

## The State as the Employer of last Resort

by Cédric Durand and Dany Lang

The great recession the rich economies entered in 2007 has turned into social devastation in Europe. In France, there is every reason to despair the new rulers holding the reins since June 2012; indeed, the abandonment of workers' collectives to their fate after half-hearted threats of nationalisation is only the tip of the iceberg. Policies implemented by François Hollande's government include budgetary austerity on a scale unprecedented since World War II (60 billion euros' worth of cuts planned over five years), the institutionalising of the European "golden rule" which limits structural deficits to 0.5% of GDP, a "competitiveness" plan which offers firms €20bn in tax credits (€7bn of which are to be funded by a VAT increase) without any counterpart, and the transposition into law of an agreement reached between employers' organisations and minority trade unions aimed at increasing dramatically external number flexibility on the "labour market". This profoundly neoliberal orientation is based on choices that need to be analysed.

The first is austerity. The deflationary exit strategy from the crisis advocated by the European elites can only lead to a long, painful recession. In the wake of a financial crisis, the private sector needs to get out of debt. If, in addition, the state takes to cutting back its expenditure, the spiral of depression can only get worse.<sup>i</sup> For four years, the forecasts made by the "Troika" (European Commission, IMF and ECB) have been systematically contradicted by the facts, precisely because of their refusal to contemplate this basic macroeconomic mechanism. Indeed, a recent IMF study<sup>ii</sup> admits as much. While the IMF used to think that a 1-euro cut in public spending reduces GDP by only 0.5 euro, it has realised that, in fact, it leads to a contraction of activity representing between 0.9 and 1.7 euros.

So while austerity is spreading across Europe, there is not the slightest chance of keeping Hollande's promises about turning the unemployment curve back down again in 2013. And yet, there is nothing "natural" about the scourge of unemployment.

### The limits of an investment revival

Hyman Minsky is the most feted economist since the financial crisis. Since August 2007, the Wall Street Journal<sup>iii</sup> has been a cheerleader for this posthumous glorification. On the fringes of academia, Minsky had explained that finance generates

violent, destabilising cycles. One of the first formulations of his *financial instability hypothesis* is to be found in an article published in 1973, 'The Strategy of Economic Policy and Income Distribution'<sup>iv</sup>. Here, Minsky identifies two anti-unemployment strategies that are richly instructive today. Under the first one, there is a "view that economic growth is desirable, and that the growth rate is determined by the pace of private investment". This leads to "the emphasis on private investment as the preferred way to achieve full employment". So the aim of the recovery policy is to ensure that investors' profit expectations turn back upwards, thus enabling accumulation to restart.

This involves tax deductions on investments as well as public procurement (typically, armaments or construction and public works) and subsidies for the construction sector or R&D. He sees numerous weaknesses in this strategy: it leads to a rise in capital's share of overall income, it nurtures unstable financial relations, it contributes to an increase in wage inequality and the spread of consumerism, and it can also cause inflation. Today, it should be added that these policies are coming up against the limits of capitalist growth. The exhaustion of industrial dynamics in the rich countries, the increased demand for services produced by people for people (health, leisure, education etc.) and the declining environmental conditions come at a time when the century-old trend towards slower productivity growth<sup>v</sup> demands a fundamental rethink of what the industrial dynamics may be in future.

### Fitting public jobs to unemployed capabilities

The anti-unemployment strategy preferred by Minsky focuses on public employment. Its central principle is that of the state as the "employer of last resort" (ELR). Under this approach, now advocated notably by the Modern Monetary Theory (MMT) economists, the state – or local authorities – pledges to provide employment to all those who are prepared to work at the basic public sector wage rate (and possibly above that rate, depending on the qualifications required for the jobs offered).

This "takes the unemployed as they are and fits public jobs to their capabilities" but it is not *workfare*. Making

jobs available does not imply an obligation to work; it does not replace, but rather supplements, the existing unemployment benefit and social assistance schemes. The jobs are in labour-intensive services which generate useful effects that are immediately apparent to the community in fields such as assistance to older people, children and the sick, urban improvements (green spaces, social mediation, restoration of buildings etc.), the environment, school activities, art initiatives and so on. A characteristic of all these activities is that they take place in sectors where the scope for productivity gains is weak or non-existent. As Minsky puts it, the aim is "better application of current capabilities" rather than increasing them.

