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The "War on Poverty" after 40 Years: A Minskyan Assessment*

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"The liberal's war on poverty was born out of neoclassical theory in which it is the poor – not the economy – that is to blame for poverty. The war on poverty tried to change the poor, not the economy" – Minsky, 1971, p. 20.

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INTRODUCTION

The War on Poverty (WOP) turned forty just a few short months ago. It is fitting, if embarrassing, that no national celebration marked the occasion. It is a war most Americans would like to forget, a war only half-heartedly embraced by Washington, a war decisively lost. As Hyman Minsky remarked barely one year into the battle, “The war against poverty is a conservative rebuttal…it can spread poverty more fairly…However, this approach, standing by itself, cannot end poverty.” (Minsky 1965, p. 175) Minsky characterized the original War on Poverty as an attempt to “upgrade workers,” and any number of programs have been created since 1964 to “improve” education, skills, and incentives of the jobless to make them more appealing to private sector employers. Further, “Keynesian” policies to raise aggregate demand in order to stimulate private sector employment have also been adopted, to greater and lesser degrees over the past four decades on the belief that economic growth would raise the demand for labor and thereby “lift the boats” of the poor. Still, unemployment rates have trended upward, long-term unemployment has become increasingly concentrated among the labor force’s disadvantaged, poverty rates have stagnated, real wages for most workers have declined, and labor markets and residential neighborhoods have become increasingly segregated as the “haves” construct gated communities and the “have-nots” are left behind in the crumbling urban core.

The claim that the War on Poverty was a failure is not novel. Conservatives have long argued that the program was misguided from the beginning. The answer to poverty is less government, not more, because unleashing the market will eliminate (involuntary) poverty. Indeed, policy since the early 1970s has increasingly adopted the view that “less is more,” culminating in President Clinton’s push to “end welfare as we know it” with lifetime limits and greater “personal responsibility.” Hence, “liberals” and “conservatives” appear to have come together in rejecting some of the most important precepts of the War on Poverty, and in embracing the belief that the best way to reduce poverty is to subject the poor to the “tough love” discipline of unbridled market forces. All that remains of the original War on Poverty is the notion that the rising tide of private-sector-led growth combined with some supply side policies to improve workers will successfully lower poverty.

This paper will examine "what went wrong" and Minsky's alternative to the War on Poverty. Briefly, the economic theories on which the War on Poverty was based misunderstand the nature of poverty. The notion that economic growth together with supply side policies to upgrade workers and provide proper work incentives would be enough to eliminate poverty was recognized by Minsky at the time to be fallacious. Indeed, evidence suggests that economic growth mildly favors the "haves" over the "have-nots"—increasing inequality—and that jobs do not simply trickle down, at least at the levels of aggregate demand actually experienced in the post-war period. Further, most of the early success at eliminating poverty had to do with creation of Social Security for the aged—it had little to do with either more rapid growth or with the WOP programs. According to Minsky, the critical component that was missing in 1964, and that remains AWOL in 2004, is a government commitment to full employment. Only a targeted jobs program, paying decent wages, will successfully fight poverty among the non-aged in a politically acceptable manner.

JOHNSON DECLARES WAR: THE ECONOMIC OPPORTUNITY ACT

In his first State of the Union address on January 8, 1964, Lyndon B. Johnson declared an "unconditional war on poverty," and the Economic Opportunity Act[1] was submitted to Congress later that year. According to Johnson, the plan was designed to deal with the *causes* of poverty, rather than simply trying to ameliorate its *consequences*. By expanding educational and training opportunities for the poor, Johnson believed it would be possible to end poverty forever. Specifically, his Act:

1. Called for the creation of Head Start, a Job Corps, a Work-Training Program and a Work Study Program.

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[1] For a review of this literature, see Perry and Tobin, 2000.

2. Sought recommendations from citizens throughout the country (CAPS – Community Action Programs), to design long-range proposals to fight poverty in their communities.

3. Requested the authority to recruit and train thousands of citizens (VISTA – Volunteers in Service to America) for the war against poverty.

4. Asked Congress for funds to help those currently unemployed (through a new program of loans and guarantees) as well as struggling farmer workers (through the purchase of land, the organization of cooperatives and the creation of new family farms).

5. Created the Office of Economic Opportunity (OEO). Through this office, Johnson proposed the implementation of a comprehensive plan to create opportunities for the underprivileged.

Johnson considered the Economic Opportunity Act "a total commitment … to pursue victory over the most ancient of mankind's enemies" (Papers of U.S. Presidents, p. 380). It hardly seems controversial to suggest that four decades later the enemy is still at large.

THE CEA AND PRESIDENT KENNEDY

It is perhaps not sufficiently recognized that the War on Poverty got its start under President Kennedy, with his Council of Economic Advisors (CEA) playing a significant role in shaping the strategy that would be pursued. A recent book by Judith Russell documents the origins of the WOP, reaching a final assessment that is remarkably close to Minsky's predictions (Russell 2004). According to Russell, defeat of the WOP was fore-ordained largely because of the dominant role played by the CEA. The key program omission from the WOP was a massive job creation program. This, in turn, resulted from the CEA's belief that a) poverty is not inextricably linked to unemployment, b) unemployment could be sufficiently reduced through aggregate fiscal policies (such as JFK's tax cut of 1963), and c) millions of Americans would have to be maintained as an unemployed buffer stock to keep inflation in check. These views still hold sway among economists.

Russell documents through careful archival research that the WOP was developed in the Kennedy administration as a "showy" proposal to be used for reelection. His first campaign had been based on "sacrifice" and "fiscal responsibility"—but he had barely defeated R.M. Nixon, and needed a decisive win along with a Democratic sweep of Congress to gain a mandate for his second term. Russell argues that JFK had little concern with poverty or unemployment, nor, in particular, with disadvantages faced by black Americans. Nor did he have much understanding or interest in economics. The CEA, led by W. Heller, with important input by J. Tobin, set out to "educate" JFK in "Keynesian" economics (which Russell correctly realizes was a highly revised version of J.M. Keynes's own theory). The CEA was able to turn the president and policy against the dominant "structuralist" views of unemployment held by many economists, most policy makers, and even most of Congress—and by JFK's close advisor, J.K. Galbraith—all of whom believed that unemployment above 2% was unacceptable. The structuralists argued that demand stimulus alone could never generate jobs where they were most needed—by low skilled workers, and by blacks in particular. Further, given that the CEA was prepared to accept 4% (or more) unemployment as "full employment," and as black unemployment rates ran two to three times higher than the overall unemployment rates, a WOP formulated by the CEA could never have made much of a dent in black poverty.

