Book Review

Review of Radical Political Economics
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Ending Poverty: Jobs, Not Welfare.
By Hyman Minsky. New York, NY: Levy Economics Institute, 2013. 188 pages. Paperback $14.94.
ISBN: 978-1-936192-31-1

DOI: 10.1177/0486613417743529

Date accepted: October 31, 2017

Ending Poverty: Jobs, Not Welfare traces the evolution of Hyman Minsky's thinking over the course of three decades on the issues of poverty and employment. The book was published eighteen years after Minsky's death, and some seven years after, his work on financial instability became popular. It offers a coherent and precise selection of the author's published and unpublished work on those issues, ordered chronologically as book chapters. Most of the chapters were written between 1965 and 1975 against the background of president Johnson's *unconditional* War on Poverty (WoP) declared in 1964, and Nixon's later reforms. Ironically, the last chapter was written during the Clinton administration; two years before, Congress "ended welfare as we know it" by passing the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) that imposed time limits on government cash assistance to end "government-dependency of the able-bodied."

As the title suggests, Minsky develops the argument that job creation is the central component of any public policy framework designed to end poverty *once and for all*. He was quick to denounce the conservative nature of Johnson's WoP both in its individualization of poverty as a "failure of the self" and in its proposed attempt to rectify the individual through government programs that provided training and skills, but did little to address the primary cause of poverty: the inexistence of job opportunities "of the right kind, at the right place, and with sufficiently high incomes" (3). Government programs like the *Job Corps*[1] could "spread poverty more fairly" (1), but not end it.

At opening, any reader previously unaware of Minsky's radical persuasion or accidently mislead by the book's title is forced to confront the powerful statement that "capitalism necessarily generates 'poverty in the midst of plenty'" (1). Poverty is primarily a direct consequence of the system's "inability to maintain a close approximation to full employment over extended periods of time" (166), not only because of the direct relationship between employment and income—or unemployment and poverty—but, as Minsky reminds us, poverty is also a matter of *inadequate, insufficient*, and *unequally distributed* income from work. Periods of sustained tight "full" employment not only alleviate poverty that results from joblessness and insufficient hours of work but can set off market processes which tend to raise low wages faster than high wages.

Unlike standard Keynesians of his time, or even Keynesians of today, the novelty in Minsky's policy argument does not lay in the use of *generic* fiscal policy to stimulate aggregate demand to full-employment, but on his insistence on *direct* or *targeted* fiscal policy. The logic is irrefutable:

[1]The first essay of the book was written in 1965, a year after the Johnson administration had created the Job Corps as part of the War on Poverty effort. The program, which exists up to this day, is ran by the US Department of Labor and provides free education and vocational training to low-income young adults.

if the goal is to end poverty, government spending needs to be directed to stimulate aggregate demand, create jobs, and increase earnings at "communities with low incomes" (15).

Minsky insisted that different aggregate demand policies produced a myriad of intended and unintended final demand impacts that varied in nature, proportion, intensity, and that had differential impacts across various sectors and socioeconomic demographics. Standard theory of aggregate demand was flawed precisely because it tended to ignore the "differences in effect of the various demand-generating policy-actions" (14) and targeted "perceived generalized deficiencies in aggregate demand" (69) in the hopes that economic growth would be equally shared among all. Unsurprisingly, as Minsky shows throughout the book, public spending in the postwar era was biased toward high-earning industries, capital formation, and research and development, favoring the demand for highly-skilled, specialized labor, and increasing wage disparities across sectors.

Thus, the central element of any antipoverty policy should be the *direct* creation of public jobs for the able-bodied at *decent* wages. Minsky proposes a *Job Guarantee* (JG) program in which the government acts as the *Employer of Last Resort* (ELR), providing federally funded jobs directly to all those willing and able to work who cannot find employment at adequate pay in the private sector. Only the federal government can offer an infinitely elastic demand for labor of varying skills—across different demographics and geographical regions—that is completely divorced from short- or long-term profit expectations. Much like a *permanent* version of New Deal programs such as Worker's Progress Administration (WPA), Civilian Conservation Corps (CCC), and National Youth Administration (NYA), a public JG would be labor-intensive and tailor-made to the "capabilities of the available labor" (20). The program would also set a floor to private sector wages as no labor would be forthcoming at wages below those offered by the program.

