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Full Employment, or a New Reserve Army? A Marxian Critique of the Employer of Last Resort

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Full Employment, or a New Reserve Army?
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By

Michael Heusch

An Abstract of a Thesis
In
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Submitted in Partial Fulfillment
Of the Requirements
For the Degree of

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Department of Economics and Finance

ABSTRACT OF THESIS

Full Employment, or a New Reserve Army? A Marxian Critique of the Employer of Last Resort

The notion that the government should guarantee jobs is gaining political popularity in the United States. Over the past twenty years, a branch of post-Keynesians has developed a policy proposal known as the employer of last resort (ELR), which they argue would achieve full employment through direct government job creation. However, many have argued that this proposal is deficient, both in its design and its potential for implementation. While most critiques of this policy have come from other post-Keynesians, this thesis contributes to the controversy surrounding the ELR by examining it from a Marxian perspective. Specifically, this thesis aims to address the ELR's neglect of political and class power dynamics. Included in this investigation is a comparative-critical analysis of the post-Keynesian and Marxian theories of unemployment and of the state, which I argue exposes deficiencies in the post-Keynesian theory. While I am sympathetic to the goals of the ELR, I argue that the lack of class analysis in post-Keynesian theory and policy inhibits the ELR advocates from appreciating the obstacles to the achievement of their goals. Therefore, I would suggest that Marxian analysis be incorporated into ELR theory and policy proposal.

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I. Introduction

The official unemployment rate in the United States at time of writing (November 2018) is 3.7 percent, which is the lowest rate since 1969 (Bureau of Labor Statistics, 2018a).

The natural rate of unemployment (NAIRU), the lowest rate of unemployment that can be achieved without increasing the rate of inflation, is currently at 4.6 percent (Congressional Budget Office, 2018). By these measurements, mainstream economists argue that the United States economy is currently operating beyond full employment, despite the fact that there are millions of unemployed people and that the labor force participation rate is at a 40-year low (Bureau of Labor Statistics, 2018b). Mainstream economists view such a level of unemployment as natural, unproblematic, or inevitable.

A group of post-Keynesian economists argue, contrary to the accepted wisdom of the mainstream, that there is a way to reduce unemployment to a level below one percent in peacetime without causing inflation. This can be achieved by a government employment program called the employer of last resort (ELR). Active at the Levy Economics Institute of Bard College, the University of Missouri–Kansas City, and at the University of Newcastle in Australia, these economists (referred to subsequently as the ‘ELR advocates,’ or the ‘ELR architects’) reject the idea that there is a zero-sum tradeoff between full employment and price stability. Instead, they argue that unemployment, and many of the social ills such as depression and crime that are caused by it, can be effectively eliminated (Tcherneva, 2017). As will be elaborated, the ELR is designed to achieve full employment by providing a job to anyone who is willing and able to work, regardless of skill (Tcherneva, 2012a). The ELR would stabilize prices by operating as a

countercyclical supplement to private sector demand. Moreover, the ELR advocates appeal to the moral authority of Franklin Delano Roosevelt and Martin Luther King Jr., who viewed a guaranteed job as a human right (Forstater, 2002).

The last 20 years have seen an explosion of scholarship detailing the design of the ELR (e.g. Wray 1998; Kaboub 2007; Tcherneva 2018), and the notion that the government should guarantee jobs is regaining political attention in the United States (Krieg 2018). However, there are many post-Keynesians who, despite being sympathetic to the goals of the ELR, have criticized the proposal (e.g. Sawyer, 2003 and 2005; Seccareccia 2004; Sturgess 2016).

This thesis contributes to the debate surrounding ELR and full employment by critically analyzing the ELR from the perspective of Marxian political economy. The main question this thesis asks is: Can the ELR achieve full employment? A corollary to this question will be: Is sustained full employment possible, under any circumstances, in a capitalist economy?

Like the post-Keynesian critics of the ELR, I am sympathetic to the goal of eliminating unemployment. But as this thesis will demonstrate, the ELR architects have not provided convincing evidence that (1) the ELR is a policy capable of eliminating unemployment, or (2) that sustained full employment (as defined below) is possible in a capitalist economy. While the ELR offers a theoretical solution to unemployment within capitalism, I argue that the neglect of power dynamics and class analysis in ELR scholarship precludes the ELR advocates from understanding some obstacles to the implementation of the ELR and the achievement of sustained full employment. While I

do not take a definitive stance on whether capitalism can sustain full employment, the discussion below leads me to be very skeptical that it can.

In order to theoretically contextualize my critique of the ELR, the first half of this thesis is a comparative analysis of the Marxian and post-Keynesian theories of unemployment and of the state. In Chapter 2, I compare Marxian and post-Keynesian unemployment theory. Both post-Keynesians and Marxists view unemployment as an intrinsic problem of capitalist economies. However, post-Keynesians view the state as an agent capable of ending unemployment, whereas the Marxian view is that unemployment as performing a necessary role in capital accumulation (what I call the ‘class function’ of unemployment), and thus cannot be eliminated in a capitalist system. I also argue that post-Keynesian ELR advocates should incorporate the Marxian class function of unemployment into their theory and policy proposals. In Chapter 3, I show how the post-Keynesian theory of the state lacks theoretical coherence, which is particularly problematic given the state’s central role for the ELR. The Marxian theory of the state is presented as a more theoretically rigorous and useful analytical framework.

In the second half of this thesis, I discuss the ELR and contribute to the chorus of criticism mounted against it. In Chapter 4, the ELR is introduced, along with existing large-scale government employment programs: The New Deal in America and Argentina’s *Plan Jefes*. Many existing criticisms of the ELR from the post-Keynesian perspective are surveyed in this chapter. It will be concluded that while the goals of the ELR may be worth pursuing, the ELR cannot simultaneously achieve price stability and meaningful long-term employment. Chapter 5 constitutes my Marxian critique of the ELR. In this chapter, I argue that the political and class obstacles to full employment are

neglected by the ELR advocates. Building on Kalecki's (1943) concerns regarding the political pitfalls of full employment, I contend that the ELR is likely not feasible in the United States today. I argue that even if the ELR were implemented, it would not bring about full employment, but rather that the ELR population would function as a 'reserve army of the employed' serving the same role under capitalism as the traditionally unemployed. While ELR advocates downplay the role of mass movements in existing large-scale employment programs, here they are viewed as crucial to their implementation. In my conclusion, I argue that in spite of the political obstacles to the ELR and large-scale employment programs in general, full employment is still a goal worth pursuing.

In order to avoid confusion for the reader, what follows is an explanation of several terms used throughout this thesis. Following Lavoie (2014), the term 'post-Keynesian' is used to denote a 'broad tent' of all those who reject neoclassical microfoundations and are primarily influenced by Keynes, while 'Post Keynesian' refers to a more specific subset of 'Fundamentalist' post-Keynesians. I most often engage with the small-tent group of Fundamentalist Post Keynesians, as they are the ones who developed the ELR.

The term 'Marxian' will be used to denote the broad school of economic thought that follows the method of Marx, while the term 'Marxist' will refer to individual scholars of the Marxian tradition.

Due to the increasing political popularity of the term 'Job Guarantee,' Post Keynesian scholarship has largely stopped titling their program 'ELR.' However, I continue to use 'ELR' in this thesis, since it more precisely describes the policy as

proposed by Post Keynesians. This also disambiguates the ELR from the several Job Guarantee proposals put forth by politicians in the United States in recent years.

Full Employment is defined in this thesis as Keynes's (1980) 'less-than-one-percent' unemployment in peacetime. As noted above, the mainstream metrics of full employment neglect millions of those who are unemployed or outside of the labor force.¹

¹ This definition reflects Keynes's goals regarding what levels of employment could possibly be achieved through the use of direct employment programs, and should not be confused with his definition of a full employment of productive resources, a situation in which "a further increase in the quantity of effective demand produces no further increase in output" (1936, p. 303).

II. An Overview of Unemployment Theory in Marx and Keynes

The main argument of this thesis is that the architects of the employer of last resort (ELR) policy do not provide convincing evidence that the ELR can achieve permanent full employment in a capitalist economy, because full employment is incompatible with the needs of capital accumulation. In this chapter, I critically analyze Keynes's unemployment theory, upon which the ELR policy was designed. This will be contrasted with the unemployment theory of Marx. Both Marx and Keynes viewed unemployment as a structural, foundational, and deleterious component of capitalism, and their theoretical contributions remain relevant to the real economic conditions of the 21st century. However, while Keynes viewed the unemployment as "an irrational by-product of capitalism's normal operations," Marx argued that unemployment has a necessary role to play in capitalist economies (Forstater, 2005, p. 248). Like Keynes, the ELR advocates fail to adequately consider the role of unemployment under capitalism (what I call the 'class function' of unemployment). This chapter has two goals: (1) to provide a theoretical basis for my Marxian critique of the ELR, and (2) to examine the potential for a synthesis of the two theories, in order that they might be mutually improved. In the first section of this chapter, I discuss the Marxian theory of unemployment.

2.1. Marx: The Reserve Army of Labor

The accumulation of capital is the fundamental engine of production and growth of the capitalist system, without which it would not survive. For Marx, an inevitable byproduct

of capitalist accumulation is a sizable of the unemployed, which he called the ‘reserve army,’ or the ‘surplus population,’ by which the capitalist economy is sustained. This phenomenon is the cornerstone of *Capital Vol. I*; indeed, he calls it “*the absolute general law of capitalist accumulation*” (Marx, [1867] 1990, p. 798, italics in original).

Capitalist class, following its class interests, strives to accumulate as much capital as possible. When capitalists hire workers, the workers become one function of capital accumulation; they are the ‘living part of capital.’ The working class participates in capital accumulation only insofar as they are a necessary tool of capital; it acts “not in accord with its own will or self-activity, but in accord with the movement of capital” (Braverman, [1974] 1998, p. 261).

Individual capitalists are spurred by competition to introduce cost-saving technological advancements into the production process. Technological innovation in production leads to the increasing replacement of labor (variable capital) with all other means of production, such as machinery (constant capital). This shift in the ‘organic composition of capital’ is exacerbated by capitalism’s tendency toward ‘centralization’ (wherein capitalist firms absorb other firms), which “supplements the work of accumulation by enabling industrial capitalist to extend the scale of their operations” (Marx, [1867] 1990, p. 779). Thus,

[i]t is *capitalist accumulation itself* that constantly produces, and produces indeed in direct relation with its own energy and extent, a relatively redundant working population, i.e. a population which is superfluous to capital’s average

requirements for its own valorization, and is therefore a surplus population. (ibid., p. 782, italics added)

Technological advancement, driven by competition, throws workers out of work as they are replaced by machinery.