After JFK's assassination, it was left to LBJ to carry the WOP through Congress. Unlike JFK, LBJ was predisposed and even eager to fight poverty and racism—in part due to his modest southern roots. Further, the mood of the country and of Congress was such that a massive jobs creation program sold by a president with LBJ's political acumen would have garnered sufficient support. It was the right idea at the ideal time, with a brief window of opportunity to put in place a jobs program that had a real chance at eliminating most poverty. Russell argues that it was the Heller and Tobin version of Keynesianism that played the major role in closing that window, although the "culture of poverty" thesis of D.P. Moynihan and other "liberals" was also signficant because this helped to create the belief that the poor had to be changed before poverty could be eliminated. As we will see in the next section, Minsky rejected these views and argued that without a jobs program, the WOP would not be successful.

THE WAR ON POVERTY: MINSKY'S CONTEMPORARY ASSESSMENT

Minsky considered the war on poverty "a conservative rebuttal to an ancient challenge of the radicals, that capitalism necessarily generates 'poverty in the midst of plenty'" (1965, p. 175).[2] As he saw it, Johnson's version of this "conservative rebuttal" was fundamentally flawed. Instead of providing the impoverished with an *opportunity to work,* it provided them with the opportunity to *learn how to work*. Thus, by emphasizing education and job training, Johnson sought to change poor people, rather than changing the system that leads to their impoverishment. As Minsky explained, this kind of approach could lead to a more even distribution of poverty, but it stood no chance of securing a victory over mankind's most ancient enemy. Instead of trying to change them, Minsky suggested "taking people as they are" and creating jobs to suit their *existing* educational and skill levels (ibid.). By creating jobs for those with limited educational and skill sets, Minsky believed it was possible to reduce, rather than simply redistribute, poverty.

Minsky blamed a great deal of American poverty on unemployment. And, since he blamed unemployment on our economic system rather than on the shortcomings of its workers, he rejected supply side "solutions" such as workfare, training, education and so-called "incentives to work." But he also rejected the kind of demand stimulus policies that have been called upon to stimulate employment since WWII. A decade into the "war," he argued in 1975:

> We have to reverse the thrust of policy of the past 40 years and move towards a system in which labor force attachment is encouraged. But to do that we must make jobs available; any policy strategy which does not take job creation as its first and primary objective is but a continuation of the impoverishing strategy of the past decade (Minsky, 1975, p. 20).

[2] In 1959, nearly 40 million Americans lived in poverty, despite the fact that the nation experienced unprecedented prosperity during the 1950s.

Since the post-WWII strategy had proven ineffectual, Minsky believed that policymakers should return to the kind of strategy that characterized policy making prior to WWII, namely programs to provide public employment.

One could see the WOP as a victory for the "Age of Keynes," but a defeat for a real anti-poverty strategy, in the sense that it brought with it a belief in the importance of maintaining aggregate demand in order to promote economic growth, but it neglected the importance of jobs in reducing poverty. There was an alternative "Keynesian" view to which JFK and LBJ could have turned for support of a real anti-poverty program. Minsky's fundamental criticism was that "A necessary ingredient of any war against poverty is a program of job creation; and it has never been shown that a thorough program of job creation, taking people as they are, will not by itself, eliminate a large part of the poverty that exists." (ibid) Minsky's view was perfectly consistent with the structuralist views of the time, that emphasized the necessity of "generating enough job opportunities of the right kind, at the right place, and with sufficiently high incomes so that all who are willing and able to work can earn enough from jobs to maintain themselves and those for whom they are responsible at a level above some poverrty line." (Minsky 1965, p. 177)

A STRUCTURALIST INTERPRETATION OF RELATIONS AMONG EMPLOYMENT, UNEMPLOYMENT, AND POVERTY

According to the Economic Report of the President (1965), in 1963 "the heads of some 40 percent of the families living in poverty were not in the labor force," while the heads of 30 percent "were employed all year and another 30 percent were employed part of the year." (Minsky 1965, p. 176) From this, Minsky surmised that joblessness, insufficient hours of work, and low pay combined to create poverty among the able-bodied. He went on to argue that it was obvious that "expanded, improved, and modernized programs of transfer payments and income in kind for the aged, the infirm, the disabled, and needy children are necessary. As I see it, this has little to do with the war on poverty; it has mainly to do with our national conscience and affection for man." (Minsky 1965, p. 176-7) In other words, he was willing to grant that a system of "welfare" would be required to deal with those who couldn't, or shouldn't, work. However, he insisted that a comprehensive jobs program together with an effective and adequate minimum wage would go a long way toward eliminating poverty among those willing and able to work.

Significantly, he called for a "tight full employment" goal of a measured 2.5 percent unemployment rate. Compared with the expected 5.2% unemployment rate in 1965, he calculated this would have increased GNP by $34 billion to $53 billion (using "Okun's Law," according to which each one percentage point reduction of unemployment raises GNP by 3%). Minsky pointed out that this is far above the estimated $11 or $12 billion it would take to raise the incomes of all living in poverty above the poverty line for that year. Hence, while a comprehensive employment strategy might not resolve all poverty problems, it would certainly generate more than enough GNP that could be redistributed to eliminate poverty.

Structuralists tended to emphasize job mismatch: even at cyclical peaks when the aggregate number of jobs might be sufficient, the skills, education, and other characteristics of a substantial set of the unemployed would leave them without jobs. Such views were dominant among policy-makers of the early 1960s (see Russell 2004), and similar views were also favored at the end of the 1990s as the "New Economy" boom left low skilled workers behind. (See Pigeon and Wray 2000) However, the structuralist views in the early 1960s went further, because they argued that technological and other structural changes to jobs markets would outstrip any ability to educate and retrain displaced workers. In other words, they were highly skeptical that "supply side" policies alone would be sufficient to resolve the growing unemployment problem. What was needed was a combination of "active labor market" policies and direct job creation programs for the structurally displaced.

Minsky pointed out that even if the economy were not dynamically creating structurally displaced workers, labor market supply side programs would have little effect for up to twenty years—the "gestation" period required to produce a worker: "We are learning that what happens to a child between the ages of three to five is of vital importance in determining the capabilities of the adult. Thus, pre-school training is necessary to break the vicious circle of poverty. But if this view is true, then it takes 18 to 20 years to realize the benefits from such programs." (Minsky 1965 p. 195; just as an aside, we now know that what happens before age three is even more important!) In a dynamic society that is always moving, and generally raising, the skills goal posts, that long gestation period almost guarantees that many individuals achieving the age of labor force entry will not be prepared for the jobs that then exist. "The emphasis upon job training, labor relocation, and other similar programs is intended to make labor more homogenous. However, there are limits to the capacity of such programs to transform particular types of labor which are in excess supply into the types that are in excess demand." (Minsky 1965, p. 194) Thus, there would always be a mismatch between labor "supply" and "demand."