### Girding for a fiscal confrontation with capital

Strongly redistributive taxation and the savings made on unemployment benefits would provide the means of paying for these jobs. Such a strategy would also lead to "a rather quick partial euthanasia of the rentier". Indeed, there is "no need to stimulate investment (...) Thus, truly progressive and effective death duties can be instituted"<sup>vi</sup>. And taxes on profits "no longer need be determined by a need to sustain corporated cash flows"<sup>vii</sup>. This is especially so since for more than three decades, most profits have not been reinvested<sup>viii</sup> but distributed to the shareholders. Another advantage is that, unlike an indiscriminate revival policy, this policy of public ELR is directly targeted towards the unemployed, who are not only most in need of it but also constitute unused production capacity.

Given the immense human and social waste represented by unemployment, what is stopping governments from adopting such a policy? The answer is that the "competitiveness" agenda is the one preferred by business. If focussed on costs, the "competitiveness" strategy aims, by lowering the wages or taxes paid by firms, to revive investment and employment through higher profitability and greater market share. If focussed on moving upmarket, it entails mobilising public expenditure to support innovation and training, as ways of improving productivity. In either case, the reasoning depends on the possibilities for capital appreciation in a highly competitive context – which implies that, to a great extent, the hoped-for benefits of these policies will be to the detriment of trading partners.

On the other hand, the ELR strategy points the available labour towards social needs. It aims to produce use value. Combined with other ambitious policies, such as a major investment programme for environmental conversion, it would enable the disbandment of the "reserve army" of unemployed people and the reduction of inequalities by shifting the income distribution more towards wages. It is thus

clearly unfavourable towards the holders of capital, particularly the rentiers.

However, putting an ELR strategy into practice does mean changing the framework for integration in the world economy and, more immediately, for European integration. Defensively, there is a need to prevent the capital flight that would inevitably be triggered by a resolute tax policy (if necessary, by recourse to currency controls) and to stabilise imports, either through exchange rate depreciation policies or through quota measures.

On the offensive side, a public debt financing system should be put in place backed by household savings in the countries that jointly agree to apply this policy, while requiring the central bank to guarantee the securities issued. There is also a need to lift the curbs that free trade places on the possibilities for orientating economic activity towards the production of use value and the preservation of the biosphere. This entails taking measures that promote the shortening of production circuits and negotiating agreements to stabilise prices in the medium term, particularly for raw materials and foodstuffs.

If such measures sound radical, they are nothing compared to the market fanaticism that has now taken hold of our political leaders. That fanaticism leads them to reject out of hand options that would enable unemployment and inequality to be vigorously tackled. Isn't that the kind of daring that might be expected from a straightforwardly left-wing policy?

- i Richard C. Koo, "The world in balance sheet recession: causes, cure, and politics", *Real-World Economics Review*, issue no. 58; see: (<http://www.paecon.net/PAEReview/issue58/Koo58.pdf>)
- ii Olivier Blanchard and Daniel Leigh, "Growth Forecast Errors and Fiscal Multipliers", IMF Working Paper, WP/13/1, January 2013; see: (<http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf>)
- iii Justin Lahart, "In Time of Tumult, Obscure Economist Gains Currency", *Wall Street Journal*, August 18, 2007; see: (<http://online.wsj.com/article/SB118736585456901047.html>)
- iv Minsky, Hyman P., "The Strategy of Economic Policy and Income Distribution" (1973). Hyman P. Minsky Archive. Paper 353; see: ([http://digitalcommons.bard.edu/cgi/viewcontent.cgi?article=1352&context=hm\\_archive&sei-redir=1&referer=http%3A%2F%2F](http://digitalcommons.bard.edu/cgi/viewcontent.cgi?article=1352&context=hm_archive&sei-redir=1&referer=http%3A%2F%2F))
- v Robert J. Gordon, "Is U.S. Economic Growth Over? Faltering Innovation Confronts the Six Headwinds", NBER Working Paper, No. 18315, issued in August 2012; see: (<http://www.nber.org/papers/w18315>)
- vi Minsky, Hyman P., op. Cit., p. 100
- vii Ibid.
- viii Engelbert Stockhammer, "Some Stylized Facts on the Finance-Dominated Accumulation Regime", Working Papers wp142, Political Economy Research Institute, University of Massachusetts at Amherst. 2007; see: ([http://www.peri.umass.edu/fileadmin/pdf/working\\_papers/working\\_papers\\_101-150/WP142.pdf](http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_101-150/WP142.pdf))

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