Because capitalism depends on expansion and also is subject to cyclical “periods of average activity, production at high pressure, crisis, and stagnation” (ibid., p. 785), the surplus population it produces becomes a necessity to accommodate for the regular workings of a capitalist economy. Marx writes that the surplus production

becomes a condition for the existence of the capitalist mode of production. It becomes an *industrial reserve army* ... a mass of human material always ready for exploitation by capital in the interests of capital’s own changing valorization requirements. (ibid., italics added)

The reserve army ‘belongs’ to the capitalist class in the same way as employed labor; the capitalists dictate, based on their requirements for surplus value, whether and to what extent the reserve army becomes engaged in the process of surplus value creation.

Capitalist accumulation not only produces a surplus population of unemployed workers, but there is also a tendency for this surplus population to expand:

the greater the social wealth, the functioning capital, the extent and energy of its growth, and therefore also the greater the absolute mass of the proletariat ... the

greater is the industrial reserve army ... this is the absolute general law of capitalist accumulation. (ibid., p. 798)

Herein we find what Marx finds to be a damning intrinsic feature of capitalism: the very technological advancements that are necessary for capital accumulation create the conditions for an ever-expanding mass of unemployed. “The working population produces both the accumulation of capital and the means by which it is itself made relatively superfluous; and does this to an extent which is always increasing.” This creates a situation where “the accumulation of misery [is] a necessary condition, corresponding to the accumulation of wealth” (ibid., p. 799).²

Marx also observed the periodic expansion and contraction of the economy, which has since become the widely-accepted phenomenon of ‘business cycle.’ These cycles dramatically affect the surplus population: he notes that “during the periods of average prosperity, [the surplus army] weighs down the active army of workers; during the periods of over-production, it puts a curb on their pretensions (ibid., p. 792). Thus, the reserve army “contains within itself a mechanism for regulating the wage level and hence for maintaining profits” (Sweezy, 1942, p. 91). This is the ‘class function’ of unemployment, by which the reserve army ensures the dominance of the capitalist class; stricken with Orwell’s ‘haunting terror of unemployment,’ and constantly threatened by

² A common response to this claim is that the experience of history contradicts the ‘absolute law.’ However, they make the error of assuming that Marx meant that this was absolutely true *under all circumstances*. He writes that this absolute general law is “like all other laws ... modified in its working by many circumstances, the analysis of which does not concern us here” (Marx, [1867] 1990, p. 794). In Vol. 1 of *Capital*, Marx focuses on the dynamics of production, assumes a competitive market, and makes abstractions to his model economy that he removes in later volumes (Harvey, 2010). Government intervention in the economy has mitigated the expansion of the reserve army at times, but this is a circumstance that does not repudiate the tendency described above. Indeed, the neoliberal project, which began in the late 1970s, has made the conditions of today’s United States economy more closely resemble the model of capitalism Marx puts forth in Vol. 1 of *Capital*.

the advance of the reserve army, the employed suffer lower wages, longer hours, and precarious job security. As we can see from this discussion, unemployment is an instrument that is integral to the reproduction and survival of the capitalist system, which is characterized by the dominance of the capitalist class.³ If we accept this line of thought, the Keynesian notion of full employment is not possible under capitalism, even if the state implements interventionist policy. In the following section, I analyze the factions of Marx's reserve army, and provide theoretical and empirical basis for a modernized application of a Marxian understanding of unemployment.

2.2 The Factions of the Surplus Population – from Marx to Present Day

Marx categorized the reserve army of the unemployed into three factions: the floating, the latent, and the stagnant, to which he added 'pauperism' ([1867] 1990, p. 794). I will briefly delineate the three factions and, with reference to other Marxist scholars, show how they manifest in the present-day economy. Marx wrote at a time in which capitalism was a relatively new economic system that did not enjoy its current economic and hegemonic dominance; today's 'late-capitalist' economic conditions are distinct from those of the mid-1800s.⁴ Notably, the state's intervention in the economy has changed the nature of the business cycle so that depressions with mass unemployment are not

³ The capitalist class is not a monolith; there is competitive activity between individual capitalists and sectors of the capitalist class. While it escapes the purview of this thesis, the relationship of unemployment to competition between the real productive capitalists and the increasingly powerful financial capitalists would be an interesting topic for further research.

⁴ Ernest Mandel's (1975) concept of 'late capitalism' "in which the fundamental laws of motion and the inherent contradictions of capital not merely continue to operate, but actually find their most extreme expression" is characterized by neoliberalism, international corporations, globalization, and large role of the state in the economy. While he adapts Marx's writing to modern conditions, Mandel (1975) in no way suggests that capitalism has changed in essence; Marx's analysis of the capitalist mode of production remains fundamentally relevant to today's society.

‘inevitable’ (Sherman, 1972). There is a need to re-contextualize Marx’s unemployment categories in our present-day economic reality.

The floating surplus population is present in the industrial sector of the capitalist economy. This surplus faction consists of those who are “sometimes repelled, sometimes attracted again in greater masses ... although in a constantly decreasing proportion to the scale of production” (Marx, ([1867] 1990, p. 794). The floating population chases after the movements and advances in capitalist production, which is constantly evolving to adapt to changes in technology. As capital becomes centralized and work more specialized and transitional, there emerges a contradiction “inherent in capital’s very movement ... that the natural increase of the number of workers does not satisfy the requirements of the accumulation of capital, and yet, at the same time, exceeds those requirements” (Marx, [1867] 1990, p. 795).

The floating surplus population roughly corresponds to the mainstream notion of ‘frictional unemployment,’ except that the mainstream theory presupposes that this type of unemployment is a temporary disconnect between the needs of individual capitalists and the skills and availability of individual workers that tends towards an equilibrium level. Marx, on the other hand, suggests that the capitalist class as a whole requires more or less labor during each business cycle, with a secular decrease in labor needed over time as technology advances. Again, the decrease in demand for labor relative to capital is a tendency that can be counteracted by socio-historical and economic forces. We can easily observe that the floating surplus population persists in today’s economy; the ‘Great Recession’ of the late 2000s pushed official unemployment levels past 10 percent in the United States, and the ‘recovery’ has been characterized by reemployment in more

precarious working conditions (Bureau of Labor Statistics, 2018; Katz and Krueger, 2016).

The latent population consists of agricultural workers who, when displaced by technological advances in production, have nowhere to turn for employment within their industry. Their displacement has two effects: the influx of unemployed into the urban labor market, and the ability for agricultural capitalists to increase the rate of exploitation of agricultural laborer. This increases the overall surplus population and leaves the agricultural worker with “one foot already in the swamp of pauperism” (Marx, [1867] 1990, p. 796).

It may seem at first glance that the latent reserve faction is non-existent today; if we are referring specifically to the displacement of agricultural workers by industrial labor in the imperialist nations, that is true. Capitalism’s displacement of agricultural workers was a singular historical process that has run its course in a majority of the industrialized world as of the late 20th century. However, we still see the phenomenon of displacement of entire sectors of the United States economy under late capitalism, due to both increases in technology and the globalization of labor and capital markets. Braverman ([1974] 1998) observed that the scientific-technological revolution displaced workers in science and tech-heavy industry even as the industries themselves grew (p. 264). Clerical, service, and retail jobs have largely displaced industrial jobs in the United States; laid-off industrial workers are a new form of the ‘latent surplus population.’ The globalization of production by the imperialist powers via multinational corporations moves industry to the developing world, where small farmers are displaced, providing a new pool of laborers available for exploitation by capital.

The stagnant reserve army perhaps contributes most to capitalist accumulation; it offers “an inexhaustible reservoir of disposable labor power” because it consists of the irregularly and marginally employed. This faction is recruited from the latent and floating surplus populations and forms of itself a “self-reproducing and self-perpetuating element of the working class, taking a proportionally greater part ... of that class than other elements” (Marx, [1867] 1990, p. 796). The stagnant reserve army acts as leverage for the capitalist to discipline labor via the threat of replacement by the swelling ranks of the reserve army. The stagnant reserve population is accompanied by ‘pauperism,’ which Marx refers to as “the hospital of the active labour-army,” and includes “the demoralized, the ragged ... those who succumb to their incapacity for adaptation” (ibid., p. 797).

The ‘irregular and marginal employment’ of the stagnant reserve army is perfectly manifest in the ‘gig economy’ of the late-capitalist neoliberal economic regime. The term ‘precariat,’ popularized by Guy Standing (2011), describes the contemporary sub-class corresponding to the stagnant reserve population: those that have part-time, contract labor with no benefits or job security. This faction of the unemployed makes up a growing percentage of the labor force in the United States and elsewhere.⁵ Likewise, the ‘pauper’ class remains relevant today as those who do not appear as unemployed on national records, but are relegated to the periphery of society and listed as ‘outside of the labor force.’

⁵ Data on the so-called gig-economy is still somewhat dubious, because there are conflicting legal and economic definitions of jobs that constitute the gig economy. Nevertheless, there have been several studies that attempt to provide understanding of this phenomenon. The National Bureau of Economic Research (NBER) released a study in 2016 that claims that ‘alternative working arrangements’ such as freelance work and contract employment rose from 10.7 percent in February 2005 to 15.8 percent in late 2015 (Katz and Krueger, 2016).

In summary, the logic of capital that dictates the capitalist production process necessarily brings forth unemployment, by which capital accumulation is supported. The industrial reserve army provides a population of those that can respond to capital's ever-changing requirements for valorization, and keeps the employed from demanding a larger share of the value they produce.⁶ Although there are situational differences between the capitalism of the 1800s and that of the 21st century, the fundamental nature of class antagonism in the production process remains consistent (Mandel, 1975). Thus, the conditions that produce unemployment largely remain the same, regardless of the varying levels of government intervention in the economy. In the following section, I transition to the analysis of Keynes's unemployment theory.

2.3 Keynes: Involuntary Unemployment

Keynes's 1936 magnum opus, *The General Theory of Employment, Interest, and Money*, argues that a normally functioning capitalist economy would operate below levels of full employment because the entrepreneur class must make production decisions for an uncertain future based on effective demand. Thus, state intervention is necessary to ameliorate the intrinsic flaws of capitalist economies. Explicitly written for an academic audience, Keynes hoped to convince his "fellow economists, not the general public" (1936, p. vi). This perhaps contributes to the confusion and disagreement surrounding Keynes; what passes for 'Keynesian' in the public discourse (welfare state economics, deficit spending, etc.) often does not engage with the actual content of his work (Tcherneva, 2012b). A great deal of effort has been devoted since the time of Keynes to

⁶ These dynamics are empirically observed in the United States today. See Basu (2013).

presenting and defending his work in a way that preserves his ‘revolutionary’ break with economic orthodoxy (Robinson, 1937; Minsky, 1975). This thesis aims to deal with Keynes’s actual work, and those Post Keynesians who adhere to it.