THE WAR ON POVERTY: A RETROSPECTIVE ASSESSMENT

It is of course well established that poverty rates fell sharply over the early post-war period, which appears to cast some doubt on the structuralist position favored by Minsky. Perhaps rapid post-war growth combined with the supply side policies of the WOP would be enough, after all, to eliminate poverty? In 1940, well over half, and as many as 60%, of all white males aged 25 to 64 had earnings that were insufficient to raise a family of four out of poverty (this includes those who had no earnings over the year)[3]. (Farley 2001, p. 83) Among black males of the same age group, fully ninety percent had earnings below the poverty line for a family of four. By 1960, over three-quarters of white males and more than 50% of black males (again, aged 25-64) had earnings sufficient to lift a family of four above the poverty line. Note, however, that this improvement occurred before the WOP. Indeed, the fastest reduction of poverty (by this measure) actually occurred between 1940 and 1950, with the rate of poverty reduction slowing after 1950. Still, it is true that gains continued at a reduced pace until the end of the 1960s. By 1970, 90% of white males and 70% of black males (aged 25-64) had earnings sufficient to keep a family of four out of poverty. However, falling average real earnings for males together with lower employment rates (see below) caused poverty (again, by this measure) to begin to rise after 1970. By 1990, only about 80% of white males and fewer than 60% of black males aged 25-64 earned enough to bring a family of four out of poverty—similar to the figures for 1965 when the WOP began.

More broadly, U.S. "official" poverty rates had been declining sharply in the post-war period even before the WOP. By 1965, the U.S. poverty rate stood at some 15%. Before the Nixon recession of 1974-5, the nation's poverty rate had fallen to just under 12%—a decline of some three percentage points that potentially could be attributed to the WOP. (See Figure 1.) However, the trend toward falling poverty rates actually became flatter after 1965, and then

[3] Note these data come from a four city study of Atlanta, Boston, Detroit, and Los Angeles.

leveled by about 1968—precisely as WOP programs presumably took effect. Poverty rates then stabilized until the Reagan presidency, when they rose again to 15%; the trend has been cyclical ever since—finishing the millennium back at a cyclical low of about 12%. From this data, it is very hard to discern any positive effect from the WOP.

Figure 1 offers additional detail, displaying poverty rates by age. We see sharply falling poverty rates for those age 65 and above, from nearly 30% in 1966 to 15% by the start of the Nixon recession in 1974, and then falling to just about 10% by the end of the 1990s. In short, poverty among the elderly fell quite remarkably, dropping by half in the first decade of the WOP and by about two-thirds over the first quarter century. Clearly, this had little to do with the WOP—which was targeted to a younger population—but was due almost entirely to phasing in Social Security. The contrast with younger age groups could not be more striking: the poverty rate of those aged 18-64 stood at just over 10% at the beginning of the WOP, rose to about 12.4% under the Reagan presidency (1983), and finished the millennium back at about 10%. The poverty rate for those under 18 stood at about 17.6% in 1966, rose to 22.3% in 1983 under Reagan, and finished the millennium at 16%. No one looking at this figure would be able to find any discernable positive impact of the WOP.

It is also interesting to look at poverty rates by race. (See Figure 2.) For whites (not Hispanic), poverty rates for related children (under age 18) in families stood at 12.1% in 1966 versus 12.4% in 2000—before the recent recession.[4] For blacks, the comparable rates fell from 50.6% in 1966 to 30.9% in 2000. For Hispanics, poverty rates of related children living in families was 27.8% in 1973 (the first year of data availability) and 27.6% in 2000. For those of "normal" working age (age 18-64), poverty rates were 10.5 in 1966, and 10.6% in 2002. For blacks age 18-64, poverty rates were 22.6% in 1974 (first year of availability) and 18.7% in 2001; for Hispanics of similar age, poverty rates were 20.1% in 1976 and 18.1% in 2002. There is, thus, some improvement for minorities of working age and for minority children, however, the improvements are rather small and certainly do not come close to LBJs goal of eliminating poverty—or even of closing the racial/ethnicity gap.

[4] All data here are from the U.S. Census Bureau, Historical Poverty Tables, Table 3: Poverty Status of People by Age, Race, and Hispanic Origin: 1959 to 2002.

It is also instructive to see whether four decades of economic growth has managed to "trickle down" good jobs to lift poor working families out of poverty. Table 1 shows that just about 10% of all families in 2002 fell below the poverty line. Families with no workers experienced a poverty rate of 25.8%; families with at least one part-time or part-year worker had a poverty rate of 24.8%. On the other hand, families with at least one full-time year-round worker had a poverty rate of only 3.5%. Black families experienced a poverty rate of 21.5%; however, if that black family had no workers, its probability of falling below the poverty line rose to 57.8%. By contrast, a black family with at least one member who worked full time, full-year, experienced a poverty rate of 7.3%. If we raise the poverty bar to 150% of the official poverty line, 17.4% of all families were poor in 2002. Families with no members working full time experienced twice as much poverty, at a rate of 38.5%. Families with at least one member working full-time and full-year had a poverty rate of 9.2%. Black families had a poverty rate (using 150% of the poverty line as the standard) of 34%; this rose to nearly 72% if the family had no working members. A black family with at least one member working full-time and full-year had a 17.7% chance of falling below 150% of the poverty line. These data show how important a full-time, full-year job is for poverty reduction—a relationship that is as true in 2002 as it was in 1965.

