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**In Defense of Employer of Last Resort: a response to Malcolm Sawyer**

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## 1. Introduction

It is difficult to respond to Sawyer's (2003) assessment of employer of last resort (ELR) proposals.<sup>2</sup> First, he has taken an 'everything-but-the-kitchen-sink' approach, attempting to cover just about every issue even tangentially related to ELR. As a result, many of his critiques remain underdeveloped and vague. And second, many of the arguments are related to expositions of ELR that we would not endorse. Indeed, he has relied to an alarming degree on critics of ELR (Aspromourgos, 2000; Kadmos and O'Hara, 2000; King, 2001; Kriesler and Halevi, 2001; and Mehrling, 2000) for statements of the principles of ELR - reflecting a less than satisfactory approach to what we consider to be appropriate scholarship. In our response, we will limit most of our comments to what we believe to be the main thrust of his critique:

1. ELR could increase employment without setting off greater inflationary pressures than those that are already present in other policies designed to reach full employment, but it cannot enhance (improve) price stability—it is still subject to a 'NAIRU' constraint of some sort;
2. ELR increases employment by stimulating aggregate demand, hence, operates no differently from any 'Keynesian' fiscal policy or monetary policy;
3. ELR is at best a 'make work' program, or more negatively, another name for unemployment and, at best, replaces unemployment with underemployment; and
4. ELR proposals have ignored the substantial logistical problems generated by cyclical fluctuation of participation in the program.

We will deal with the first two claims in the next section, and with the other claims in the following section. Finally, we will briefly discuss other critiques raised by Sawyer in the third section—in particular, we will address interest rates and financing issues that are muddled in his exposition.

## 2. Aggregate Demand, Employment, and Inflation

Sawyer wrongly (and repeatedly) claims that ELR increases employment by raising aggregate demand - hence, whatever beneficial results might be achieved by ELR could just as well be achieved by raising general government spending, lowering taxes, or 'dropping money from helicopters' (Sawyer, 2003: 887). Indeed, he appears to favour increased unemployment compensation over development of an ELR program, as ELR isn't much more than another name for unemployment. In this section, we carefully examine the 'macro' issues surrounding the ELR program: aggregate demand effects, aggregate employment and unemployment, and inflation.

It is easy to dispense with the claim that ELR is simply a form of pump-priming. An ELR program offers a basic wage (including a benefits package) to anyone ready and willing to work. It guarantees 'full employment' in the sense that anyone who is ready and willing to work at the program compensation rate will be able to obtain a job. It 'hires off the bottom', operating as a buffer stock program. When the private sector downsizes in recession, workers who lose their jobs can find employment in ELR; in an expansion, workers are hired out of the buffer stock 'pool' by the growing private sector. The size of the buffer stock pool is thus related to the performance of the private sector, plus the employment by the non-ELR government sector. When aggregate demand is high, the size of the ELR pool is relatively small; when

aggregate demand is low, the size of the pool is larger. However, with the ELR program in place, 'full employment' (defined as above) is maintained no matter what the level of aggregate demand happens to be.

In this sense, ELR creates a 'loose' full employment, a term which has relevance when we address its price stabilising properties. Indeed, government 'demand management' can manipulate the size of the ELR pool through countercyclical pump-priming. (Wray, 1998: 139-140) Contrary to Sawyer's (2003: 884) claim that the "ELR scheme seeks to remove demand-deficient unemployment through the provision of required aggregate demand", the ELR does not maintain 'full employment' by pumping demand - one could envision a government policy that deflated aggregate demand (by raising taxes and cutting overall spending) even as it phased-in ELR to achieve full employment. We do not recommend such a policy, but we emphasise that Sawyer has fundamentally misunderstood the operation of the ELR program.

Sawyer rightly argues that ELR workers will need some capital and materials, and some supervision and other office/management support. Hence, total ELR spending will be higher than the sum of wages spent on ELR workers. For this reason, aggregate demand will increase by more than the ELR wage bill, and this could fuel additional inflationary pressures (if the level of aggregate demand were too high). However, implementation of ELR will allow some reduction of current spending (resources currently absorbed in running unemployment programs would be shifted to the employment program). More importantly, if there is a net spending increase that would otherwise lead to excessive aggregate demand, the government can raise taxes or cut non-ELR spending to achieve the desired level of aggregate demand. Hence, as we have argued above, there need not be any net increase to aggregate demand upon implementation of the ELR program if such is not desired.