Written during the Great Depression, the *General Theory* is commonly understood as a work that primarily attempts to explain the causes of unemployment in capitalist economies and to ameliorate it. Keynes’s novel concepts of effective demand, the marginal efficiency of capital, liquidity preference, and propensity to consume are all constructed in order to show how ‘involuntary’ and ‘structural’ unemployment can and does exist and that equilibrium is seldom, if ever, achieved.⁷ Indeed, anxiety of system-wide collapse spurred by intolerable levels of unemployment is an explicit motivation for Keynes’s work. Like in Marx, unemployment is an endemic characteristic of the capitalist system that places the whole of society at risk:

It is certain that the world will not much longer tolerate the unemployment which, apart from brief levels of excitement, is associated — and in my opinion, inevitably associated — with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease. (Keynes, 1936, p. 381)

Keynes (1936) saw the orthodox reliance on Say’s Law to be an inadequate analytical framework for explaining the “economic society in which we actually live” (p. 1); it may represent “the way in which we should like our economy to behave” but to “assume that

⁷ I will assume some cursory knowledge of the concepts mentioned here; the theoretical innovations of the *General Theory* are elaborated elsewhere in the literature. See Robinson (1937), Minsky (1975). Where relevant, I will describe each in the analysis that follows.

it actually does ... is to assume our difficulties away” (p. 34). Say’s Law, briefly, is the postulate that, in the aggregate, supply brings forth its own demand, since economic actors will spend their money some way or another. From this law, orthodox economists assume full employment and price adjustment via the market mechanism of supply and demand as a given for normally functioning market economies. The rejection of the equilibrium condition of full employment is the premise on which the *General Theory* begins its analysis.

The categories of unemployment laid out by the orthodox economists are ‘frictional’ and ‘voluntary’ unemployment. As mentioned above, these are respectively made up of those who are either in-between jobs or do not wish to work at the prevailing wage rate on offer. Neoclassical theory sees these two groups as a normal, non-problematic aspect of a working economy; some level of the frictional and voluntary unemployment is assumed to be the condition of an economy that is at full employment. Keynes accepts these two categories of unemployment in his analysis, but does not think that they account for *all* unemployed members of an economy.

Keynes’s rejection of full employment equilibrium is grounded in his explanation of how capitalists (whom he refers to ‘entrepreneurs’) determine their production and hiring process.⁸ Because the capitalist class bases their production on *expected* future profits, the level of employment is determined by the outlook of capitalists. Supply based on an uncertain anticipated level of future demand is Keynes’s concept *effective demand*, which “is the substance of the General Theory of Employment” (Keynes, 1936, p. 25).

⁸ There is some confusion in Keynes regarding the capitalist class. He uses the individual ‘entrepreneur’ as the stand-in for ‘capitalist’ and seems to think of the capitalist class as a collection of individual entrepreneurs. So, he does not reliably consider the differences between the interests of individual ‘entrepreneurs’ and that of the capitalist class as a whole.

Because the future is fundamentally uncertain, capitalists' propensity to invest and employ workers is affected by psychological factors that disallow them from acting in a way that regularly facilitates full employment. To the contrary, "the effective demand associated with full employment is a special case" that happens "by accident or design," if ever (p. 28).

Because of the incongruity of effective demand and full employment levels of investment, involuntary unemployment regularly exists in capitalist economies, where workers are willing to work at a given wage, but are not offered employment. We can now summarize Keynes's unemployment theory, as laid out in the *General Theory*, and generally accepted by subsequent post-Keynesian scholars as follows:⁹ Contrary to mainstream orthodox theory, Say's Law does not hold in real-world economies; supply does not bring forth its own demand. At the macroeconomic level, employment supply is determined by the entrepreneur's decision to invest, which is in turn dictated by their expectations of profit in an uncertain future (that is, effective demand). Effective demand equilibrium does not regularly coincide with full employment; involuntary unemployment (along with massive inequality, which exacerbates unemployment) is a fundamental flaw in capitalist society that needs to be identified and remedied in order to prevent the entire system from collapsing. The ELR is based on this understanding of unemployment; its advocates begin with the premise that free markets may never produce full employment, so the state must intervene to boost the level of effective demand from the private sector to a level corresponding to full employment. They argue that this can be done through a direct employment program. However, like Keynes, they do not consider

⁹ Geoff Mann (2017a) notes that Keynes's (1937) reiteration of the crucial role of fundamental uncertainty has led some to call Keynes himself 'the First Post Keynesian.'

the class function of unemployment. The following section attempts to compare, and synthesize if possible, the two unemployment theories discussed in this chapter.

2.4 Conclusion: Integrating Marx and Keynes

Keynes believed that the *General Theory* had solved the “paradox of poverty in the midst of plenty” (1936, p. 30). Marx thought similarly of *Capital*, in which he endeavored to “reveal the economic law and motion of modern society” ([1867] 1990, p. 92). Both had hoped that the knowledge they provided to their intended audience (for Marx, the revolutionary proletariat, for Keynes, the benign enlightened elites) would provide the spark for the necessary changes needed to solve the fundamental flaws in capitalism. Marx and Keynes also shared a profound dissatisfaction with the unscientific or unrealistic foundations of ‘vulgar political economy’ or mainstream-neoclassical economics, and both considered their methodology to be applicable to real-world economies. From these more general similarities in methodology and theory, we can compare how the two theorized on unemployment.

Several of Keynes’s contributions can be read as a sophistication or reinterpretation of Marx’s theory. A primary example of this is Keynes’s (1930) concept of the ‘monetary production economy,’ which is of fundamental importance to his general theory. For Keynes, money functions as a store of value, and thus ‘liquidity preference’ plays a huge role in the willingness of capitalists to invest in production. The capitalist (entrepreneur) class dictates production and employment based on expected monetary profit (Dillard, 1948). In a draft chapter of the *General Theory*, Keynes credits

Marx with the initial observation of capitalism as a monetary production economy (Henry, 2011).¹⁰ In addition, Marx developed a theory of the business cycle that, along with technological advances, explained the cyclical fluctuations in investment and production that necessitated a reserve army of the unemployed. Indeed, if one were to look to Keynes's writings before or after the *General Theory*, they would find much clearer resemblance to Marx; this is perhaps a byproduct of Keynes's stated intent of convincing mainstream economists, with whom Marx would be viewed unfavorably (Sardoni, 2011).

Despite these similarities, there are important differences between the two regarding the *causes* and *function* of unemployment. This can be associated with their respective views of the capitalist class. It hardly bears mention that Keynes viewed the bourgeoisie favorably while Marx viewed them critically. Whereas Marx attributes the cause of unemployment to technological change based on the rapacious and destructive logic of the capitalist class, Keynes's concept of effective demand explains involuntary unemployment as an irrational byproduct of production decisions made in an uncertain world. However, I do not see these two explanations to be in conflict; they can each be incorporated and strengthened in order to better explain the continued existence of unemployment. Keynes's concept of effective demand can fit within the Marxian paradigm, while Post Keynesians should incorporate the class function of unemployment into their theory, in order to appreciate the role that unemployment plays in the capital accumulation process.¹¹

¹⁰ Marx's M-C-M' monetary production schema, from Vol. 2 of *Capital*, is dealt with in the next chapter.

¹¹ I should note that Marx did develop a concept of effective demand in Vol. 3 of *Capital*, which is based on his understanding the role of money in capitalist society. For Marx, the willingness to hoard money results in a lack of aggregate demand that may trigger a crisis (Hein, 2015). Keynes's theory of effective

We now turn to the categorizations of the unemployed. As stated above, Keynes found it necessary to add the ‘involuntary unemployment’ category to the existing list of neoclassical distinctions of ‘frictional’ and ‘voluntary’ unemployment. Involuntary unemployment exists because entrepreneurs make production and hiring decisions amidst fundamental uncertainty. Marx was less explicitly concerned with who ‘wanted’ to work. Employment itself comes with alienation and exploitation under capitalism. Both employment and unemployment is ‘involuntary’ since both groups ultimately belonged to the capitalist class; “the only thing worse than being exploited is not being exploited” (Denning, 2010, p. 79). Workers had the choice between accepting a wage that amounts to less than the value of their labor, or starvation. However, we can draw parallels between Marx and Keynes. Marx’s ‘floating’ army coincides loosely with the frictional unemployment of Keynes and the neoclassicals, as stated above. Because both Marx and Keynes rejected Say’s Law, the stagnant reserve army can be said to occupy the same space as Keynes’s involuntary unemployed. Keynes’s concepts of effective demand and involuntary employment can, along with an updated understanding of Marx’s reserve army (and the class function it carries out), form a cohesive ontology of unemployment in a modern real-world setting. The following chapter of this thesis is a continuation of my comparative investigation into the theories of Post Keynesian and Marxian economics, wherein I study their respective theories of the state.

demand is more thoroughly developed, and is utilized by some Marxian economists, in particular the Monopoly Capital school.

III. Can the State End Unemployment? Examining the Function and Nature of the State in the Post Keynesian and Marxian Traditions

Unemployment, as we have seen in the previous chapter, is seen by both Marx and Keynes to be an inherent and deleterious byproduct of capitalist production. The question, then, becomes: What, if anything, can be done to solve the problem? For Marx, the contradictions of capitalist logic inhibit capitalism from solving its unemployment problem. However, for Keynes and Post Keynesians, the state is seen as the entity capable of eliminating unemployment. Post Keynesian policy proposals for the state's role in stabilizing the economy in the face of an uncertain future (what I will call the 'function of the state') are robust and well-developed. However, they do not have a coherent theory of the *nature* of the state. The state is assumed to be a neutral, benevolent force in the economy. When the state policy is utilized appropriately by policy makers, voted into power through democratic institutions, it will act to ameliorate the endogenous flaws of capitalism. I argue that this view of the state amounts to wishful thinking, which contradicts the post-Keynesian position that economic theory should be founded on realistic assumptions (Lavoie, 2014).¹² How can post-Keynesians, who aim to analyze the "economic society in which we actually live" (Keynes, 1936, p. 1), and rely so heavily on state intervention in the economy, not directly and critically examine the nature of the state? What the state is capable of, or what it 'ought' to do, is not the same as what it *is*. What's more, Post Keynesians fail to recognize that there is an ontological difference between the 'state' and the 'government.' The deficiency of the Post Keynesian state

¹² Lavoie (2014) identifies 'realism' as the epistemological foundation of post-Keynesianism, which holds that economic theory should represent reality.

theory is a fundamental aspect of the criticism I mount against the employer of last resort policy (ELR).¹³

In contrast, the Marxian tradition offers an explicit theory of the state: under capitalism, the state is an apparatus of institutions (including the government) operating by and for the ruling class, which ensures the reproduction of the conditions needed for the capital accumulation process. In this chapter, I attempt to distill Keynes's theory of the state, and will critically analyze the (usually implicit) state theory of the Post Keynesians. Then I will introduce the Marxist theory of the state as the more realistic alternative, which Post Keynesians would benefit from incorporating into their analysis. Important to this discussion is the difference between the government and the state, which will be highlighted when relevant. A critical examination of the Post Keynesian theory of the state will contribute to a better understanding of the ELR and the obstacles it faces.