Structuralists of the 1960s warned about dynamic structural changes that would generate a more-or-less permanent jobs-skills mismatch. Has the WOP succeeded in substantially reducing the mismatch? The results obtained from a detailed multi-city study of urban inequality are not encouraging. Holzer and Danziger (2001) used survey data to try to match entry level jobs with the skills, education, experience, and other characteristics of likely job seekers in four major U.S. cities (Atlanta, Boston, Detroit, and Los Angeles). Note that this study excluded all jobs that require a college education. The authors found that for likely job seekers, between 20% and 37% of white high school dropouts and 12% to 20% of white welfare recipients would experience "difficulty" in obtaining jobs because of the mismatch of their characteristics and those required by employers. (Holzer and Danziger, 2001, pp. 516-7) For African Americans and Hispanics, the supply/demand mismatch increases to between 42% and 56% for high school dropouts and between 27% and 40% for welfare recipients. (ibid.) In addition to this sort of skills mismatch, Moss and Tilly found that the number of job seekers in this multi-city study was almost three times the number of job vacancies in the urban core, and about 2.8 times the number of job vacancies in the suburbs. (Moss and Tilly 2001, p. 466)

Of course, the U.S. was not the only nation to adopt a "welfare state" combined with demand stimulus as an anti-poverty approach in the post-war period. In a recent study, David Brady identifies a "liberal economic paradigm" commonly adopted by policy-makers throughout the West. This paradigm consisted of four core beliefs: a) economic growth would raise all boats; b) free market capitalism is the preferred path to growth, prosperity, and equality; c) raising worker productivity is the key to poverty reduction; and d) a mismatch of labor supply and demand creates unemployment. In his detailed analysis of post-war data (1967-97) from 18 Western nations, Brady finds that the "liberal economic paradigm" is rather decisively refuted. First "the rising tide of economic prosperity disproportionately benefits the middle and upper parts of the income distribution, and does not distribute evenly to the bottom of the income distribution." (Brady 2003, p. 388) Second, size of government is negatively correlated with poverty rates, both before and after accounting for government transfer spending. In other words, a bigger government increases both market-derived income and total income—a result that contradicts the belief that smaller government is better. Third, faster growth of worker productivity is not correlated with reduction of poverty associated with market-derived income. Finally, the only component of the paradigm that was substantially confirmed by the study is the relation between unemployment and poverty: lower unemployment rates are associated with poverty reduction. Again, Brady's analysis is generally consistent with Minsky's predictions and with structuralism.

If employment is so important to poverty reduction, it is instructive to look at employment trends since implementation of the WOP and "Keynesian" policies as defined by JFK's CEA. Table 2 presents employment and unemployment data by age, sex, and race. The employment rate for those aged 16 and above increased from 56.2 in 1965 to 64.5% in 2000; the unemployment rate fluctuated with the business cycle, although unemployment rates were considerably higher in the 1970s and 1980s than in the 1960s or the latter half of the 1990s. However, employment rates for males over age 20 fell between 1965 and 2000, from 81.2% to 74.1%, while female employment rates rose from 37.7% to 58.7%. The black male employment rate remained constant from 1975 to 2000 at around 67% (data are not available before 1975).

Employment rates for white males age 20 and above fell sharply from 81.5% to 75.7% between 1965 and 1975, but then held steady. In other words, policies to "improve" workers did not increase their employment, at least in the case of white males. In summary, we do not see rising employment rates with the implementation of the WOP—except among women, and this should not be attributed to the WOP, although affirmative action programs and the women's movement probably played important roles.

These trends, however, hide important differences among the population with respect to the interaction of the level of educational attainment and employment. In 1965, the employment rate for high school dropouts aged 25-64 was 62%; by 1994 this had fallen to 51%.[5] The comparable employment rates for high school graduates were nearly 65% in 1965 and 73% in 1994; for those with some college, employment rates were 67% in 1965 and 78% in 1994; and for college graduates, rates rose from 82% in 1965 to 85% in 1994. Hence, what we see for the first two decades of the WOP is rising employment rates for those with at least a high school degree, but falling employment rates for high school dropouts. This is consistent with Minsky's structuralist belief that a successful war on poverty would need jobs targeted to "workers as they are"—especially to high school dropouts. It is also true that the evidence supports the belief that education and training are important—but decades of admonishing teens to "stay in school" has not eliminated the problem. The probability of gaining employment without a high school degree has fallen considerably—with barely half of dropouts working.

Note that these figures are all for the noninstitutionalized population—if incarcerated "prime age" (18 to 44 years) high school dropout males are included, things look very much worse. As Wray (2000) has shown, the 1999 employment rate for prime age, high school dropout, males falls from 68% to 62% if we include the incarcerated population. For similarly situated black males, the employment rate falls from 46% to 33% if the incarcerated population is included. Indeed, there are nearly as many black males in prison as there are employed (and two-and-a-half times the number unemployed). Many of the prime age high school dropout males who are not incarcerated are under control of the criminal justice system—on probation or parole. Perhaps as many as three-quarters of black males in this group are incarcerated, on

[5] All data here are from U.S. Census Bureau and Bureau of Labor Statistics, reported in Table 8.2 of Wray 2003, p. 166.

probation, or on parole. There can be little doubt about the correlation among low levels of educational attainment, low employment rates, and high probability of running afoul of the law. Admittedly, we do not have similar data for 1965 so it is difficult to assess whether things have worsened over the past 40 years. However, there is no doubt that incarceration rates have quite literally exploded since 1980 (rising from about 200 per 100,000 population in 1980 to well over 700 today), and the incarcerated have always been mostly male, and predominantly young with an over-representation of men of color.

Finally, our analysis here has focused primarily on employment and earning of males. Women have increased their employment rates, and have managed to close the pay gap to some extent. However, to a very large degree, poverty has become "feminized" among female-headed households. This is largely due to rising incidence of single parent families, especially those headed by females. This trend is undoubtedly due to many complex factors (declining wages and employment of males, increased incarceration of males, rising status of women, breakdown of extended family relations, and welfare rules are obvious examples). The WOP was perhaps not well-formulated to deal with these trends. But even in the absence of the feminization of poverty, the WOP would not have succeeded because—as we have shown—it has not even benefited males with low education status.

In sum, the WOP had little success at significantly reducing poverty rates—at least for those under age 65. There was some improvement for minority racial and ethnic groups, however, it is not easy to separate the effects of the WOP from the effects of the Civil Rights movement. It is clear from the data that access to full-time, full-year jobs is important in reducing poverty rates, and the civil rights movement may have improved the employment chances of minorities. However, the WOP had little to do with direct job creation, and as Minsky had warned, the WOP would only redistribute poverty unless it created jobs. While it is true that those who helped to formulate the WOP did hold "Keynesian" views that maintenance of higher aggregate demand would cause jobs to "trickle down" to the poor, the WOP by itself contained little that would raise aggregate demand, and did not directly create many jobs. In any case, the ability of a "rising tide" to "raise all boats" is in doubt—as the study by Brady (2003) as well as work by Pigeon and Wray (2000) demonstrate. In the next section, we examine Minsky's skepticism about the ability of growth to reduce poverty.

THE GROWTH THROUGH PRIVATE INVESTMENT STRATEGY

According to the standard (i.e. mainstream) interpretation of Keynes, which has guided post-WWII economic policy, distributive shares reflect technical conditions.[6] Thus, the poor are poor because their contribution to production does not warrant an above-poverty wage rate.[7] Accordingly, the best way to improve their lot is to increase *total* income.[8] One way to accomplish this is through a traditional "Keynesian" strategy to stimulate private sector spending—to increase the "pie" to be shared.