The ELR policy differs from the Keynesian pump-priming favoured by Sawyer because it represents the minimum stimulus required to achieve full employment, rather than relying on market spending and multipliers - and, indeed, 'works' regardless of the level of demand. The ELR policy also provides an inherent inflation anchor missing in the generalised Keynesian approach. Sawyer's misunderstanding in this respect has probably led to his confusion on the issue of inflation. Implementation of an ELR program can be undertaken while pursuing deflationary fiscal contraction, or while pursuing inflationary pump-priming. Hence, unlike conventional "Keynesian" policy, full employment can be achieved without the inflationary pressures that might arise from demand stimulus. We do not wish to pursue Sawyer's fear (based on Kalecki's now rather dated 1943 prognosis) that demand stimulus necessarily generates inflationary pressures, because it is irrelevant to the ELR proposal. ELR achieves full employment without regard to the level of aggregate demand and whatever pressures on price levels that result from effective demand.

The question is whether ELR, itself, has unambiguous impacts on price levels or rates of change apart from the issue of aggregate demand. The main principle is simple: a buffer stock sets a floor price and cannot directly pressure prices that are above the floor. Setting of the compensation floor can cause one-off changes, if, for example, it is set above the lowest prevailing wage (perhaps the legislated minimum wage). However, it could also cause one-off wage and price decreases if it replaces a higher minimum wage and "welfare" package (more below).

Sawyer worries that the ELR compensation package would be more appealing than the benefits now received by the jobless (unemployment compensation, welfare,

Medicaid, and so on). Hence, once ELR is implemented, workers will become more belligerent, demanding higher wages in non-ELR jobs because if they were fired they would then receive the preferred ELR compensation and not the 'jobless compensation' they would have received previously. This is a fair point, relying on the assumption that workers could be indifferent between working for compensation and being idle and collecting hand-outs of similar value. Frankly, we do not know if this is the case - the converse could well be true that people would prefer work over 'leisure' even at the same rate of compensation (see Mitchell and Watts, 2001 who conduct simulations using plausible assumptions to demonstrate the conditions under which the ELR is preferred over work and unemployment benefits). However, it should be possible, at least theoretically, to set the compensation for ELR work at just the right level to make workers indifferent between working for ELR wages and being idle (collecting handouts). In any case, even if the ELR compensation is set substantially higher than this, it causes a one-off adjustment of non-ELR labour compensation to restore indifference. That is not inflation as normally defined.

Note that Sawyer raises the ugly old NAIRU argument that should unemployment fall below some natural level, inflation will accelerate. He claims that the NAIRU under ELR (following Mitchell, 1998 and Mitchell and Mosler, 2001, he calls this NAIBER - for non-accelerating inflation buffer employment ratio) could be higher than the current NAIRU. He wrongly attributes this to the higher level of aggregate demand that he believes would be maintained with ELR in place. As we have demonstrated above, aggregate demand might be lower with ELR - or higher.

Sawyer argues as if all increases to aggregate demand have the same impact on inflation. Whether the increase is occasioned by low wage workers buying the basic necessities, or by the wealthy purchasing the latest luxury SUV, a dollar of demand is a dollar of demand. Further, Sawyer presumes that whatever inflationary pressures are generated as the economy moves toward full employment will continue to exist as full employment is sustained. Finally, his presumption is that the inflationary impacts are the same no matter what method is used to move the economy to full employment. Because he ignores the dynamics involved, he falls back to a Friedman-like natural rate argument against full employment achieved through general demand stimulus. However, this critique cannot be applied to ELR.

Indeed, ELR stands in stark contrast to the standard 'Keynesian' approach advocated by many Post Keynesian economics (such as Sawyer). The latter see the solution to unemployment in closing the demand gap (deficient effective demand) by increasing net spending via purchasing goods and services and/or labour at market prices. If there are wage-price pressures in the economy then this approach will inject considerably more nominal demand into the economy in pursuit of higher employment levels than would be the case under the ELR. The ELR exploits the power of the State as the currency issuer to provide a fixed-wage job to all those who are unable to find a job in the private sector. The government thus provides a buffer stock of jobs that are available upon demand. The resulting net spending is the minimum required to restore full employment, as defined above.