3.1 Keynes: "Leave it to me"

It is well known that Keynes's *General Theory* fundamentally changed the role of the state in a capitalist economy. However, while Keynes has an obvious recommendation for the role of the state, a clear theory of the nature of the state was not elaborated in a concise way in Keynes's writing. This section attempts to synthesize a summary theory of the state based on Keynes's disparate writing on the subject.

¹³ Recall that I use the term "Post Keynesian" to mean the Fundamentalist Keynesian school of thought. The term post-Keynesian is used for the 'broad tent' heterogeneous tendency of heterodox Keynesians.

Keynes (1930) espouses a state theory of money, wherein the state is seen as the institution that introduces money into the economy. Keynes viewed capitalism as a monetary production economy (described in Chapter 2 of this thesis), and so the state is essential for the basic working of capitalist production.¹⁴

Because capitalism suffers from inherent flaws that, left unchecked, would prove disastrous, Keynes gave the state the responsibility for the overall performance of macroeconomic activity (Pressman, 2006). In fact, Keynes saw the state as the sole economic actor that has the capacity to save capitalism and ‘civilization’ in general from its structural deficiencies. Keynes (1936) proposes that the state, equipped with the “right analysis of the problem” can “cure the disease” of unemployment (p. 381).

As Keynes was confident of his own analysis, he maintained that “[t]he economic problem is not too difficult to solve. If you leave it to me, I will look after it” (1982, p. 34). This framework implies that the state only needs to be presented with the ‘right’ ideas in order to function as a benevolent actor on behalf of the economy (and society) as a unified whole. The state is presumed to play an active role in employment, by bolstering the effective demand level to a level corresponding to full employment. For example, Keynes suggested that state aid in effective demand management by “calculat[ing] the marginal efficiency of capital-goods on long views and on the basis of general social advantage” (1936, p. 164). Without the state, capitalism would devolve into a worse form of society.

Keynes’s perception of the state downplays the role of power imbalance and class antagonism. While Keynes “recognized classes and class relations as determining the essential social structure of the economy,” the state is not subject to these relations

¹⁴ See Wray (2014) for Keynes’s role in the development of the state theory of money.

(Henry, 2011). The notion that the state is an agent that takes part in class conflict is not considered. Indeed, Keynes is “sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas” (1936, p. 383). If the class-neutral state implemented the appropriate approach to macroeconomic management, capitalism can survive in an improved condition.

Keynes’s theory of the state can be summarized as follows: the state is a crucial agent in capitalist society because it produces the money commodity, which is necessary for monetary production to take place. It corrects for the sub-optimal levels of investment due to deficient levels of effective demand in an uncertain future. If utilized correctly, it will ensure full employment. The neglect of an analysis of power relations in Keynes’s state theory is addressed, though not sufficiently, by the Post Keynesians, which will be discussed below.

3.2 A Post Keynesian Theory of the State

The post-Keynesian tradition has evolved from a theoretically heterogeneous, radical faction of Keynes’s students to a “coherent body of thought that is distinguished by its own theoretical perspectives” (Palley, 1996, p. 8). However, a theory of the state is conspicuously absent in the otherwise comprehensive post-Keynesian literature. Indeed, among all the works consulted for this thesis, only one deals directly with this subject: Pressman’s *Alternative Theories of the State*. Pressman describes a widely-received view of the state from a post-Keynesian perspective.

Post Keynesians see the state as a “set of institutions working for the public good ... an important economic player [that] provides laws and sets of regulations ... [which] provide the necessary order for capitalist production to take place” (Pressman, 2006, pp. 127-8).¹⁵ This is, notably, the only statement in Pressman that deals with the *nature* of the state as an economic agent. The assertion that the state necessarily works ‘for the public good’ is never substantiated or critically dealt with, even though Pressman briefly mentions Kalecki’s (1943) argument that the government would “serve the interests of the capitalist class” (Pressman, 2006, 130). The neglect of Kalecki’s insights by the Post Keynesians is dealt with in Chapter 5 of this thesis.

Post Keynesians have a vision of how they *want* the state to behave. They want it to behave as an uncertainty-reducing institution based on the principles of Keynes’s *General Theory*. They want it to be an institution that “ensures that everyone plays by the rules and provides public goods” (Pressman, 2006, p. 133). They want it to “ensure that requisite spending takes place, leading to full employment” because “if the state does not do this, no one else will” (ibid., p. 127). But as explained below, they do not have a vision of how it actually behaves.

The primary theoretical difference between Keynes and the Post Keynesians regarding the state is the role of the institution of democratic government. Dow (2015) notes that because of the awareness that Keynes failed to implement his policies in spite of his access to the elite class of economists and politicians, “Post-Keynesians are ... more attuned to the malign power of capital and political difficulties than [was] Keynes”

¹⁵ Several branches of post-Keynesianism state (Kaleckians, radical post-Keynesians, and others) do not fully accept this view, and actually appear to espouse something closer to a Marxian theory of the state. However, the Fundamentalist Post Keynesians seem to generally adhere to the theory of the state as described in this chapter (though usually this is not directly stated).

(p. 79). Democracy is important to Post Keynesians because citizens who vote in their interest enable the state to enact policies to “counter the power of the large firm,” which will “generate ... economic growth that is shared by all citizens” (Pressman, 2006, p. 134). This is in contrast with Keynes, who was deeply distrustful of democracy when considering economic issues:

I believe that in the future, more than ever, questions about the economic framework of society will be far and away the most important political issues. I believe that the right solution will involve intellectual and scientific elements which must be above the heads of the vast mass of more or less illiterate voters. (Keynes, 1931, p. 324)

While Post Keynesians may be ‘more attuned to political difficulty,’ Pressman argues that they still lack coherence in their class analysis and power analysis.¹⁶ Like Keynes, the Post Keynesians view the state as not beholden to the power struggle between economic classes, even if they recognize some form of class antagonism elsewhere in the economy. At most, Post Keynesians view the state as neutral in the class struggle.

To summarize, Post Keynesians implicitly view the state as the only agent capable of ameliorating capitalism’s flaws, specifically those relating to insufficient effective demand. The state acts as a countervailing power against that of the large firm,

¹⁶ Kalecki is an exception on this account. However, his class analysis is downplayed in the literature, in favor of his profits equation and other macroeconomic theoretical contributions (Lavoie, 2014; Palley, 1995). Kalecki also differed widely from other Post Keynesians in his advocacy for democratic socialist planning (Toporowski, 2018).

while at the same time occupies a class-neutral space in the economy. Post Keynesians' incorporation of the importance of democracy is certainly a theoretical sophistication over Keynes's understanding of the state as the vessel of an enlightened elite. However, there are several deficiencies in this theory, which are addressed below.

3.3 "Assuming our difficulties away" – Problems with Post Keynesian State Theory

It is certainly possible that the state, if it were to act in the ways prescribed by Post Keynesians, would be an economic actor that eliminated unemployment. However, the nature of the state precludes it from acting in this way. The Post Keynesians are right to identify the state as an institution that saves capitalism from its own deficiencies, but this does not necessarily mean that it will act in a way that benefits 'all citizens.' The state must maintain and strengthen the institutions fundamental to capitalist production, and the particular way it does so depends on the specific historical needs of capitalist production (Kim, 2009). Thus, in response to a militant labor movement that threatened the foundations of capitalism, the state (however imperfectly) intervened using Keynesian policy to ameliorate unemployment during the so-called 'golden age of capitalism.' However, in the neoliberal period of the late 1970s, the needs of capital shifted; the deliberate increase in unemployment by the state, the evisceration of the welfare state, and the systematic attack on union power shows us that Keynesian policies are not able to mollify the class struggle in the long-term (this is dealt with in more detail in Chapter 5). The history of the twentieth century challenges the idea that the state exists above class antagonism.

There is also a contradiction between the idea that the state can at once be an arbiter of public good shared by ‘all citizens’ and also an agent that contends for power with other economic actors. The introduction of power dynamics into the Post Keynesian theory of the state implies that there are conflicting interests at play in the economy, and that the state is active in this power struggle. The notion that all citizens have, more or less, the same interests, obfuscates the fact that individuals occupy different class positions in the economy. State action benefits certain citizens, and classes, at the expense of others.

Post Keynesians assume certain characteristics of the state that do not take account of power and class dynamics, specifically when they posit that the state is a force for good for the whole of society. Contrary to epistemological realism, Post Keynesians have a liberal, class-neutral vision of the state.¹⁷ What’s more, Post Keynesians conflate the state with the government. Their focus on the institution of democracy overshadows the fact that the state is a large set of institutions, historically embedded and socially determined, that occupy a space within, not above, an economic system characterized by class antagonism. This precludes them from observing the disparities between how they want the state to behave and how it actually does. Indeed, Post Keynesians would benefit from Keynes’s own words; in their theory, the state acts how they “should like [it] to behave,” but to “assume that it actually does ... is to assume our difficulties away” (Keynes, 1936, p. 34). The Marxian theory of the state, introduced below, is able to overcome this wishful thinking by providing a more robust analysis of the power structure of the state.

¹⁷ For an introduction to the philosophical and political foundations of Keynes and Keynesianism, see Mann (2017b).

3.4 Introduction to the Marxian Theory of the State

In contrast with Keynes and the Post Keynesians, an explicit theory of the state is an important component of Marxian economic analysis. As will be elaborated below, the Marxian theory of the state is sophisticated both in its analysis of the *nature* of the state and its *function* in a capitalist society.

Though there has been disagreement among Marxists as to some particulars of the nature of the state,¹⁸ this thesis focuses on the generally accepted Marxian theory of the state, based primarily on the writings of Marx, Engels, and those Marxists that adhere most closely to their writings. From this perspective, the state is a historically established set of institutions (also referred to as the state apparatus) that takes its current form as a result of class antagonisms in order to “enforce and guarantee the stability of the class structure” and ensure social order (Sweezy, 1942, p. 134).

Marxists argue that the state arises at a certain point of the development of society, and the development of society is motivated by struggles between economic classes. Marx and Engels recognized that there is a difference between the state and government, though they saw a symbiotic relationship between these structures in a capitalist society. Societies have existed, and continue to exist, that do not have a state apparatus (as described below), but all human societies have had some form of government (Henry, 2008). In the following sections, I will delineate a Marxian theory of the state, first looking at its nature, and then its function in capitalist society.

¹⁸ In particular, see Resnick and Wolff (1987) for a postmodern, non-essentialist Marxian theory of the state.