In the post-WWII era, with the exception of defense spending, "the preferred instrument for generating fiscal expansion has been some type of tax cut or loophole, i.e. the shifting of resources to private consumption and investment." (Minsky, 1971, p. 15). These "Keynesian" policies to promote full employment were primarily designed to create a favorable business environment to stimulate investment spending. Various tax incentives, including accelerated depreciation and investment tax credits, were a common feature of the post-WWII investment strategy (Tobin, 1966). Both policies were designed to stimulate investment spending by increasing after-tax profits. Policymakers also tried to increase the certainty of capital income, through the use of government contracts with guaranteed profits, such as those granted to defense, transportation and housing industries.

However, Minsky (1973) argued that there were four problems with the investment strategy. First, tax incentives to shift income to capital exacerbate distributional inequality. Second, high capital incomes would lead to opulent consumption by the rich and emulative consumption by the less affluent, creating the potential for demand-pull inflation. Third, contracts granted to sophisticated, high-tech industries generate demand for skilled, high wage

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[6] The conclusion rests on the Classical postulates, which, until New Keynesian theory emerged, provided the micro-foundations for mainstream Keynesian theory (i.e. IS-LM).

[7] The other possibility, of course, is that the poor are simply revealing their preference for an income-free life of leisure.

[8] With the standard assumption of a Cobb-Douglas production function, distributional shares (i.e. wages and profits) are fixed and independent of technique (i.e. the proportion of capital and labor used). This implies that the only way to improve conditions for those in or near poverty is to increase the growth of output per person (i.e. raise *total* output).

labor, thereby exacerbating income inequality *within* the labor force. Finally, by targeting the size and surety of capital income, business confidence would mount, debt financing would increase and margins of safety would decline. Thus, a private investment strategy can lead to a debt-financed investment boom, thereby undermining the stability of the financial system.[9]

Minsky (1963) argued that an expansion led by the private sector would tend to increase private indebtedness and fragility as payment commitments rose relative to prospective income flows. In contrast, an expansion led by public sector spending could actually enhance stability, by providing safe assets (government bonds issued as the budget moved to deficit). This analysis is interesting in light of the problems created during the Clinton boom—an expansion led by private sector borrowing, with a federal budget that moved to large surpluses. While it is still too early to predict exactly how things might play out, the over-indebtedness of the private sector is hindering recovery. Further, evidence to date indicates that poverty, hunger and homelessness are rising even as the economy grows, with continued slack in labor markets in an apparently "jobless" recovery. (U.S. Conference of Mayors, Survey of Hunger and Poverty 2003)

In sum, the post-WWII era was characterized by a preference for private investment strategies. Even as the war on poverty got underway, the Johnson Administration demonstrated its preference for private sector spending strategies, passing tax cuts in 1964 and again in 1965 and 1966. By encouraging private sector spending (especially investment), policymakers aimed to stimulate growth in total income. But these strategies did little to improve the conditions of lower middle income workers (e.g. factory workers), whose real incomes *declined* by 2.5% over the period 1965-1970 (Minsky, 1971). Worse, the private investment strategies tended to exacerbate income inequality, generate inflation, and undermine financial stability.

PUBLIC EMPLOYMENT STRATEGY

Even though the Kennedy and Johnson Administrations succeeded in generating a post-war boom that reduced unemployment rates, policymakers failed to understand that "policy weapons which are sufficient to move an economy from slack to sustained full employment are not sufficient to sustain full employment" (Minsky, 1971, p. 28). As long as policymakers continued

[9] For more on this see Minsky (1986).

to favor private investment strategies, there would be no sustained strides made in the war against poverty. Minsky's alternative would stress policy that favors high consumption fueled by policies that would increase wages and incomes at the bottom of the distribution. Further, government spending should play a major role in generating growth, because, as discussed above, growth that relies on private sector deficits is ultimately unsustainable. Hence, Minsky's policies would favor both greater equality and greater stability.

To permanently improve the lot of the poor, Minsky believed that policymakers needed to address the question of income distribution:

> The questions that need answering if, some day, a serious war on poverty is to be mounted relate to the distribution of income and the available policy tools which can affect the distribution of income in the relatively short run (1968, p. 328).

"How," he asked "can the distribution of income be improved?" (Minsky, 1972, p. 5). He answered: "First of all by full employment" (ibid.). By this, Minsky meant that it was necessary to achieve and sustain "tight full employment"[10], which he defined as:

> [the situation that] exists when over a broad cross section of occupations, industries, and locations, employers, at going wages and salaries, would prefer to employ more workers than they in fact do (1965, p. 177).

This would require a "bolder, more imaginative, and more consistent use of expansionary monetary and fiscal policy to create jobs than we have witnessed to date" (1965, p. 175). "[T]he achievement and sustaining of tight full employment could do almost all of the job of eliminating poverty" (1968, p. 329). Here, Minsky's position is consistent with his notion that "a large portion of those living in poverty and an even larger portion of those living close to poverty do so because of the meager income they receive from work"—a point we have also emphasized above in our examination of the link between work and poverty. (Minsky, 1968, p. 328).

Minsky recognized that it would take more than a standard implementation of expansionary monetary and fiscal policies to improve the incomes of those at the low-skilled end of the labor spectrum. That is, traditional "Keynesian" policies designed to stimulate after-tax

[10] Minsky used, as an interim measure of tight full employment, an official rate of unemployment of 3.0 percent. He considered this a modest target, given that measured rates in Europe had been much lower

business profits and the personal incomes of society's most affluent members could not be relied upon to "trickle down" on the less affluent. Instead, Minsky believed that "[a] suggestion of real merit is that the government become an employer of last resort" (1968, p. 338). The employer of last resort (ELR) proposal, which has recently been taken up by a number of analysts (see, e.g. Wray, 1998; Forstater 1999; Kregel, 1999, Harvey 1989), calls upon the federal government to institute a job assurance program, similar to the New Deal's Works Projects Administration (WPA), Civilian Conservation Corps (CCC) and National Youth Administration (NYA) programs. The federal government would fund a job guarantee program, setting the price of (unskilled) labor and allowing the quantity of labor hired to float[11] (i.e. it creates jobs for everyone seeking employment at the ELR wage).[12]

Given the choice between pursuing tight full employment through a private investment strategy with intensive educational and training schemes and a public employment strategy modeled on a WPA-style direct employment program, Minsky saw clear advantages to the latter. First, he expected this strategy to eliminate the kind of poverty that is due solely to joblessness. Whereas the investment strategy begins with demand increases for specialized labor, hoping for the trickle-down creation of low-skilled jobs, the employment strategy "takes the unemployed as they are and tailor makes jobs to their skills" (Minsky, 1972, p. 6). Second, if the existence of tight labor markets draws additional workers into the labor force, the number of workers per family will increase, moving some families who are in or near poverty away from it. Third, a tight labor market strategy should improve the *within labor* distribution of income, as market processes raise the wages of low-income workers faster than the wages of high-income workers.[13] Fourth, by discontinuing the preferential treatment of capital income, Minsky believed

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than 3.0 percent. But he also viewed it as a desirable objective, given that it was significantly better than anything the U.S. had achieved since 1953 (Minsky, 1968).