It should now be clear that ELR does not operate like any other 'Keynesian' fiscal policy, or like a Monetarist 'money drop'. It achieves full employment not by raising aggregate demand, but rather by offering jobs at a basic compensation rate to all who are ready and willing to work. Aggregate demand may rise as an incidental consequence--or it may fall if ELR is implemented with budget tightening. Unlike a

‘money drop’, it requires that participants work for their compensation. Unlike ‘pump-priming’, it achieves full employment with what can be described as ‘loose’ labour markets because it ‘hires off the bottom’. It does not seek to employ any specific number of workers nor does it seek specific skills; most importantly, it does not chase wages upward - it never competes with higher and rising private sector wage offers. This is the primary reason that full employment can be achieved without setting off inflation, and at any level of aggregate demand. Full employment is then sustained through time with a buffer stock of employable labour.

### **3. Microeconomic and labour ‘market’ considerations**

#### **3.1 Microfoundations of NAIRU vs NAIBER**

We juxtapose two buffer stock approaches to inflation control: (a) a NAIRU-buffer stock of unemployment to inhibit real growth and the standards of living; and (b) an ELR involving an open ended (elastic quantity), fixed wage buffer stock of employed workers (see Mitchell and Mosler, 2002). In this context, commentators who conflate the ELR with a NAIRU fail to understand the underlying microeconomic forces that distinguish the two approaches.

As discussed in the last section, Sawyer (2003: 898) claims that ELR faces something similar to a NAIRU and says “the stock of unemployed under present policies [NAIRU policies] ... and the stock of ELR employees are viewed as analogous.” The superficial similarity is that under an ELR there is a steady-state defining a given BER (buffer employment ratio) and level of private employment with stable wage inflation. However, once we dig into the microfoundations of the NAIBER we see a totally different world than that described for a natural rate model following Friedman. Further, there is a strong assumption that the steady-state defined by the NAIBER is fragile, multiple and cyclically sensitive.

Is the NAIBER higher than the NAIRU? The question has its roots in the belief that a particular level of demand slack curbs the inflationary process in a NAIRU-world. As we discussed above, ELR can be implemented without raising aggregate demand. However, for the sake of argument, we will presume here that ELR is added to the current system, holding taxes and non-ELR public spending constant. In that case, ELR does increase aggregate demand - probably with a multiplier effect above the level of spending on the ELR program. However, we will argue that for microeconomic reasons, a system with ELR in place can tolerate higher aggregate demand without inflation (a detailed discussion appears in Mitchell, 1998).

Sawyer (2003: 888-889) disputes the relatively modest costs estimates that have been provided by several authors regarding the introduction of an ELR scheme in various countries and thus misses the point that the ELR is not about demand stimulation. However, it is clear that if we introduce an ELR scheme, other things equal, the initial level of ELR employment will deliver a higher demand level than inherited under the NAIRU economy. A neo-liberal (and Sawyer) immediately wants to know why replacing unemployment with (higher paying) employment *ceteris paribus* is not inflationary given it ostensibly disturbs the balance set by the NAIRU – in Sawyer’s words (2003: 898), “the level of unemployment achieved could be below a supply-side-determined inflation barrier ... the NAIRU.” The negation of this proposition relies on an understanding of how the ELR buffer stock works. First, the buffer stock is now specified in jobs rather than unemployment – so the concept of a NAIRU-buffer stock is abandoned. Second, the ELR creates ‘loose’ full employment. The

ELR workers comprise a credible threat to the current private sector employees because they represent a fixed-price stock of skilled labour from which employers can recruit. In an inflationary episode, business is more likely to resist wage demands from its existing workforce to achieve cost control if it has the option of hiring out of the ELR pool. In this way, longer term planning with cost control is achievable. So in this sense, the inflation restraint exerted via the NAIBER will be more effective than using a NAIRU strategy.

Sawyer believes that the jobless are as effective as a threat as the ELR, employed, workers are in holding down wage inflation. Yet he offers no argument as to why the unemployed and those out-of-the-labour-force are equivalent in the eyes of employers to employed workers, who are already demonstrating their availability to work and offering a work history to potential employers.

Inflationary pressures may arise, for example, if private investment becomes very strong. When inflationary pressures do appear if government does choose to deflate demand to fight it (this is not our policy recommendation, but it is a possible response), it will increase the size of the ELR buffer stock, inflation-fighting, pool. Since ELR workers are (we believe) a better inflation-fighting force than are the jobless, the necessary adjustment to demand will almost certainly be smaller with ELR in place. If government decides not to deflate demand, the ELR pool still allows the economy to operate with higher aggregate demand and lower inflation pressures, although inflation can still result. Hence the NAIBER is actually below the NAIRU in the sense that employment can be higher before the inflation barrier is reached.<sup>3</sup>

