the kind of basic reforms necessary to change this structure. Until we do this we shall continue to bounce up and down in politically-determined cycles of "go and stop."

Lincoln, Neb. Wallace C. Peterson
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I regret to state that I found Lane Kirkland's article very disappointing. To begin with, Lyndon Johnson did not leave us with a "balanced, healthy economy." As has been carefully documented, it was the deficit financing of the Vietnam buildup during the Johnson Administration that set in motion the inflation that has bedeviled his successors. We should not forget that the current high level of unemployment in the United States is the unfortunate legacy of the efforts to contain that inflation. To urge massive programs of additional stimulus without one word about the inflationary consequences ignores the lessons of history.

CONTINUED ON NEXT PAGE

Dear Editor

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In fact, to write about "Putting America Back to Work" is, perhaps quite unintentionally, a fundamental exaggeration. Without understating the seriousness of the unemployment problem in the slightest, the fact of the matter is that the great majority of American workers are at work. Employment in January 1977 totaled 88.6 million, an increase of 4.3 million jobs from the low point of March 1975. The unemployment rate, simultaneously, has been declining.

Moreover, it is not "taken as gospel" by economists that increasing employment by 1 million will reduce the budget deficit by $16 billion. That ignores where we would get the money to pay the 1 million people in the first place. In addition, each of those 1 million would have to generate $16,000 in earnings with all of that added income paid back to the Treasury. Frankly, that type of wishful thinking got us into our present economic difficulties. Reducing unemployment is very important, but we delude ourselves if we think Federally-created jobs will reduce the budget deficit.

I have no panacea to offer. Apparently, and thankfully, neither does the Carter Administration. I do suggest that it would be helpful to provide some incentives to the private sector to increase employment. Better yet, it would be useful to reduce the discouragement to private job creation that results from the rising and costly tide of government regulation enacted by Congress in recent years.

To state that, "For the last eight years, what business wanted business got," may get a great response on the banquet circuit, but it bears no resemblance to economic and political reality. It overlooks all of the regulatory and other spending legislation enacted over the objections of much of the business community. In all candor, let us recognize that all elements of the society—labor, business, agriculture, and the consumer—are hurt by high inflation and high unemployment.

As I strongly share Kirkland's desire to reduce unemployment, I wish he would join me in urging Congress to cut back on (not eliminate, but reform) the massive array of government regulation that clearly increases unemployment and inflation simultaneously. Moreover, I hope he will take a fresh look at the very complex subject of business taxation. Allocating a small part of a tax reduction package to reducing the burden on business is not just "another tax bonanza." Rather, such a tax reduction can (1) offset increases in other costs and slow down the rise in the prices of the products that consumers buy, and (2) enable companies to expand and thus increase their hiring.

I have tried to avoid unproductive recrimination. Certainly, some businesses have been guilty of illegal and immoral practices. But we can make the same statement about unions and their members, farmers and their organizations, government agencies and their employes, and every other part of this imperfect nation. To be sure, we should ferret out and punish each of those wrongdoers. Yet just as we should not besmirch the entire labor movement whenever individual members or locals are caught doing something wrong, we should similarly avoid tarring the entire business community with the same brush.

St. Louis, Mo. MURRAY L. WEIDENBAUM
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Lane Kirkland's emphasis upon jobs as the primary objective of economic policy is correct. However, Kirkland does not examine why our economy fails to generate a close approximation to full employment. Without an understanding of why our economy is unemployment-prone and subject to fluctuations, policy prescriptions are likely to be inept.

The recent behavior of our economy shows that the ruling economic structure does not serve us well. Three near financial crises, two recessions, double-digit inflation, chronically high unemployment, and multiple devaluations of the dollar have occurred in the past decade. Even though the recession of 1974-75, as measured by unemployment, is still going strong, inflation continues to be distressingly high.

The best that can be expected from a conventional stimulus package such as the Administration is offering is a two or three year expansion, accompanied by a burst of speculation. Another financial crisis and deep recession, quite likely worse than that of 1974-75, can be expected to follow. Kirkland's policy proposals would not really change the general configuration of a transitory expansion followed by a resumption of hard times. With Kirkland's proposal unemployment would be somewhat lower, inflation a trifle smaller, and the expansion a bit longer than with the Administration's program.

