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How to Maintain Full Employment

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from the not-so ivory tower

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By H.P. Minsky

Opponents to current economic policies are divided into "me-tooers" and "stand-patters" on economic policy. Too few wish to "build on" the successes of the past or are willing to learn from its mistakes.

The "me-tooers" accept the conservative economic propositions that the market works and the market knows best. Some Democrats, for example, want to be better economic conservatives than the Reaganites. The "stand-patters" take the specifics of interventions into economic life that grew up between 1933 and 1980 as defining apt economic policies. They want the Democrats to defend that structure as if it were sacred.

Neither approach will do for the country. What is needed is a policy that recognizes the flaws in our economy and builds institutions that contain the damage. Policies that work under one set of circumstances might not under another. The future never replicates the past; market and individual adjustments will render programs that once were effective invalid or even harmful.

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The most significant flaw in our economy is that it invites deep and long depressions: It is not able to sustain a close approximation to full employment unless government intervenes. When the size of government was dramatically increased from the three percent of Hoover's time to today's more than 20 percent and when the power of the central bank to intervene in the financial system was increased (Central Bank interventions go far beyond what the Federal Reserve System does) the tendency to generate serious depressions was contained. For example, without deposit insurance and Federal Reserve interventions the banking and financial crisis in the oil patch would now be out of control.

Interventionist capitalism practiced by the New Deal and its aftermath through the 1960s was able not only to contain depressions but also led to an era of sustained growth. Its benefits were broadly distributed. The stand-patters wish to reconstruct that era, not recognizing that the success was based on conditions which no longer exist.

There are many types of big government interventionist capitalism. Ours began with the New Deal, was developed during the Second World War, and matured in the Kennedy-Johnson era. Active government support of unions and a tolerance of corporate market power in key industries are among its features. This structure of industry served us very well during World War II and seemingly in the first decades that followed. It no longer serves us well.

Since World War II, American industrial policy was and remains soft on corporate market power. During the very successful 20 years after the war, this soft monopoly power policy was part of an implicit contract in which industry accepted unions and did not "sweat" labor, even as unions constrained money wage demands to the estimated increase in labor productivity. This implicit contract has now come to an end.

One assumption of this implicit contract was that corporations would remain technologically progressive. They did not. Too much of American industry took it easy and became technologically obsolescent. Not only were export markets lost but a large part of the domestic market was surrendered. One result is that jobs have disappeared in large numbers.

Imports broke or greatly diminished business market power. In the new competitive environment, the business cash flows that supported the "no sweated labor" part of the post-war concensus were not available.

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A key act of the Reagan administration was breaking the air controller's strike. This was a signal to industry that the administration expected management to stand up to unions. In one industry after another, unions have been forced to "give back" wages, job protection, and fringe benefits.

With few exceptions unions now have little power. It is clear that union strength depends upon the support of government. This implies that union behavior in collective bargaining should be expected to be consistent with the policies of administrations that are supportive of labor.

The current strike against what was once the United States Steel Company is a critical development. The industrial union movement founded 50 years ago is virtually on its last legs. Membership is down for all unions but the formerly great industrial unions have been particularly devastated. The likelihood is that the Steelworkers Union will be forced to make concessions. This will lead to concessions to other companies, initiating a round of cuts which will bring wages down to or below those in the other steel producing countries.

The time has come to forge a new supportive policy toward labor. Unions have always had a dual role. They have been advocates of the interests of all workers as well as the particular interests of their members. The unions supported the development of market power for industry as long as industry paid to its workers part of what it gained.

One result was the wage scale in steel that is the focus of the current strike. Labor costs in steel are about $25 an hour, or $1,000 per 40-hour week in an economy where the minimum wage is $3.35 an hour or $134 per 40-hour week. About half of the labor costs are for fringe benefits, which makes the effective income differential between wages in steel and the minimum wage even worse than the raw numbers indicate. The gap between $134 and $1000 or $500 is indefensible.

Economic policy cannot evade reconsidering the role of unions and the structure of industry.

The basis of the policy should be to promote the role of unions as the representative organization for labor as a whole and downgrade their role as seekers of gains for their members. Gomperism, the philosophy in which unions were concerned with gaining more benefits for their members, is not tenable in today's world. The role of unions should be to assure that all workers benefit from progress even as differentials among workers are kept within reasonable bounds.

The new market circumstances make full employment even more important than before. The continued pressure on the foreign exchanges and the selling out of America these days means that in the not too distant future the world's financial markets are *likely to signal* that seven percent unemployment is *not enough. The markets will signal that* the United States must have 10 percent unemployment. A full employment program based on modern equivalents of the C.C.C., W.P.A., and N.Y.A. of the New Deal is the first requirement of any new policy.

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It is now clear that tolerating corporate market power was a mistake. A vigorous anti-trust policy needs to be coordinated with the positive support of entrepreneurial and smaller firms. Anti-trust policy needs to incorporate positive programs to support competition. The concentration of financial power by a few giant banks must be limited.

Thus an economic policy that builds upon the successes of the past even as it recognizes that times have changed will:

- Maintain full employment by open ended employment programs like the W.P.A., C.C.C. and N.Y.A. of the 1930s.
- Reconstruct and support unions as organs that protect workers' shop and seniority rights, but not as organizations that grab wages and benefits for their members by entering into symbiotic relationships with companies that have market power.
- Develop policies that will promote competitive industries at home thereby making our industries competitive abroad. ■