The conservative reader may be further discouraged to learn that the book is not an argument against welfare. Quite the contrary, Minsky argues for the modernization and expansion of the system of income transfers to "the aged, the infirm, the disabled, and needy children" (2). But rather than a central element in ending poverty, such action should be regarded as a matter of "simple decency," as part of our "national conscience and affection for man" (2). However essential a comprehensive welfare system is for those unable to work, relying on welfare to alleviate poverty among the able-bodied was self-defeating and ultimately an "admission of an inability to make the production process to respond to social goals" (30). Although well intentioned, they were "poorly thought-out programs" (138) that appealed to "sentimentally with regard to hunger and clichés about consumer sovereignty" (140), created government-dependency, and disrupted "social cohesion or domestic tranquility" (30).

Minsky's objection to income transfer programs as the central element of antipoverty strategies rested on the understanding that income schemes generous enough to end poverty carried the potential to alter the system's behavior in ways that would "cast doubts as to its ability to deliver the benefits claimed" (96). Programs like the *negative income taxes*, formulated by Milton Friedman but popular across the political spectrum at the time, carried destabilizing and inflationary tendencies that were likely to wipe out most of the benefits to those in need. They changed behaviors, de-incentivized labor force participation, and shifted "consumption and liquidity preference functions so that excess aggregate demand appears" (92) without any "commensurate increases in supply" (139). Furthermore, they changed expectations and the *demand price* of investment—as prospective yields increased, an investment-led boom would fuel financial fragility.

Skeptics may suggest that a guaranteed income through work would have similar expansionary impacts. The key point, however, is that a JG program would encourage labor force participation, raising incomes but also output. The program also increases the production of *public* goods and services—*socially useful* output—that would alleviate the pressure and the reliance on private production for the satisfaction of basic needs at the same time that their provision would improve the quality of life in deprived urban and rural communities.

Most importantly, a JG program would act as an automatic stabilizer, a fundamental component of an alternative institutional structure designed to counter self-reinforcing, cyclical tendencies of money-production economies. For example, the number of workers employed in the program would swing countercyclically, adding *direct* stimulus during recessions, and removing it during expansions. Also, the program would "anchor" money wages, and stabilize the price level, working much like buffer stock government programs to stabilize commodity prices. Although, instead of warehousing abundant perishable goods, human work potential would be unleashed when "market forces" would have kept them idle, or put them to waste.

Some progressives may still find Minsky's emphasis on public employment over income transfers a little too capitalist-friendly. After all, institutional ceilings and floors can make the system more stable, perhaps enduring, while the generation of income through public work legitimizes the capitalist logic of exploitation. If so, they will have misunderstood Minsky's central message. While an income guarantee would create exclusive reliance on the market provision of privately produced goods, a public JG would create partial redemption from it, mobilizing underutilized labor to meet the *social objectives* of their communities. Indeed, Minsky considered the desire to engage in socially productive work as a basic human propensity, so he perceived any public policies that interfered with or even barred the unemployed "from even the satisfactions and social intercourse of work" (116) as another major social injustice.

Sadly, many passages of the book could have been written today. Minsky put a large part of the blame for failure of public policy since mid-1960s to promote a more stable and equitable economy on the "intellectual baggage of the economists who have acted as policy advisers" (104). Liberals and conservatives were equally guilty for the "erratic course of economic policies" characterized by "a failure of analysis, a substitution of clichés for reasoning, excessive sentimentality, and a blatant disregard for reality" (128). Most of that intellectual apparatus still informs public policy today—the theoretical emphasis on efficiency, general equilibrium, and "trade-offs" (e.g., unemployment vs. inflation); excessive reliance on stochastic econometric models and in self-correcting market mechanisms, including the technological treatment of income distribution; abstractions from the centrality of finance and the inherent instability of the monetary production process; and so on. Economic policy today continues to privilege profits over wage growth, capital over labor, and externally financed, investment-led booms over consumption.

Finally, those already familiar with Minsky's work on financial instability will find the basic elements of his Financial Instability Hypothesis in earlier writings included in the book. Still, some may be surprised to find out that Minsky was actively advocating for a JG as an antipoverty strategy since the 1960s, or to learn of a Minsky who was much farther left of the political spectrum than progressive Keynesians of today.

The book is a must read for all concerned with some of the pressing economic issues of our time—declining prime-age labor force participation, income inequality, joblessness growth, secular stagnation, and technological displacement. To those who are rediscovering the importance of fiscal policy, Minsky's message is timely: fiscal policy is powerful but its inept use may as well exacerbate current social and economic problems. More than anything, the book leaves us with the positive message that a more equitable, fair, stable, environmentally sustainable, and humane form of capitalism is possible, but requires a radical departure from the menu of policy options offered by standard economic theory. There are no permanent solutions to the fundamental flaws of capitalism, however. Success breeds failure, so institutional structures and economic theory and policy must continuously evolve to address the problems of tomorrow.

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