Unemployment can be divided into chronic and cyclical components. Our cyclical low unemployment rates are now above four per cent. This high minimum figure, together with the low labor market participation of youth, middle-aged males and the elderly, shows that ours is a labor-surplus economy. This is so because unfortunate institutions and poor policies are barriers to employment and offer inducements to substitute against labor in production. Social security taxes, medical insurance financed by private payroll taxes, and means-tested transfer payment schemes are among the barriers to employment. Investment tax credits, accelerated depreciation, particularist trade union practices, and chronic inflationary pressures induce substitution against labor in production. A serious commitment to full employment requires institutional reforms that remove these barriers and perverse inducements.

Our economy is unstable. It is subject to inflationary booms, near financial crises, and severe recessions. Inflation persists in spite of high unemployment. Our inflation is not due to tight labor markets but to inefficient use of resources and inadequate programs. Government spending that does not yield useable output (defense, space, much of construction), poorly designed transfer-payment schemes, and investment induced by subsidies and tax privileges are the principal causes of our inflation. Particularist collective bargaining combined with the partial organization of labor exacerbate price pressures once inflation erodes real wages. Comprehensive trade unionism, wage-solidarity collective bargaining and an augmented flow of useable output are needed for sustained full employment to be consistent with stable prices.

Investment booms are the main causes of our instability. Investment booms are associated with speculative finance. Reforms to control them and constrain financial institutions are necessary if financial instability and serious recessions are not to be regular, recurring events.

Another age of reform, similar to that of Franklin D. Roosevelt's time, is necessary if we are to do better. A first step to a reformed economy would be to use a permanent "modernized" WPA (Works Progress Administration), CCC (Civilian Conservation Corps) and NYA (National Youth Administration) as the foundation of the stimulus program. The details of the WPA, CCC and NYA institutions should be open for negotiation and evolution, but the principles that should guide them are clear. They should be open-ended so that jobs are available for all willing to work. Being open-ended they would determine the minimum wage. They should not be means-tested. They should be work-oriented and produce useable outputs. Because WPA, CCC, and NYA may provide multiple jobs to families, poverty will be diminished, even if WPA wages are at the present minimum wage. One objective of the WPA, CCC, and NYA should be to replace means-tested transfer payments with income from work.

The adoption of the WPA, CCC and NYA stimulus strategy should be the first step in a program of reform. The next step should be the formation of another Temporary National Economic Committee to undertake a grand inquiry into the structure and performance of the American economy. If we are to avoid a replay in the next decade of our dreary economic experience during the past decade, a broad congressional, administrative and public committee is needed to draw up the blueprint for and legitimize comprehensive change.

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I share Lane Kirkland's skepticism about the short-term employment-creating effects of corporate tax reductions, particularly for 1977. I am more skeptical than he is about how many jobs will be created by accelerated public works, though, and my skepticism is reinforced by the interim results of the 1976 efforts in this area. In addition, I see no reason for providing special stimulus to the housing industry, since it is finally on the upbeat, or to countercyclical revenue sharing to protect the jobs of state and local employes, since as a group they have one of the lowest records of unemployment. On the other hand, I strongly agree with Kirkland's emphasis on providing special assistance to our nation's youth, and go part of the way with him in the direction of expanding public service employment.

More important than such short term measures, however, are the longer-range questions that must be confronted as the debate about how to expand employment continues. How, for example, can the unemployed be used to expand our productive capacity, thereby reducing the effect of present and prospective shortages of resources such as energy, which contribute to inflationary pressures? If the prospects of bringing down the jobless rate to a tolerable level in the near future look bleak, as I believe they do, what can we do, through adjustments in hours worked and related measures, to bring about a better sharing of the costs of unemployment, so that fewer people are forced to carry an excessive share of the burden?

Are we willing to say that no employable person should receive income transfers beyond a maximum of six months, or that he is required to accept a public service job if private employment is not available? Are we willing to create the several million public service jobs that this may require, along with a program that would assure useful employment to any person who meets certain basic criteria, such as prior labor force attachment and/or a stipulated family income level? And are we willing to set the wage for public service jobs slightly above the average unemployment compensation level but considerably below the $7-$8,000 annually such jobs currently pay, in order not to distort the wage structure?

There is no way to settle the argument between conservatives and liberals about how strong the 1977 stimulus should be. But in the pulling and hauling over immediate measures, we should not pretend that the answers we desperately need to raise the level of employment in the years ahead are at hand. Indeed, finding these answers is the real challenge we face.

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