3.5 The Nature of the State: Historical set of Institutions, Embedded in Class Struggle

While a systematic Marxian theory of the state can be traced directly back to Engels, Marx clearly viewed the state as a multifaceted set of institutions, embedded in a society characterized by class conflict, that takes the side of the ruling class. In *The Civil War in France*, Marx describes the state as a “power with organs of standing army, policy bureaucracy, clergy, and judicature ... which assume[s] ... character of national power of capital over labor” ([1871] 1932, pp. 400-1). Marx’s inclusion of the clergy in his categorization of the state apparatus denotes his contention that the state acts to both physically and ideologically to coerce the working class. This point will be discussed further below.

Marx saw democratic government as an institution capable of acting in the interests of the working class. The capitalist state does not include this form of democracy; it is possible only if suffrage is truly universal and the representative government combines both legislative and executive authority. Democracy of this sort does not, nor has it ever, existed in the United States; the franchise has been plagued with racial and gender exclusion, campaign finance legislation that leads to disproportionate influence of the wealthy, and voter suppression. Similar to the societies that have already existed without the state, democratic government can exist under socialism even as the other institutions of the state apparatus are changed or dismantled (Henry, 2008).

Engels ([1884] 1972) wrote that the state “is a product of society at a certain stage of development ... it is the admission that society has become entangled in an insoluble

contradiction with itself” (p. 159). That is, “the state is the *product* and the *manifestation* of the irreconcilability of class antagonisms” (Lenin, [1917] 1978, p. 8, italics added).

The state emerges “in order that these antagonisms ... may not consume themselves and society” (Engels, [1884] 1972, p. 160). Thus, like the liberal Keynesian approach, the state prevents societal collapse. However, the state is not a neutral arbiter of the class struggle where classes with conflicting interests reconcile and compromise; that view relies on the assumption of an “immutable ... self-maintaining class structure of society” that Marxists reject (Sweezy, 1942, p. 241). This is impossible, because the state emerges specifically *because* the class struggle cannot be mediated (Lenin, [1917] 1978, p. 9).

Because the class structure of a society is “defined and demarcated by a given set of property relations,” the state arises as the “guarantor of [these] property relations” (Sweezy, 1942, p. 242). Thus, we can summarize the state as “an instrument in the hands of the ruling classes for enforcing and guaranteeing the stability of the class structure itself” (ibid.) In so doing, it acts as agent of class domination (p. 243). Changing property relations throughout history led to the state taking corresponding forms: in Antiquity, the state was used to protect the property of masters at the expense of slaves. In feudal society, the state was the organ of ensuring the nobility maintained its property and dominance over the serfs. Likewise, under capitalism, the state acts to protect private property at the expense of the working class (Engels, [1884] 1972, 160).

3.6 The Function of the State: Guarantor of the Accumulation of Capital

In sum, the state's role in a capitalist economy as the protector of private property is one and the same as its role as an instrument of class domination (Sweezy, 1942). The capitalist class requires a state apparatus in order that the conditions for the "fundamental class process" of capital accumulation and surplus value extraction can be reproduced in historical time (Resnick and Wolff, 1987). The state, acting as instrument for the capitalist class, provides many prerequisite conditions for capital accumulation. In this section I will provide a cursory overview of the needs of capital, how the state acts to meet them. I will also describe the makeup of the several institutions within the state apparatus. It is worth restating here that the needs of capital shift as different stages of capitalism are reached and different historical and economic circumstances emerge. The state reacts by changing its policies and institutional arrangements to meet the ever-changing needs of capital.

As Marx states, "the capital-relation presupposes a complete separation between the workers and the ownership of the conditions for the realization of their labor" ([1867] 1990, p. 874). The state first supplied the preconditions for capitalist accumulation through violent land seizure in what Marx called 'primitive accumulation.' Labor, newly 'freed' from their property and way of existence, became available to capitalists, and capitalism was able to proliferate. Once this initial step was completed, the state continued to play an active role in ensuring the continuation of the 'capital-relation.'

The fundamental class process of capital accumulation is the foundation of the capitalist economy. Marx schematized this in his 'circuit of capital,' M-C-P-C'-M', where

money (M) is used by capitalists to purchase commodities (C), the means of production and labor-power, which are utilized production (P) to create more commodities (C'), greater in value than when it entered. The value of these new commodities is realized in the money form by the sale of such commodities (M') (Marx, [1884] 1992). The capitalist class requires a regulated supply of the two commodities, labor-power and money, in order to continuously complete the circuit of capital and reproduce the capital accumulation process in historical time (de Brunhoff, 1976). The state participates in this process by assisting in the supply of these commodities. The state's role in supplying the money-commodity for the capital accumulation process is not considered in this thesis (see de Brunhoff, 1976, for a full explanation), but the role of the state in regulating the supply of labor-power will be examined below.

Capitalist accumulation requires the “continuous presence of three elements – work discipline, insecurity of employment, and a permanent supply of proletarian labor-power costing as little as possible” (de Brunhoff, 1976, p. 11). The state's role in regulating these elements makes it an active agent in capitalist accumulation. Recall from Chapter 2 of this thesis that capital requires an industrial reserve army, “a mass of human material always ready for exploitation by capital in the interest of capital's own changing valorization requirements” (Marx, [1867] 1990, p. 785). The state becomes responsible for maintaining this population in order that it is ready to be used as a source of labor-power.

The state apparatus is made up of a range of institutions that act to provide a disciplined, precarious, and permanent supply of labor-power. Access to labor-power was once provided by poor-houses in the 19th century, and these institutions were replaced by

the welfare state of the mid-20th century. The modern welfare state was put in place during time of great civil unrest in order to preserve the class structure of society (see Chapter 5 of this thesis); the interests of those outside of the ruling capitalist class can benefit from state action if it means preserving existing property relations and social order. Importantly, in both the poor-house and the welfare state, the insecurity of work is maintained, thus work-discipline remains intact for those who are employed (de Brunhoff, 1978, p.10). The capitalist class would not instate reforms that would lead to a significant curtailment of the supply of cheap labor-power, except under extreme pressure to its class dominance.

The capitalist system requires “not only political hegemony, but ideological hegemony” in order to reproduce the conditions of its existence (Althusser, 2001, p. 96). Thus, the institutions of the state apparatus engage in activity that politically and ideologically legitimizes the dominance of the capitalist class. These institutions include government, the legal system, the army, the prison system, and the schools. A democratic government performs the ideological function of legitimating the capitalist class process by appearing to ratify it every election cycle. The legal system dictates the length of the working day and other conditions of labor. The prison system punishes transgressions against private property. The school system educates the proletariat to be a skilled, obedient workforce. Of course, there are a myriad of other functions and institutions within the state apparatus, and this list is incomplete and simplified. It is clear, however, that any analysis that conflates the ‘government’ with the ‘state’ is lacking in its understanding of the multifaceted nature of the state apparatus and the roles of its discrete, cooperating institutions.

3.7 Conclusion

Marxists and Post Keynesians agree that the state is required in some capacity to sustain a capitalist economy. Post Keynesian theory stresses the *function* of the state, without articulating the *nature* of the state. This leads them to ontologically conflate the government with the state. In contrast, Marxian state theory provides a class-based analysis of the state's nature as well as its function. Post Keynesians wish the state to be *that which it is not*. That is to say, the benevolent and enlightened agent that preserves capitalism by ameliorating its intrinsic flaws and staving off its collapse. For Post Keynesians, the state exists outside of the historical class struggle and works to benefit society as a whole. Marxists recognize the state as a historically embedded set of institutions that may “appear to stand above society” (Engels, [1884] 1972, p. 159). But in reality, the state is a “product and a manifestation of the irreconcilability of class antagonisms” (Lenin, [1917] 1978, p. 8) that inevitably takes the side of the ruling class. The failure of Post Keynesianism to have a thorough theory of the state undermines their political project of implementing policies that would eliminate unemployment and save capitalism from its intrinsic flaws — the employer of last resort policy rests on dubious theoretical grounds. This issue will be dealt with in detail in the following chapters.

IV. The Employer of Last Resort Policy Proposal: Ambitions and Obstacles

The fundamentalist Post Keynesians center the work of Keynes as the foundation of their economic theory and policy. A cornerstone of their analysis is the notion that the state is capable of ameliorating an intrinsic flaw of capitalist economies by ensuring full employment through direct, ‘on-the-spot’ job creation (Tcherneva, 2014).¹⁹ The employer of last resort (ELR) program is the policy that Post Keynesians believe is most capable of achieving this goal. The ELR, the Post Keynesians argue, would effectively end involuntary unemployment, because the government would directly provide a job to anyone willing and able to work. The ELR proposal is inspired by the employment programs of the New Deal, and is the basis for a recent unemployment program implemented in Argentina. In the United States, an insurgent progressive political movement has led to an increase in popularity of the idea that the federal government ought to provide a ‘Job Guarantee’ (Krieg, 2018). This has led to a debate in the academic and public spheres regarding the merits of an array of Job Guarantee proposals. In the midst of this discussion, Post Keynesians have developed and refined their ELR proposal. Here I will examine the theory of the ELR and discuss the historical application of government employment programs. I will then present critiques of the ELR put forth by some Post Keynesians. I conclude the chapter by agreeing with many of the criticisms of the ELR. My main argument is that while the ambitions of the ELR are noble and just,

¹⁹ As mentioned in the introduction, the term ‘full employment’ has several meanings, used by different economists and politicians for specific uses and to serve specific agendas. In this chapter, the term is used mean a situation in which there is no involuntary unemployment – that is, anyone willing and able to work is employed, either by the private sector, public sector, or by an ELR job – or there is, in Keynes’s words, ‘less-than-one percent unemployment’ in peacetime (Tcherneva, 2014; Keynes, 1980).

the ELR proposal as it stands is internally contradictory. It is not impossible that a program similar to the ELR could be implemented in the United States, but would not achieve all of the stated goals of the current proposal.

4.1 The Design of the ELR²⁰

The ELR, as it is currently proposed, was schematized by Minsky ([1986] 2008) as a permanent direct employment program, modeled on a version of the New Deal’s Civilian Conservation Corps (CCC), Works Progress Administration (WPA), and National Youth Administration (NYA).²¹ Minsky built on Keynes’s (1936) argument in the *General Theory* that the state was the only agent capable of offsetting a capitalist economy’s inability and of achieving full employment. This is because the state, not beholden to the profit expectations of private firms, “can divorce the offering of employment from the profitability of hiring workers” (Minsky, [1986] 2008, p. 308). In order to promote stability and full employment, Minsky schematized the ELR as a part of a set of policies and institutions considered together under the heading of ‘big government.’ Minsky’s analysis took the changing nature of institutions and the evolution of the economy into account. His ELR proposal was malleable, ready to adjust to changing conditions (Wray, 2007). The ELR has since been developed by several Post Keynesian economists into a robust set of policy proposals. While there is some discrepancy among the ELR

²⁰ The scholarship on the ELR has grown to a vast number over the past twenty years. The scope of this thesis necessitates an omission of some of the particulars of the divergent visions for the program. The interested reader can consult Tcherneva (2018) and Kaboub (2007), who provide comprehensive outlines of the ELR. It also should be noted that the architects of the ELR intentionally leave some particulars open-ended, since they intend the program to be malleable to changing economic conditions. However, this vagueness has also sparked a considerable amount of criticism for the ELR, as will be discussed below.