### 3.2 Flexibility and types of jobs

A common source of criticism of the ELR relates to whether there would be enough jobs of sufficient merit to fully occupy the extant unemployed. Sawyer (2003: 891-894) rehearses the hackneyed arguments and in doing so further misconstrues the basis of the ELR policy. Sawyer (2003: 891) argues that to be suitable ELR jobs would “not require much skill” or “use skills which are widely available in the population” and would “lead to the production of useful output” which is not “necessary in that the output is only forthcoming when aggregate demand is low and the ELR jobs are required.”<sup>4</sup> In other words, only when demand is low does ELR increase output—precisely when the output is not desired.<sup>5</sup>

However, while Sawyer covers all the usual bases in questioning whether such a plan is viable he ignores the fact that thousands (Australia) or hundreds of thousands (USA) of low-wage, low-skill jobs are created by the private sector in any given month with very little criticism or scrutiny. It appears he is disturbed only when the public sector creates such jobs, because of “logistical problems”, problems of switching on jobs which have capital requirements, problems in “undercutting of wages for mainline public sector jobs” by being “substitutes for mainline public sector employment”, problems in yielding output “in competition with output which is or could be produced by the private sector”, problems relating the spatial and temporal distribution of unemployment and the like. (Sawyer, 2003: 892-893) It is remarkable that the invisible hand of the market is presumed to operate smoothly without creating problems, while the visible hand of government is believed to be incapable of dealing with logistical complications. We do not believe that the private sector has a monopoly on being able to mobilise a diverse range of resources and successfully complete thousands of tasks within a tight and complex schedule.

The ELR buffer stock of jobs is designed to be a fluctuating workforce that expands when the level of private sector activity falls and contracts when private demand for labour rises. Instead of forcing workers into unemployment when private (or public) demand slumped, the ELR would ensure that all those who would under the NAIRU buffer stock system become unemployed would have access to a public sector job at the basic wage. It is clear that this overall aim has implications over the business cycle, and the cyclical nature of ELR jobs presents an operational design challenge for the administration of such a scheme and the design of the ELR jobs. ELR jobs would have to be productive yet amenable to being created and destroyed in line with the movements of the private business cycle. While challenging this is not an impossible requirement for public policy to meet. Note also that the private sector scheduling is in some sense much less flexible because it cannot afford to “inventory” workers who are (temporarily) unneeded. ELR can employ workers even before precise tasks are assigned, helping to smooth transitions.

The cyclical nature of the jobs suggests that in designing the appropriate ELR jobs the buffer stock should be split into two components:

1. a core component that represents the ‘average’ buffer stock over the typical business cycle given government policy settings, trend private spending growth, and a mismatch of labour force characteristics and employer preferences; and
2. a transitory component that fluctuates around the core as private demand ebbs and flows.

Sawyer rightly notes that there is a lot of labour force churning, with most of the officially unemployed transitioning reasonably quickly out of that category. He tries to imply that this makes operation of an ELR program more difficult because of the large fluctuations of short-term unemployed. Actually, this observation should lead one to the opposite conclusion: many of those losing jobs will prefer to undertake full-time search rather than accepting temporary ELR work. As we have argued, there is no reason for ELR to induce all of those with short-term spells of unemployment into ELR work. (Wray, 1998: 127) The relatively low pay will act as a disincentive for many job losers; in addition, as we have argued, ELR could provide, say, up to 6 weeks of pay for full-time job search. The length of job search can be pragmatically and even individually set through consultation with employment counsellors.

Further, the business cycle fluctuations of employment are not nearly as large as Sawyer would like to believe. Over the most recent downturn, the US lost fewer than 3 million private sector jobs and gained something less than 1 million government jobs. Elsewhere it has been calculated by Pigeon and Wray that near the Clinton business cycle peak there were perhaps 25 million ‘employable’ Americans (of which more than 12 million were under age 65) who were not employed. Even if that is an overstatement, the total fluctuation between peak and trough in the ELR pool would perhaps be in the range of 25% of the pool. Sawyer argues as if the ELR pool will fluctuate from some number of millions in recession to zero employees in a boom.<sup>6</sup> This vastly overstates the likely outcome - which would be something like 2+ million out of a pool of perhaps 8 to 12 million ELR workers in the USA.