[11] The details of the program can get quite complex (e.g. the inclusion of health benefits, child care, pensions, etc.). For more on the intricacies of the program, readers should consult Wray (1998). For our purposes, it is sufficient to note that the program may be administered locally (indeed, this is probably preferable), but it must be funded federally.

[12] Minsky favored the creation of labor-intensive service jobs that "lead to readily visible public benefits, such as cleaner, safer cities, more and better maintained parks and recreational facilities.

[13] Here, Minsky refers to a study published in the *Quarterly Journal of Economics* (November, 1964), which showed a narrowing of wage differentials during periods of extreme labor market tightness. Jamie Galbraith has recently shown the same patterns.

that it was possible to "decrease [labor-profit] inequality by decreasing capital's share of income" (1973, p. 94).[14] Fifth, Minsky believed that by de-emphasizing investment-led growth, the likelihood of financial fragility would decrease. Finally, a public employment strategy frees policymakers from the overriding need to induce investment through tax incentives.

As noted above, Minsky argued that achievement of tight full employment in 1965 would generate more than enough additional production to bring all Americans out of poverty. We can test whether this is still true today. In 2002, the civilian unemployment rate averaged 5.8%. Minsky had defined tight full employment as an official unemployment rate of 2.5%, obtained by looking at the unemployment experience of European countries like Sweden. This would be about 3.3% less than the actual rate in 2002. By Okun's Law, each one percentage point reduction of the official unemployment rate raises GDP by 3%, so a reduction of unemployment by 3.3 percentage points would raise GDP by 9.9%. Applying this to GDP in 2002 of $10,481 billion, we obtain $1038 billion. In 2002 there were 7,229,000 families living below the official poverty line, with an average deficit of $7205 per family required to bring each up to the poverty line. The total cost is about $52 billion. In addition, another 9,618,000 individuals were living below the poverty line, with an average deficit of $4798. The cost of bringing individuals up to the poverty line is thus $46 billion. The total cost of eliminating poverty in 2002 would have been just under $100 billion, or about ten percent of the extra GDP that would have been generated by reducing the unemployment rate to 2.5%.

However, an employer of last resort program is much more ambitious than "Keynesian" demand-stimulus programs because it offers a job to all who are ready, willing and able to work. Many of those who will accept employment are currently counted as out of the labor force.[15] Hence, the increase of employment will be much larger than what is indicated by a decline of unemployment of 3.3 percentage points. Further, the measured unemployment rate would probably fall below the 2.5% that Minsky had used in his calculations—perhaps below the 2% usually used as an estimate of frictional and structural unemployment. Pigeon and Wray (2000) attempted to calculate how many "potentially employable" individuals had been left behind by

[14] Minsky (1973) referred to this as a "partial euthanasia of the rentier."

[15] In the aftermath of its financial crisis, Argentina has implemented a limited ELR program; more than half of program participants have come from out of the labor force.

the Clinton rising tide—coming up with a figure of more than 14 million employable workers aged 25 to 64 for 1999. At that time, the number of officially unemployed individuals in this age group was under 4 million—or less than one-third the number of potentially employable. It is of course difficult to predict how many individuals would accept employment in the ELR program. Reducing the official unemployment rate from 5.8% to 2.5% would move some 4.7 million individuals into jobs. If the total number of participants in ELR were double this number, the increase of GDP would be greater than the $1 trillion calculated above. Because ELR jobs would pay a wage below the median, the GDP multiplier would be smaller than that implied by Okun's Law. If the GDP produced by job creation were only half of that produced by reduction of unemployment, then employing individuals who had been outside the labor force might add another $500 billion to GDP. In any case, it is clear that an ELR program would create more than enough GDP to be distributed among all families and individuals currently living below the poverty line in order to bring them out of poverty.

BARRIERS TO ATTAINING AND SUSTAINING TIGHT FULL EMPLOYMENT

Minsky seemed to anticipate the kinds of "pie-in-the-sky" objections that might be raised, cautioning that "irrational prejudices … against spending, deficits and easy money" must be ignored (1965, p. 176). But he recognized that legitimate barriers must be taken into account:

> Economic forces can frustrate programs if either the policy objective is inconsistent with such forces or if the program is so poorly conceived that it quite unnecessarily runs afoul of a barrier, even though the objective is, in principle, attainable (Minsky, draft manuscript on Poverty and Policy, p. 3)

One such frustrating force is inflation. Indeed, Minsky believed that the inflationary effects of the Johnson administration's reforms of 1964-1965 weakened the success of the war on poverty (Hawley, 1981). The explosive increases in transfer payments[16] for welfare, pensions, and social security[17], ended up hurting the poor "since their standard of living actually declined"

[16] Transfer payments, which were only 1% of GNP in 1929, had risen to 6.7% by 1969 and to 10.2% by 1979 (Hawley, 1981, p. 2).

(Hawley, 1981, p. 2). In Minsky's view, Johnson's anti-poverty schemes ran afoul of a barrier because they were poorly conceived. Welfare and other "tranfers" raise income and thus aggregate demand, without increasing the supply of output—hence, they tend to build an inflationary bias into the system. And, inflation tends to hurt the weakest groups, who cannot get their incomes indexed. It is significant that the high inflation years of the 1970s did lead to indexing of Social Security (increasing the tendency for an inflationary spiral) but did not lead to indexing of minimum wages or welfare targeted to the poor.