²¹ There exist a few ELR proposals that predate Minsky—see Tcherneva (2012b).

proposals, there is a general consensus among its proponents on the theory behind the policy proposal. The proposals differ in that they adjust for specific economic and political issues in their implementation (Kaboub, 2007). This chapter addresses the differences when relevant, but generally presents the ELR as a unified policy proposal. I begin with a brief introduction to Modern Monetary Theory, which is the basis for the funding of the ELR program.

The ELR proposal is predicated on a synthesis of Lerner's (1943) concept of 'functional finance' and the chartalist approach to money, known as 'Modern Monetary Theory' (MMT). MMT theorists argue that all state spending needs to be considered only in terms of its results, not its costs, because the state has the power to determine what is accepted as money. Under this rubric, taxation, government debt borrowing or repayment, and money printing are all carried out *after* fiscal activity has taken place, in order to regulate spending.²² This is, of course, in stark contrast with the generally accepted mainstream notion that taxes fund government expenditure. The limit to state monetary action in this framework is not arbitrary deficit or debt ratios but the extent to which said action contributes to real productivity and wealth creation (Wray, 2014, p. 31). Thus, many proponents of the ELR program are not concerned with how it will be paid for, but rather with how its implementation can achieve its goal of massively curtailing unemployment.²³

²² Murray (2017) is an exception to the rule; he models a budget-neutral ELR program, fully financed out of government revenues.

²³ Much has been written in the literature about MMT, and further engagement with this topic escapes the purview of this thesis. See Lerner (1943) for an introduction to functional finance, Wray (1998, 2012) and Juniper, Sharpe, & Watts (2014) for theoretical contributions and criticisms of MMT. I agree with the tenants of MMT, and this thesis will assume that MMT can conceptually work and facilitate an ELR program. However, I disagree with its proponents' contention that simply convincing the elites to accept MMT will lead to its adoption. More on this in Chapter 5.

The ELR program is currently devised as a permanent, federal job guarantee that directly offers a job to anyone who is willing and able to work at a given base wage, which at present is proposed as \$15 per hour with benefits that including include health insurance, childcare, paid leave, and retirement (Tcherneva, 2018).²⁴ This would establish an exogenously determined ‘wage floor’ that would effectively become the minimum wage (Kaboub, 2007). The ELR is specifically intended to be distinct from existing private and public sector jobs, hence the ‘last resort’ in its title. Yet if a worker can find no employment in the private sector, they would be able to immediately find a living-wage job with the government.

Because workers would not supplant existing private sector jobs, the size of the ELR population would swell during depressions and shrink during booms. The ELR thus acts as a ‘buffer-stock’ employment program; the price of labor is stabilized because it is ‘sold’ when its price is rising and ‘bought’ when the price is falling. In a capitalist economy that does not have an ELR, inflation is kept in check by the ‘reserve army’ of unemployed (see Chapter 2 of this thesis) — employers fire workers in recessions, and hire in booms. Under the ELR, prices are stabilized not by unemployment, but by a population of employed workers (Mitchell, 1998). This means that the ELR projects need to have a fluctuating number of workers at any given point, and need to be discontinued if the private sector demand for labor gets to a high enough level (more on this below). Macroeconomic stability would increase as business cycle fluctuations are dampened, because workers who lose their jobs during economic downturns can always rely on ELR jobs with a living wage; and hence consumption would not fall as sharply as it would.

²⁴ This is, notably, more than double the current federal minimum wage in the United States, which is at time of writing \$7.25 an hour, without any benefits (US Department of Labor, 2018).

Additionally, the increase in government spending due to the increased number of workers on the government payroll decreases the decline in aggregate economic activity during a recession. Likewise, in an economic upturn, government spending would decrease.

While the program is federally funded, it would be locally administered (Tcherneva, 2018). Local and municipal governments, as well as nonprofits and cooperative enterprises, would create jobs according to the specific needs of the local communities. The ELR program would bring the jobs directly to where they are most needed; most jobs will be created where there are the highest levels of unemployment. While the exact nature of the work is not specified in the ELR proposals, the jobs made available “would be designed to be productive, providing socially valuable output and services, such as public infrastructure development and maintenance, public services for youth and aged persons, environmental and public space enhancement, and so on” (Wray, 1998, p. 16). Some proposed examples of ELR jobs include park maintenance and renewal, sustainable agricultural practice and urban farms, cleanup of vacant properties, restoration of public spaces, recycling and reuse initiatives, and apprenticeships in education such as teacher-aides and after-school programs. The implementation of the specific jobs will be decided by local ELR authorities and adapted over time — “some trial and error, experimentation, and ongoing improvements will be necessary for the program’s long-run success” (Tcherneva, 2018, p. 47).

Under an ELR regime, those who are not employed by the private sector receive what is tantamount to paid job training by engaging in productive labor that enhances their skills. This increases their ‘human capital’ and renders them more attractive

candidates for the private sector (Wray, 1998). In this way, the ELR program is seen as a transitional program (for the individual workers it employs); it is a “stepping stone to paid work – from unemployment to employment or from [ELR] employment to other forms of private, public, and nonprofit employment” (Tcherneva, 2018, p. 5).

ELR advocates expect that the program would lead to the displacement of undesirable jobs (that pay below a living wage, or do not provide benefits) because private employers would have to match the base pay established by ELR jobs. They also foresee the ELR as a mechanism that ameliorates poverty as well as inequality because it raises the incomes of the lower income brackets without doing the same for the wealthy. Additionally, the ELR has the potential to curtail a myriad of psychological and social ills caused by unemployment such as depression and crime (Darity, 1999; Tcherneva, 2017). The ELR program also provides an opportunity to address environmental concerns (Forstater, 2004). Whereas Minsky ([1986] 2008) viewed the ELR as a replacement for welfare, current ELR schemes are now conceived to be supplemental to a robust welfare state (Kaboub, 2007). The ELR is not designed as ‘workfare’; it does not require people to work for existing benefits such as Medicare, SNAP, etc. (Tcherneva, 2018). Likewise, ELR is not seen as a panacea; there are other social issues that ELR advocates understand as having separate policy solutions. Finally, ELR advocates appeal to the morality of human rights: they arguing that the ELR would fulfill the call of Franklin D. Roosevelt and Martin Luther King Jr. that a guaranteed job contributes to the broad goal of social and economic justice (Forstater, 2002).

In the next section, we look at two examples of existing direct government employment programs and their outcomes. The first is the primary inspiration for

contemporary ELR programs: The New Deal. The second is a modern government employment program inspired by a team of scholars affiliated with the Levy Institute, Argentina's *Plan Jefes y Jefas de Hogar Desempleados*.

4.2 Precursors to the ELR - Existing Government Employment Programs

The only large-scale direct government employment programs ever utilized in the United States were those implemented during the New Deal, which included the Civilian Conservation Corps (CCC), Works Progress Administration (WPA), and National Youth Administration (NYA). The New Deal was a response to the Great Depression, the worst economic crisis in the history of global capitalism. In 1929, the average unemployment rate was 3.2 percent. Four years later, the unemployment rate had risen to 25.2 percent. If only non-farm employees are counted, unemployment rose from 5.3 percent in 1929 to 36.3 percent in 1932 (Bureau of the Census, 1975, p. 232). In order to address this astronomical level of unemployment, and the increasing social unrest that accompanied it, the federal government directly employed millions of those who were unable to find work.²⁵

The employment programs featured a wide array of public works projects and were implemented in a matter of months. Between 1933 and 1937, unemployment fell by over 10 percent as many of the unemployed were recruited into the programs (Tymoigne,

²⁵ While many of its critics accused the New Deal of creeping socialism (Hayek's *Road to Serfdom* may be the most famous example), many programs were crafted and advertised as precisely the opposite. The Roosevelt administration wanted to "get the economy moving . . . and return to normalcy" (Badger, 2008, p. 37), all in order to defend a weakened capitalist order from socialist (and fascist) advances. In particular, young unemployed men were believed to be particularly drawn to radicalism and thus seen as a threat to society – the CCC and NYA were marketed as a way to combat this threat (Henry, 2018). This will be dealt with in further detail in the next chapter.

2013). Over 13 million jobs were created as a part of the WPA alone (Tcherneva, 2018). As Taylor (2009) argues and many others have observed, the job programs created an immense array of infrastructure, cultural, and civic structures that are still in use until this day. Parks were designed and constructed, buildings were rebuilt, post offices and libraries were built, and numerous roads and bridges were constructed.²⁶

Unlike modern ELR proposals, New Deal programs were limited in scope; they were conceived as emergency programs, intended to be short-lived. At the time, the prevailing economic wisdom was that the problem of massive unemployment would correct itself in a short period of time (Tymoigne, 2014). Upon winning reelection in 1936, the Roosevelt administration slashed the budgets for the New Deal Jobs programs in the pursuit of balanced budgets, and this led to the downturn of 1938. What's more, the New Deal was, from its inception, fought against tooth and nail by business interests, which led to a lack of funding, discriminatory hiring practices, and curtailed the amount of success the programs were able to achieve (Henry, 2018).

To conclude, while not technically an ELR program as defined in modern terms, the New Deal was the spiritual predecessor to current government employment proposals in that it involved the direct employment of unemployed workers by the federal government in projects that were socially useful. Though it was flawed in both its conception and execution, it showed that the government was able, under certain historical and economic conditions, to directly give jobs to the unemployed on a massive scale. Proponents of the ELR today almost unanimously cite the New Deal employment programs as both a source of inspiration for their schemes as well as evidence that it is

²⁶ UC Berkeley maintains an interactive map of the lasting achievements of the New Deal jobs programs at <https://livingnewdeal.org/map/>. The site gives perspective of the truly monumental impact across the entire United States.

politically and structurally possible to implement in the United States (e.g., Tcherneva, 2018; Forstater, 2004). These claims will be dealt with below.

As previously mentioned, there is no historical precedent for an ELR program that possesses all of the characteristics advocated by the Post Keynesians. That being said, there are isolated examples of large-scale employment programs among developing nations that possess some characteristics of the ELR, which have been dealt with in detail elsewhere in the literature (Murray and Forstater, 2013; Sturgess, 2016). For the purpose of this thesis, I find it relevant to discuss the only program directly modeled off the proposals of ELR advocates: Argentina's *Plan Jefes y Jefas de Hogar Desempleados* (henceforth referred to as '*Plan Jefes*') (Tcherneva, 2013).