Admittedly, we cannot know how many will opt for ELR employment. However, modelling can provide a guide to the number of ‘steady-state’ jobs that would be initially offered under the ELR scheme. Indeed, the program could be phased-in to

reduce logistical problems. After the phase-in, administrators would prioritise work allocations from a broad array of community enhancing activities. In this way, it is unlikely that any important function or service would be terminated abruptly, due to a lack of buffer stock workers, when the private demand for labour rises. Thus, the design and nature of ELR jobs would reflect the underlying notion of a buffer stock. This stock would, in turn, have a ‘steady-state’ or core component determined by structural issues and government macroeconomic policy settings, and a transitory component determined by the vagaries of private spending. In the short-term, the buffer stock would fluctuate with private sector activity and workers would move between the two sectors as demand changes. Longer-term changes in the size of the average buffer stock would reflect discrete changes in government policy.

It is in this context that we argue for the existence of a stable core, which might change slowly and predictably as government policy settings change, and which would allow ELR administrators to more easily allocate workers to jobs. Many of these core jobs would be more or less permanent. More ephemeral ELR activities could then be designed to ‘switch on’ when private demand declined below trend. These activities would not be used to deliver outputs that might be required on an ongoing basis, but would still advance community welfare. For example, ELR jobs in a particular region might be used to provide regular shopping or gardening services for the frail aged, to support the desire of many older persons to remain in their own homes. It would not be sensible to make the provision of these services transitory or variable, and they would thus be provided from the core buffer. Clearly, these services could be reassigned to become ‘mainline public sector’ work if a political shift in thinking occurred. The structure of these jobs and the remuneration paid would however not be altered as a consequence of this political shift. Other ‘off-the-shelf’ projects would be undertaken or completed only when the ELR pool expanded sufficiently (see Forstater, 1999).

We do agree that labour force management is important, but we do not believe that such considerations lead to a simple knee-jerk reaction that private markets are always best, and that public programs are necessarily unmanageable. Nor are ELR jobs simply ‘make-work’; rather, these are ‘paid work’ jobs, and program administrators need to ensure that social benefits are realised from the program. So long as marginal benefits are above zero, it is socially beneficial to put unused resources to work. However, that sets a very low standard that can be exceeded quite easily with a modicum of professional responsibility.

### 3.3 Underemployment and Part-time work

Sawyer (2003: 894-897) considers “how far ELR employment would involve significant elements of underemployment and also the extent to which such employment in effect constitutes unemployment by another name.” The International Labour Organisation (ILO) defines two types of underemployment: (a) ‘time-related’ underemployment which relates to insufficient hours of work (and is the measure of underemployment adopted at the Sixteenth ICLS (ILO, 1998)); and (b) underemployment reflecting an ‘inadequacy of employment situations’, which refers to ‘...situations in the workplace which reduce the capacities and well-being of workers compared to an alternative employment situation’ (ILO, 1998). While imprecise, the ILO suggests that these situations might include “inadequate use of occupational skills; excessive hours of work; inadequate tools, equipment or training for the assigned tasks; travel to work difficulties; inconvenient work schedules; and



recurring work stoppages because of delivery failures of raw material or energy.” Before the 1998 ICLS convention, the ILO used the ICLS 1966 definition of underemployment which separated “visible underemployment” (time-related) from “invisible underemployment” which referred to situations where workers were not fully using their skills in their current employment (because the job itself is low skill and/or the worker is idle part of the time) (ILO, 1990).

There is no time-related underemployment in the ELR because workers can choose any fraction of working hours from full-time down to 1 hour per week according to their preferences. Sawyer (2003) is thus tying his ‘underemployment’ attack to the less precise notion of ‘invisible underemployment’ noted above.

Sawyer (2003: 894) asks “how does ... [the ELR wage] ... compare with the productivity of the workers involved?” He then proceeds with a surprisingly neoclassical-inspired human capital analysis of three situations each of which compares the implied productivity of the ELR job ( $q$ ) to the ‘true’ productivity of the worker in an alternative job ( $Q$ ). Where  $q < Q$ , the general case according to Sawyer (2003: 894) because “ELR jobs are low-skill, low-productivity jobs”, “underemployment replaces unemployment”.

The design of jobs under an ELR has to ensure the positions are accessible to the most disadvantaged workers in the labour market, for it is they who typically bear the brunt of unemployment. In that sense if productivity resides in the individual (as in human capital theory) as opposed (more realistically) to being the outcome of a complex mix of individual characteristics, team-based collaboration, on-the-job training, and job design and management, then it is highly likely that  $q$  will approximate  $Q$ , for most individuals who will rely on ELR employment for anything other than short transitional unemployment.