"The policy problem," he argued, is to achieve and sustain tight full employment "without an inflationary rise in prices and wages" (Minsky, 1972, p. 5). But Minsky's anti-poverty campaign called for "a rapid increase of those wages that are close to or *below* the poverty line" (Minsky, 1965, p. 183). He recognized that there may be an inflationary bias in an incomes policy of this sort, particularly if the productivity of the low-wage workers failed to keep pace with their wage increases. In order to keep the *overall* price level fairly stable, prices of other goods and services would have to be constrained. Minsky (1972) suggested that in the high-wage industries, wages "would have to rise by less than the increases in the productivity of their workers" (1965, p. 183). To prevent firms from simply increasing their profits, it was necessary to ensure that "management in these often oligopolistic industries would have to pass this decline in unit costs on to their customers" (ibid.). Thus, he argued that "effective profit and price constraints would have to accompany tight full employment" (Minsky, 1972, p. 6). [18] If inflationary pressures were not contained, Minsky feared that the "political popularity of full employment" would be undermined (Minsky, draft manuscript on Poverty and Policy, p. 55).

However, the inflation constraint is much less of a concern in today's "global" economy. First, the deflationary pressures around the globe are substantial as many nations keep domestic demand depressed in order to run trade surpluses, looking to the U.S. to provide demand for the world's "excess" output. This means that U.S. firms face substantial price competition so that even relatively rapid growth—such as that experienced in the Clinton expansion—does not

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[17] Minsky traced the source of the inflationary pressures to social security and the indexation of labor union wage contracts (Hawley, 1981). Both, he argued, served to institutionalize inflation and lower the standard of living of the working poor.

[18] He also proposed the elimination of taxes on corporate income and corporate contributions to social security, both of which he considered inflationary (Hawley, 1981, p. 10).

produce inflationary pressures. Second, removal of trade restrictions together with technological advances has increased deflationary pressure on U.S. wages. While economic booms can still pressure some wages, wage competition from abroad has reduced the likelihood that low unemployment could generate a wage-price spiral. Finally, much of the 1970s' and 1980s' concern with low productivity growth disappeared during the Clinton boom, when productivity growth returned to more normal long-run averages. (See Pigeon and Wray 2002) Even in recent months, the fear has been that productivity growth might be so high that it will hinder job growth. While we believe that there is a lot of misunderstanding about the nature and importance of productivity growth, to the extent that competitive pressures keep wage growth in-line with productivity growth, price pressures will remain moderate.

The final institutional barrier we wish to take up concerns the exchange rate regime. Most of Minsky's papers on anti-poverty policy were written in the 1960s or early 1970s, when U.S. policy was constrained by an international monetary system with fixed exchange rates based upon the dollar. As Keynes ([1936] 1973) explained, the flexibility to coordinate fiscal and monetary policy in order to sustain tight full employment simply was not an option under a system of fixed exchange rates.[19] Because the integrity of the Bretton Woods System rested on dollar convertibility to gold, policymakers had to restrict their fiscal and monetary operations to those that would not adversely affect the balance of payments. In Minsky's words:

> To a considerable extent, ever since 1958 the needs of the dollar standard have acted as a constraint upon domestic income. We have not had tight labor markets because of the peculiar bind that the dollar is in internationally. It is apparently appropriate to allude to William Jennings Bryan by saying that, in part, the cross that the American poor bear is made of gold . . . The solution to the gold standard barrier is simple: get rid of the gold standard (1965, p. 192-3)

[19] See, in particular, Chapter 23 of his *General Theory*.

Today, the dollar is a floating currency so that policy is not constrained by the need to protect foreign reserves. Thus, the primary barrier to attaining and sustaining tight full employment is political will.[20]

[20] Designing policies to achieve full employment and price stability are the focus of a recent book by Wray (1998). The book demonstrates how Minsky's employer of last resort program could be implemented (by nations with floating currencies) in a non-inflationary way.

CONCLUSION

Private investment strategies together with policies to "improve" the characteristics of poor people have dominated the post-WWII approach to proverty. And, while the 1950s and 1960s are commonly referred to as the "Golden Age" of U.S. capitalism, important barriers prevented the American economy from sustaining what Minsky characterized as tight full employment. Russell argues that even as programs were added over the course of the 1960s, "[I]nstead of focusing on the estrangement of poor people from ordinary economic life, policymakers frequently focused on their behavior and worldview. Instead of fighting poverty by opening the door to economic opportunity and providing a comprehensive employment program, policy makers provided a plethora of poorly—if at all—coordinated programs that did little to change the income-earning ability of most Americans." (Russell 2004, pp. 155-6)

Minsky's fundamental argument is simple: (1) poverty is largely an employment problem; (2) tight full employment improves income at the bottom of the wage spectrum; and (3) a program of direct job creation is necessary to sustain tight full employment. Thus, he argued that a program of direct job creation was "a necessary ingredient of any war against poverty" (Minsky, 1965, p. 175). As Minsky put it: "The New Deal, with its WPA, NYA, and CCC took workers as they were and generated jobs for them….. The resurrection of WPA and allied projects should be a major weapon of the war on poverty." (Minsky 1965, p. 195)

To ensure access to income through employment, Minsky insisted that there should be "more jobs than available workers over a broad spectrum of occupations and locations" (1965, p. 177). Unfortunately, Johnson's Economic Opportunity Act did not provide for this kind of access. Instead, Johnson aimed to improve the skills and knowledge of the impoverished, hoping to "end poverty forever," by offering education and training to those living in or near poverty. But, as Minsky argued, "education and training have to start at virtually the cradle … all the poor who missed pre-Kindergarten or other special training are, except for the lucky or the gifted, doomed to a life of poverty – a dead end life" (Minsky, 1971, p. 20). Improving the educational and skill sets of the workforce is certainly desirable, but Minsky believed than a reordering of policy objectives was in order:

> Once tight full employment is achieved, the second step is to generate programs to upgrade workers. I am afraid that in the

> poverty campaign we have taken the second step without the first; and perhaps this is analogous to the great error-producing sin of infields – throwing the ball before you have it (Minsky, 1965, p. 200).

Putting it somewhat differently, Minsky viewed full employment as the horse and skill- and educational-enhancement programs as the cart. And he strongly believed that a successful anti-poverty campaign required the cart to follow the horse.

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Table 1.