Economic conditions in Argentina in 2002 were similar to that of the United States in 1929; the unemployment rate in May of that year was 25 percent. Economic and political instability precipitated years of massive protest in the streets, which were met with violence by the police. This resulted in many casualties, and this led to in the erosion of popular support for the government (Kostzer, 2008). Politicians could not walk outside without facing harassment, and the protests eventually forced the economic minister and the president out of office (Tcherneva, 2013). Compelled by social unrest, the new president, Eduardo Duhalde, implemented *Plan Jefes* by executive decree in 2002.

Kostzer (2008) translates and summarizes the main points of the decree:²⁷

Due to the present economic and financial juncture of Argentina, ... , [the government] declares the state of social, economic, administrative crisis"; ... the

²⁷ Text of the original decree can be found here: <http://servicios.infoleg.gob.ar/infolegInternet/anexos/70000-74999/73272/norma.htm>

country has reached levels of extreme poverty aggravated by productive paralysis, it is mandatory to take measures to alleviate the difficult situation that is facing an important sector of the population; ... and There is the need to establish an entitlement for family inclusion to all unemployed heads of household ... warranting a *minimum monthly income* to all Argentinean families. (pp. 17-18, emphasis added)

The program, like the New Deal, was in response to an economy-wide crisis and was conceived of as an emergency response to that crisis. The social safety net in Argentina was drastically curtailed to shift funding to this new program (Tcherneva and Wray, 2005). Of particular interest is the fact that the decree specifically calls for a guaranteed income, not a job per se, to its beneficiaries. This point will be brought up again later.

By the end of 2002, there were over 2 million beneficiaries of *Plan Jefes*. While the program was nationally funded and administered, the works projects put in place by the program were managed by “local governments, NGOs, or grassroots organizations that submitted the list of beneficiaries to the Ministry of Labor in order to pay them” (Kostzer, 2008, p. 18). *Plan Jefes* payed 150 pesos per month (a level below the minimum wage) to a head of household for a minimum of four hours of daily work (Tcherneva, 2013). The majority of the jobs created were in community projects such as the maintenance of buildings, cleaning public spaces, engaging in community services such as child care and soup kitchens, but there were also opportunities for program beneficiaries to go back to school, participate in vocational training, or start their own

enterprise (Kostzer, 2008). It should be noted, however, that reeducation and vocational training made up a total of only 10 percent of the beneficiaries of the program.

The program directly targeted the least skilled individuals in the country and protected them against abject poverty (Gallaso and Ravallion, 2004). Many services provided by *Plan Jefes* jobs were already provided by private or public sector jobs, but these were unavailable to poor communities due to prohibitive costs or lack of access to low-income areas (Kostzer, 2008).

Plan Jefes was implemented as a temporary solution to a specific historical economic crisis in Argentina. The program was eliminated in 2006, due to the fact that the Argentinian economy saw steady economic recovery from the time the program was begun in 2002 (Kostzer, 2008). While the extent of the role of *Plan Jefes* in the recovery is contested, there can be no doubt that it played a positive part in the recovery.

Unemployment in Argentina went from over 3 million in 2003 down to 1.3 million in 2006 (ibid.). Over 750,000 of the program's beneficiaries were reinserted into the labor market during the duration of the program. Women were disproportionately employed by the program. Tcherneva (2013) notes that the work provided by the program was a source of empowerment and freedom for women that combatted Argentina's economic and cultural gender disparities. Surveys conducted showed that female participants preferred working to receiving a check of equal amount (ibid.).²⁸

While *Plan Jefes* possessed several characteristics of an ELR program, it differed in many important ways. Most prominently, it was not considered to be a permanent program to counter the inability of the capitalist system to provide full employment. It

²⁸ While I find the role of gender to be an important consideration for heterodox economics, specifically when considering its relation to unemployment, further discussion on this issue escapes the bounds of this thesis. The interested reader is directed towards Todorova (2009).

also did not offer employment to all who were willing and able to work. However, it directly hired workers ‘as they are’ to do socially useful work, and to a very limited capacity, enhanced the ‘human capital’ of a minority of the beneficiaries through training and education. ELR advocates point to this program as evidence that an ELR program is workable in the United States today. In the next section, I assess the plausibility of that claim, and address several critiques of the ELR from the post-Keynesian perspective.

4.3 Post-Keynesian Critiques of the ELR

There have been several critiques of the ELR made by post-Keynesians (Sawyer, 2003, 2005; Seccareccia 2004; Sturgess 2016). This section surveys the most common and recurring of these critiques, which generally consists of concerns regarding (1) the costs of the program, (2) its economic impact, and (3) the nature of the jobs it provides (Sturgess, 2016). In this section, I will engage most thoroughly with the criticisms that I find to be most persuasive, to which the ELR advocates provide unconvincing responses. I will add my own criticisms where applicable. It will be concluded that, even within the logic of post-Keynesianism, the ELR is incapable of achieving all of its myriad goals (described above), because several of the goals are incompatible with each other; the ELR is internally contradictory based on its own theoretical foundations.

Before discussion of the selected critiques I find convincing, I will briefly mention of those that will not be meaningfully addressed here. First, we will ignore considerations of cost, hesitantly accepting the tenants of MMT and the premise that the ELR will pay for itself as outlined above. Concerns regarding the ELR’s effect on wage

bargaining will be dealt with in the next chapter. The question of stigmatization of ELR workers (Tymoigne, 2013) is not discussed here because in the United States, it is impossible to know how ELR workers would be received by the general public – the continuously shifting and polarized political landscape may look very different by the time something resembling the ELR would hypothetically go into effect. Another criticism not considered is Sawyer’s (2003) argument that the ELR would create prohibitively inefficient jobs. I share Wray’s (2015) view that the point of any public sector work is specifically to provide socially useful goods and services that would otherwise not be provided by the efficiency imperative of the private sector.²⁹ Finally, there is a concern regarding price stability over time. Sawyer (2003, p. 903) argues that ELR architects have failed to address the reality that the base-wage of the program either has to adjust over time to respond to transitions in the prevailing wage rate in the market (among other political and economic factors), abandoning its role as price stabilizer, or the base-wage will sooner or later be reduced to a poverty wage. While we address issues with the buffer-stock aspect of the ELR, this specific problem is omitted in order to keep this thesis concise. These and other concerns can be found elsewhere in the literature.

Critics of the ELR have expressed skepticism regarding the types of jobs proposed for the beneficiaries of the program. By design, ELR jobs need to be unskilled and require little training, but also need to perform some socially beneficial role that is not to be considered make-work required to receive an income. Specifying the type of job that would meet this criterion is difficult, and ELR advocates have struggled to adequately address this issue. Wray’s (1998) list of potential ELR jobs include

²⁹ This is not to say that the value created by ELR jobs should not be considered at all. Several issues arise when decoupling employment from productivity. That jobs provide social benefits and are not simply ‘make-work’ is crucial to the ELR program. This is discussed below.

“companions to the elderly and orphans, the bedridden, and the mentally or physically disabled ... public classroom assistants ... and day care assistants” (pp. 142-3), while Forstater (2005) suggests that ELR programs could include large-scale infrastructure projects as well as education aides. These suggestions are problematic for several reasons. The first is that care and education-related jobs are erroneously assumed to be low-skilled and are thus undervalued by the ELR advocates (Sturgess, 2016). Existing education and care work requires high levels of education, which a majority of ELR workers are unlikely to possess. Additionally, work in these fields requires a considerable amount of time-consuming background checks and screening that would delay the implementation of these jobs. Finally, large-scale infrastructure jobs are high-skilled, not to mention dangerous for both the workers and the citizens that would utilize the public structures built by low-skilled ELR laborers.

A lack of adequate response to these criticisms has led the ELR advocates to become vaguer regarding the specifics of the jobs provided by the program. Tcherneva’s (2018) list of potential jobs includes park cleanup, building restoration, urban gardening, and teacher aides (though she largely leaves the specification of jobs up to the local agencies tasked with the provision of these jobs). Again, the idea that teacher aides would be low-skilled or would be able to be implemented quickly is not only incorrect, it devalues the very type of work Tcherneva intends to support and encourage. What remains, after all concerns are addressed, is a short list of relatively unproductive make-work, like picking up trash in parks, which could only be a supplement to already existing public sector work. These jobs are limited in their capacity to be personally ‘fulfilling,’ and they do not provide a useful service or contribute to the employability of

the ELR worker. If work like this is still required to receive the income from the program, it is hard to not view this as tantamount to a labor requirement for welfare.

A core internal contradiction within the ELR scheme stems from its usage of labor as a buffer-stock. Recall that under this premise, labor is a perfectly flexible commodity; this necessitates that workers in theory enter and leave the program instantaneously in response to demand for labor in the private sector. This is a cornerstone of the ELR proposal (which promises full employment *and* price stability). However, ELR proponents believe that the jobs provided to ELR beneficiaries have the potential to be so meaningful and offer noneconomic benefits so compelling that they might prefer to stay in the program rather than find employment elsewhere. Tcherneva (2018) writes that “[i]t is possible that some people will find the local, living-wage community job to be their dream job. The [ELR] welcomes them” (p. 48). She notes that if this is the case then they *might* be transitioned to permanent public sector work, but she stops short of providing a detailed explanation as to how such a transition would work. This gives credence to Tymoigne’s (2013) argument that perhaps labor is not a good unit for use as buffer-stock because it is non-homogenous – that is, workers do not behave in the same way when met with economic stimuli.

Additionally, Tcherneva (2018, p. 48) admits that there is friction between workers finding jobs and exiting from in the ELR – those workers who have trouble rejoining the private sector would be remunerated for their job search (see also Wray, 1998). But Tcherneva does not mention how that will affect the buffer-stock aspect of the program. She deflects from this point by noting that “the ability to absorb or shed employees is not a unique challenge for the [ELR] Indeed, every labor market

segment within the private, nonprofit, or public sectors deals with new entrants and job leavers on an ongoing basis” (Tcherneva. 2018, p. 11). While this is true, neither the private, nonprofit, nor public sectors claim to be a buffer-stock program like the ELR does. The burden of proof rests on the ELR advocates to provide a reconciliation of the realities of frictional unemployment and the buffer-stock component of their policy proposal. The proposal to aid workers looking to exit the program with job searches is simply a state of unemployment by another name.³⁰ Additionally, the ELR cannot instantaneously provide jobs for workers when they exit the private job market. Even if the work is labor-intensive, as Forstater (2005) argues, the programs still require administration, the provision of a certain amount of capital equipment, which would lead to delays in the provision of jobs, and thus act as impediment to the buffer stock (Sawyer, 2003).