Of-course, not all ELR recipients at all times will fall into this category and to the extent that professional workers are required to work in ELR to gain income support when they cannot find a job befitting their skills, there will be some underemployment in the Sawyer sense. However, in professional occupational markets, it is more likely that some frictional unemployment will remain. As discussed, skilled workers who are laid off are likely to receive cash payouts that forestall their need to get immediate work, and they have a disincentive to immediately take an ELR job, which is a low-wage option. This frictional unemployment acts to discipline wage demands in the primary sector. In this case, any underemployment arising from ‘inadequacy of employment situations’ will be reduced.

However, a further point should be made. At present, the private sector in some capitalist economies (notably, the English-speaking ones) has reduced unemployment but this has come at the expense of creating increasing time-related underemployment (with implied inadequacy of employment situations). It is highly likely that the introduction of the ELR will place pressure on private employers, particularly in the low-skill service sectors to restructure their workplaces to overcome the discontent that their underemployed workers feel. In Australia, around 25 per cent of all part-time workers indicate that they desire more hours of work but cannot find them. The average weekly extra hours of work sought is 15.1 weekly (September 2003). A full-time ELR position at wages not significantly different from the low pay in the private sector service industries would appear attractive relative to a private job that rations the worker hours. In this context, it is an empirical question as to whether the introduction of the ELR results in a net increase in underemployment.

While he does provide in an endnote one quote from Wray (1998) indicating that there is no reason why ELR cannot offer part-time jobs on demand, Sawyer criticises ELR advocates for focusing on full-time employment. (Sawyer, 2003: 897; also see his endnote 13) It should be obvious that ELR can provide flexible work schedules, accommodating virtually any requirement of workers. Further, it is very easy to design the program in such a way that child care services will be provided by ELR workers, to accommodate parental needs. ELR will eliminate under- and over-employment so far as hours is concerned. It will, like private employment, allow underemployment in the productivity sense--at least temporarily for individual workers. However, if one rejects the neoclassical human capital view of production, it is likely that well-designed ELR jobs will lead to significantly less waste than "anarchy of production" private jobs creates.

### 3.4 Value of output

Sawyer (2003: 895) also questions the 'value of output' that the ELR workers would produce. He argues that it is highly likely that ELR workers will be "paid more than they produce" and this suggests that the output is not valued by the general public. The substantive point Sawyer makes is that if  $w$  (the ELR wage)  $> q$  then "the ELR workers are making net claims on the rest of the economy (equal to  $w - q$ ) ... [and] ...that the net claims ... are greater than those currently made by the unemployed." (2003: 895). The point is then used to buttress his inflation argument, which we have dealt with earlier.

However, Sawyer's (2003: 895) argument that if the output "... is not valued by others, it is as though the ELR worker is producing nothing" implies that the private market (or government spending that competes in that market for resources) is the only valid output validation mechanism. Even neo-classical theory has recognised the difference between private and social values. There are countless activities with flows of services (outputs) that will have a zero value in the private market place, but could have positive social value. Some of these activities are labour-intensive and are ideal for ELR job creation. Further, activities with marginally sufficient output as valued by markets can have little or even negative social value--with burger flipping an obvious candidate. It is difficult to believe that ELR will produce less social value than fast food production, let alone value produced by such private market activities as porn, prostitution, or old growth timber destruction.

But moreover, we should not accept that the concept of 'work' and 'productivity' is static. The future of paid work is clearly an important debate. The traditional moral views about the virtues of work - which are exploited by the capitalist class - need to be recast. What is the best way to make the transition into a system of work and income generation that expunges the yoke of the work ethic and the stigmatisation of 'non-work'? While a broader concept of work is the first phase in decoupling work and income we do not advocate imposing this new culture of non-work on to society as it currently exists. Social attitudes take time to evolve and are best reinforced by changes in the educational system. ELR provides a progressive role for the state in rebuilding a sense of community and the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer. It also provides the framework whereby the concept of work itself can be extended and broadened to include activities that we would dismiss as being 'leisure' using the current ideology and persuasions, as well as to encourage private sector activities currently counted as

‘productive’ in a narrow sense that societies of the future will view as socially destructive.

### 3.5 Other ‘welfare’ benefits

Sawyer (2003: 897) indicates that there would be problems if the abandonment of the system of unemployment benefits accompanied the introduction of the ELR (as advocated by Mitchell, 1998 among others). Sawyer (2003: 897) asks “who would be required to undertake ELR employment (or otherwise receive no income) and who would, in effect, be exempt (and receive forms of income support from the State).” This is not a problem specific to the ELR but in fact is a basic issue in any categorical benefits system. Workers who are unable to work would have access to the other forms of state-provided income support as they currently do (depending on country concerned). In Australia, and elsewhere, this form of income support is typically split into different categories such as aged pension, sickness benefit, disability support pension, and other types of payments. To be eligible for one of these payments particularly before one qualifies on age alone, individuals have to ‘fit’ themselves into a relevant category. For its part, the state has to establish mechanisms to screen applicants to ensure the integrity of the ‘pension’ system. Unemployment benefits are subjected to activity tests and other forms of screens. No new problem is introduced with the ELR that doesn’t already exist.