Working status	All families		White		Black		Hispanic		Asian	
	below 100%	Below 150%	100%	150%	100%	150%	100%	150%	100%	150%
All Families	9.6	17.4	6.0	11.6	21.5	34	19.7	35.6	7.4	14.9
Families with no workers	25.8	38.6	16.5	28	57.8	71.9	55.8	75.3	39.1	55.7
Families with at least one member who worked FTYR	3.5	9.2	1.8	5.3	7.3	17.7	10.1	24.9	2.6	7.5
Families with no members working full-time year-round but at least one part-time or part-year worker	24.8	38.4	17.0	28.2	43.5	62.1	42.8	62	18.6	37.6

Table 2 Employment and unemployment data by age, sex, and race

	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	1998	1999	2000
By age													
Employment rate													
Employment rate 16+	56.1	56.6	56.1	56.2	57.4	56.1	59.2	60.1	62.8	62.9	64.1	64.3	64.5
Teen employment ratio	45.4	43.4	40.5	38.8	42.3	43.2	43.2	44.3	45.3	44.2	45.1	44.7	45.3
Unemployment Rate													
Labor force 16+	5.2	4.4	5.5	4.5	5.0	8.5	7.2	7.2	5.6	5.6	4.5	4.2	4.0
Teen unemployment rate	12.2	11.1	14.7	15.0	15.3	20.0	17.8	18.6	15.6	17.3	14.6	13.9	13.1
By sex													
Employment rate													
Males 20+	84.2	84.3	81.9	81.2	79.7	74.8	74.7	73.3.	74.3	73.0	74.0	74.0	74.1
Females 20+	31.6	33.8	35.7	37.7	41.2	42.3	48.1	51.0	55.2	56.5	58.0	58.5	58.7
Unemployment rate													
Males 20+	5.3	4.0	4.4	3.4	3.0	6.8	5.6	6.2	4.7	4.8	3.7	3.5	3.3
Females 20+	5.1	4.4	5.1	4.5	4.8	8.0	6.4	6.6	4.9	4.9	4.1	3.8	3.6
By race													
Employment rate													
White teens (16-19)	n/a	44.2	41.5	40.3	44.5	46.5	50.7	48.5	49.7	48.8	48.9	48.8	49.4
White males 20+	n/a	84.7	82.4	81.5	80.1	75.7	75.6	74.3	75.1	73.8	74.7	74.8	74.8
Black teens (16-19)	n/a	n/a	n/a	n/a	n/a	23.1	23.9	24.6	26.7	25.7	30.1	27.9	29.5
Black males 20+	n/a	n/a	n/a	n/a	n/a	66.5	65.8	64.6	67.1	66.1	67.1	67.5	67.6
Unemployment rate													
White 16+	n/a	3.9	5.0	4.1	4.6	7.8	6.3	6.2	4.8	4.9	3.9	3.7	3.5
Hispanic 16+	n/a	n/a	n/a	n/a	n/a	12.2	10.1	10.6	8.2	9.3	7.2	6.4	5.7
Black 16+	n/a	n/a	n/a	n/a	n/a	14.8	14.3	15.1	12.5	10.4	8.9	8.0	7.6

Source: www.bls.gov/cps/cpsatabs.htm.

Figure 1: Poverty Rate By Age: 1966 to 200

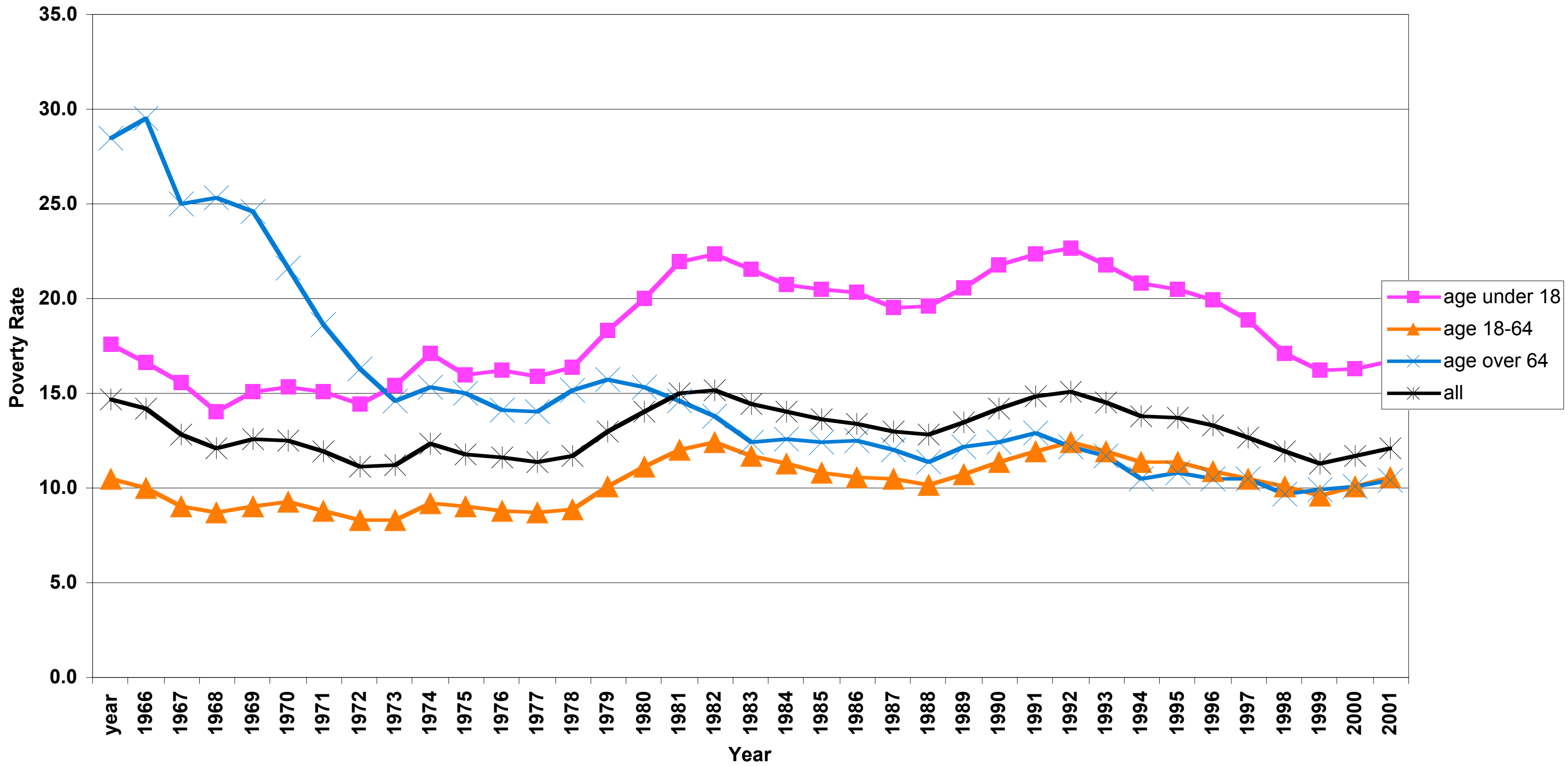

Figure 2: Poverty Rate by Race