What ELR does is to provide jobs to all who want to work. Most public policy today uses the ‘stick’ to force able-bodied off welfare without providing the ‘carrot’ in the form of jobs. Most welfare-to-work schemes are little more than a cruel joke, precisely because there is no job for most welfare-leavers.

## 4. Financing, interest rates, and other muddled issues

Sawyer appears to be confused on the ‘financing’ involved in sustaining an ELR program. We do not have the space to sort out all the misunderstandings he has promulgated - but we will address a few of the major mistakes.

First, Sawyer claims that ELR would be entirely deficit-financed. Here he has completely misunderstood the reason that many explications of ELR have discussed the functional finance approach to deficits—not because ELR spending will be deficit-financed, but in order to dispense with the typical argument that government cannot financially ‘afford’ such a program. In reality, the size of the government’s budget deficit is largely ‘endogenously’ determined by the spending propensities in the non-government sector. This is why the government’s budget moves counter-cyclically. It is true that as the economy slows and the ELR pool grows, the government budget will move toward larger deficits. However, it is perfectly conceivable that in expansion the budget would be in surplus, even with a sizeable ELR pool remaining (would Sawyer then claim that the budget surplus ‘financed’ ELR?). Clearly, the budget balance will fluctuate over the cycle but ELR in no sense requires budget deficit finance.

Sawyer (2003: 885) uses the work of Kadmos and O’Hara (2000) to “well describe” the roles of finance and money in the ELR. Unfortunately, the understanding of those authors of the nuances of public finance is flawed, and reliance on their description inherits their deficient understanding. Kadmos and O’Hara (2000: 10) state that “government spending can never be restrained. The government is in a position to hire all unemployed workers at any price it chooses, financing this labour force by printing

as much money as required that will achieve full employment.” The correct understanding is that the government can never be ‘financially’ constrained unless it voluntarily limits itself by legislation, and thus talking about ‘financing’ and ‘printing money’ is erroneous.<sup>7</sup> The reality is that the wherewithal for governments to spend ‘doesn’t come from anywhere’ and manifests as electronic adjustments to banking system accounts. The imagery that there is a printing press operating only serves to place the analysis within the orthodox paradigm.

Sawyer (2003: 885) then, wrongly, characterises the ELR argument by saying “it is asserted that government expenditure can be (and is) financed by ‘printing money’ (the creation of HPM). The difference between the HPM issued by the government to pay for its expenditure is less than that which is taken back by government.” Sawyer, thus, places himself firmly in the ‘government budget constraint’ framework by assuming that in some way bond issuance is required to ‘finance’ government spending. While he can self-select the paradigm, however erroneous, he wishes to operate within, he is not entitled to misrepresent the framework that underpins the ELR. In this section of his paper, he clearly does that. Bond issuance is a process whereby the government offers interest-bearing asset alternatives to non-interest bearing reserve accounts at the central bank. The function of bond issuance is not to ‘finance’ government spending but rather to provide a means whereby the central bank can maintain some target short-term interest rate and generally support a desired term structure of interest rates. (It is thus part of monetary policy that has nothing to do with finance. (Wray, 1998; Mitchell, 1998; Mitchell and Mosler, 2002).)

When Sawyer then goes on to worry that all the HPM created to “finance” the deficits created by ELR might generate inflation as in the Monetarist “excess money supply” story, he only displays a profound misunderstanding of central bank operations. These are always defensive and are undertaken to drain excess reserves. If the government credits to bank balance sheets resulting from payment of ELR wages (and other associated spending) lead to excess banking system reserves, these are immediately drained by automatic central bank intervention—either by winding down loans at the discount window or through open market sales of bonds. (Operating procedures are somewhat different in countries with a zero overnight interest rate target – Japan - and in countries which pay interest on bank reserves, such as in Australia.) Unless the overnight rate target is zero, there won’t be any excess money sloshing around the system to cause inflation. Sawyer does not understand that ELR will be ‘financed’ in the same manner as any other government spending. When all is said and done, government spends by crediting bank accounts, taxes by debiting them, and sells bonds to drain excess reserves. We do not need to invent any forms of finance or analysis of that finance because ELR changes this in no way.

Finally, Sawyer misunderstands interest rate setting procedure. He argues that central banks cannot simply set the interest rate any where they like, and doubts that deficit-spending governments can set rates on their bonds as low as half a percent. As we argued above, ELR is not necessarily ‘deficit-financed’; hence, ELR by itself does not really raise any special ‘finance’ issues. Still, let us presume that ELR does increase budget deficits and ask whether this will push up government borrowing and raise interest rates. Actually, overnight interest rates are set by the central bank. This does not mean that rates are set arbitrarily without regard to any economic considerations. The central bank may believe it needs to raise rates to fight inflation or to protect the currency, or to achieve any number of other goals. Bonds are then sold by the central bank or the treasury to drain excess reserves to keep the overnight rate on target (the

exception, again, is in a nation with a zero target or in which interest is paid on reserves). The rate on short term government bills is then arbitrated closely in line with overnight rates. Longer term government bond rates are determined mostly by expectations of future central bank overnight targets. Since bills/bonds paying a positive interest rate are preferred over non-earning excess reserves, the rates on sovereign debt can, indeed, be kept at half a percent, or lower, if desired.

## 5. Conclusion

In conclusion, we can probably do no better than to quote from a 1965 article by Hyman Minsky (1965: 299-300):

Work should be made available for all able and willing to work at the national minimum wage. This is a wage support law, analogous to the price supports for agricultural products.... To qualify for employment at these terms, all that would be required would be to register at the local U.S.E.S. [US Employment Service]. Part time and seasonal work should be available at these terms... National government agencies, as well as local and state agencies would be eligible to obtain this labour. They would bid for labour by submitting their projects, and a local 'evaluation' board would determine priorities among projects.... The basic approach is straight forward - accept the poor as they are and tailor make jobs to fit their capabilities. After this is done, programs to improve the capabilities of low income workers are in order.

Certainly, many of the details surrounding implementation and operation of an ELR program remain to be solidified. And one can conceive of a poorly formulated program. But why would progressive economists want to propose a 'make-work' program that prevents workers from using any skills or education, that fluctuates wildly from zero to millions of employees, and that prohibits part-time work or job search while employed? Why not create a 'paid work' program with flexible work schedules and positive social benefits?

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<sup>2</sup> The term *employer of last resort* (ELR) is interchangeable with the term *buffer stock employment* (BSE) and *Job Guarantee* (JG). The latter two descriptions of the approach to full employment are found in the work of Mitchell whereas the ELR terminology is used by Wray. For this paper, we use ELR as the unifying terminology because it is the main term used by Sawyer. Wray now prefers "public service employment" (PSE). While ELR is accurate in one sense, it also provides a negative connotation that neither PSE nor JG implies.

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<sup>3</sup> One might imagine a very poorly designed ELR program that could result in a NAIBER above the NAIRU. (For example, if the ELR wage were indexed to inflation, while unemployment compensation were not, then NAIBER could exceed NAIRU.) But why should we automatically assume a poorly designed program to evaluate a proposal?

<sup>4</sup> Sawyer provides a strange twist on marginal productivity theory, arguing that *if* ELR pays low wages, *then* productivity of ELR workers must be low. We see productivity as mostly socially determined, not as some characteristic of the individual worker. Further, the productivity in question should be social productivity, not productivity in a market sense. We do not believe that low pay in the ELR program necessarily ensures low *social* productivity of the ELR program. For example, a childcare program employing ELR workers could have very high social productivity.

<sup>5</sup> Elsewhere (Sawyer, 2003: 886), he argues that at full employment, output cannot be increased. Since ELR achieves full employment, output cannot be increased once it is implemented. From the analysis in the first section, it should be clear that this is incorrect. ELR can achieve full employment at any level of aggregate demand and at any rate of economic growth.

<sup>6</sup> Sawyer argues that if aggregate demand were high enough, there would be no ELR jobs. We cannot imagine that a capitalist economy can achieve a level of demand so high that ELR employment would fall to zero. As the structuralists argued, a dynamic economy always leaves behind a significant number whose skills are not appropriate. (Wray and Pigeon, 2000) Further, in a nation like the USA, stereotypes and racial and gender biases have created a very large “unemployable surplus population”, as Darity (1999) put it.

<sup>7</sup> The discussion that follows relies on the assumption that the economy under question has a floating exchange rate.