Another issue presented by the buffer-stock component of the ELR is that jobs cannot be at the same time ‘socially necessary’ and also subject to the (sometimes drastic) fluctuations in the labor market. If a job provides a meaningful public service, then it should not be abandoned when there is a high level of demand for labor in the private sector. The buffer-stock aspect of the program precludes the planning necessary for any large-scale or ongoing public works or services projects that advocates outline as job sources for the ELR, as discussed above. Tcherneva (2012a) writes that “the overriding objective of [ELR program jobs] would be to put those individuals whom the private sector has declined to employ into socially useful projects that fill some unmet public need” (pp. 3-4). But if the population of the ELR fluctuates with the business

³⁰ Helping the unemployed find jobs is, of course, a positive endeavor that ought to be performed by some economic agent. But the recipients of that service are still unemployed and this situation is not consistent with the full employment claims of the ELR.

cycle, how can something deemed to be a ‘public need’ be adequately and consistently provisioned? There has not been adequate response to this by the advocates of the ELR. If, say, we determine that elderly care is a social good that should be regularly provided (the concerns above notwithstanding), then the last thing we would want is for the provision of that care to be subject to regular ebb and flow of the business cycle. As Sturges (2016) notes, because of the buffer stock aspect of the ELR, “it must be ultimately a matter of indifference whether the job is performed or not ... most social needs are ongoing, so should not be addressed through short-term jobs provided in countercyclical fashion” (p. 42).

There is also an issue with the training aspect of the ELR. Skill development through training is an important benefit to ELR work (and a crucial rebuttal to the claim that ELR is make-work or workfare), but the buffer stock aspect of the program puts at risk the ability of ELR employees to complete a discrete level of training. The alternative to this, as Kadmos and O’Hara (2000) point out, is that workers perform low-responsibility, routine work that either amounts to unemployment by another name, or serious underemployment with no chance of meaningful skill development.

The non-economic benefits of labor such as a sense of accomplishment or purpose and involvement in community are only gained if the worker’s skills are being utilized and that they are rewarded for it (Tymoigne, 2013). The buffer-stock aspect of the ELR is in direct conflict with a majority of the social benefits envisioned by the ELR architects. This is why the ELR cannot achieve the types of accomplishments that the New Deal jobs programs achieved, contrary to what Forstater (2004) and others argue; the New Deal programs, finite and discrete in nature, were able to be planned and executed

because they were able to rely on a stable number of workers, since the pool of unemployed was so enormous at the time.

Another critique of the ELR program is that it conflicts with existing public sector unemployment in a way that hurts existing workers and also provides sub-par services and devalues important and necessary work (Sawyer, 2005). In America, there is certainly an under-provision of important social goods and services, not to mention a paucity of measures being taken to address climate change. But as Sturgess (2016) argues, “[i]t seems perverse to respond to an under-provision of physical, social and cultural infrastructure by establishing an entirely different form of public-sector labour — the [ELR] — that would use under-skilled, under-paid workers instead of well-paid and trained workers” (p. 50). In an economy in which the health care, social care, and education sectors will make up an increasingly large percentage of the job market (DeLong, 2016), leaving the provision of these services to employees who make at most \$15 an hour (the highest proposed ELR wage among the myriad schemes proposed so far), would prove disastrous for teachers, healthcare providers, and the recipients of those services. One of the many ways this could manifest is the following: if ELR jobs are similar to existing public sector jobs, the ELR employees would pose a threat to the existing public sector workers. There would be an incentive by the government to substitute the lower-wage ELR workers for the relatively high-wage permanent public servants (Seccareccia, 2004, p. 33).

One final critique of the ELR is related to the claim that providing work of any kind is generally better than simply receiving an income (Sawyer, 2003; Tymoigne, 2013). As previously mentioned, if jobs are not meaningful or do not contribute to society

in some way, it's hard to imagine there being a strong amount of positive noneconomic benefit to merely having a job. This begs the question of if the ELR is preferable to giving people a guaranteed basic income. ELR advocates have referenced *Plan Jefes* as a proof that workers prefer having a job to merely having an income, but it is hardly clear that the specific cultural and socioeconomic conditions in Argentina in 2002 are universal, or applicable in the United States.³¹ In spite of the program being influenced by ELR advocates at the Levy Economics Institute, it is unclear if it was intended to be an income program with a work requirement or a work program *per se* (Kostzer, 2008). While it is beyond the purview of this thesis to delve further into this issue, I argue that the notion that work is preferable to a guaranteed income is inadequately defended by the ELR architects, given the barriers to providing meaningful employment that the ELR faces.

4.4 Conclusion

The ELR cannot reliably be at once a buffer-stock stabilizing program and a generator of meaningful employment that provides socially necessary goods and services. In order for an employment program to work, the government needs to identify social needs, create projects, and see them through to the end (like the New Deal). There are categorical differences between the New Deal, *Plan Jefes*, and the ELR; the successes of these existing government employment programs do not demonstrate the workability of the

³¹ Further issues regarding the comparison of the ELR to the New Deal and *Plan Jefes* will be discussed in the next chapter.

ELR today. I agree that there are plenty of socially useful work projects that are sorely needed, but the ELR is not the way to accomplish them.

In addition to all of the issues with the implementation of the ELR and the internal contradictions in the stated goals of the policy proposal, there are political barriers to the maintenance of full employment, if it were to be achieved. The next chapter deals with these considerations, building on Kalecki's (1943) political concerns regarding full employment. As argued in Chapter 3, the post-Keynesian theory of the state lacks the cohesion and thoroughness that of Marxian political economy, and this weakness limits the ELR advocates' appraisal of the obstacles to realizing their policy agenda. These and other concerns will be addressed from the Marxian perspective.

V. A Marxian Critique of the ELR

The Post Keynesians behind the employer of last resort policy (ELR) argue that their economic agenda will lead to sustained full employment. Meanwhile, Marxists generally agree that capitalism cannot accommodate the institutional changes necessary for the maintenance of full employment.³² This is due to the fact that unemployment serves a purpose (its aforementioned ‘class function’) in capital accumulation; it is a lever by which the capitalist class uses its position as owner of the means of production to subdue the working class through fear of unemployment and wage suppression (Marx, [1867] 1990, p. 792). In the previous chapter, I critically analyzed the employer of last resort (ELR) from the Post Keynesian perspective; here I add to these criticisms by examining the ELR from the Marxian perspective, which focuses on class and power dynamics downplayed by many Post Keynesians. Central to this chapter will be a criticism of the political aspect of the ELR, which flows from their Post Keynesian theory of the state. As will be elaborated below, the ELR faces political obstacles not adequately addressed by its advocates. This is due in part to the underlying liberal ideology of Post Keynesianism. While full employment may be worth pursuing, I contend that the arguments for the ELR neither provide convincing evidence that the policy can bring about full employment, nor that full employment is achievable under capitalism.

I begin with Kalecki’s contribution to the discussion of full employment. Most ELR advocates briefly mention his work, but they seem to ignore its conclusions. I then question whether the ELR actually constitutes full employment, as is claimed. I argue

³² For a detailed discussion of the unemployment theories of Marxian and Post Keynesian economics, see Chapter 2 of this thesis.

that those employed by the ELR constitute a ‘reserve army of the employed,’ rather than full employment. I then consider the Marxian concept of alienation and how it relates to the logic underlying the ELR. What follows is a reintroduction of the New Deal and *Plan Jefes*, which I contextualize from a Marxian-historical perspective. The present-day conditions of the United States are far unlike those of either the New Deal or *Plan Jefes* – I argue that the ELR faces pitfalls unlike those of the previous government employment programs. Finally, I discuss how the Keynesian theory of the state impedes ELR advocates from addressing the political barriers to the implementation of their proposals. In order for the ELR advocates to fully appreciate the obstacles to full employment, they must move beyond their usual glance at Kalecki and incorporate a Marxian class analysis into their scholarship and political advocacy.

5.1 Kalecki: The Bridge Between Marxian Political Economy and Post-Keynesianism

Michał Kalecki was a Polish political economist who, concurrently and independently of Keynes, contributed to the theory of effective demand as well as the dynamic analysis of capitalist economies. However, while Keynes was inculcated by Marshallian economics, Kalecki’s starting point was “a clear appraisal, in the [Marxian] tradition, of the fundamental problems of capitalism, and the limits of Keynesianism, which could only be overcome by ... a socialist economy” (Toporowski, 1996, p. 182). While Kalecki was concerned with many of the same issues as Keynes and post-Keynesians, such as effective demand, macro-dynamics characterized monopoly, and full employment, his economic theory was grounded in Marxian class analysis that engaged more thoroughly

with the political aspects of economic policy (Robinson, 1976). In stark contrast to Keynes, he considered himself to be a democratic socialist who advocated for economic planning in which workers had control over the production process (Toporowski, 2008).³³ However, like Keynes (and to a larger extent, the post-Keynesians), Kalecki considered market instability to be the chief problem of capitalism (Toporowski, 1996). Kalecki's inclusion of Marxian class analysis in economic issues makes him an appropriate bridge between post-Keynesianism and Marxian economics. Therefore, Kalecki is a good entry point for a Marxian critique of the ELR.

By the 1940s, Keynes was popularized and most economists understood that full employment can be theoretically achieved through government spending; debate was primarily over the specifics of how government spending could be used in order to achieve this goal. However, there was a great deal of resistance to full employment policies, as evidenced by the capitalist class' opposition to the New Deal.³⁴ Kalecki (1943) argues, considering the political tension between the capitalist class and the working class, that the primary obstacles facing full employment are not economic, but political:

most economists are now agreed that full employment may be achieved by government spending Among the opposers of this doctrine there were (and still are) prominent so-called 'economic experts' closely connected with banking and industry. This suggests that there is a political background in the opposition to

³³ Kalecki (1942) considered the economic activity of the large capitalist corporation to be a type of economic planning, and distinguished this from socialist planning, controlled in large part by the workers, which he referred to as '*democratic planning*.'

³⁴ Henry (2018) provides a comprehensive overview, from the heterodox-Institutionalist perspective, of how 'vested interests' dogged the implementation of New Deal programs from the start.

the full employment doctrine, *even though the arguments advanced are economic.*
(Kalecki, 1943, p. 324, italics added)

Opposition to full employment would be confusing, if one only considered the economic factors; both workers and capitalists would benefit from the increased production and higher output of a fully employed economy. However, it begins to make sense if one considers the class function of unemployment.

Kalecki (1943) identifies three reasons why the ‘industrial leaders’ (that is, the capitalist class) would be opposed to full employment: “(1) dislike of government interference regarding employment; (2) dislike of the direction of government spending (public investment and subsidizing consumption); (3) dislike of the social and political changes resulting from the *maintenance* of full employment” (p. 324, italics in original). The capitalist class is ideologically opposed to government spending as creeping socialism, and is specifically opposed to spending on employment as a subversion of the class function of unemployment. Capitalists ostensibly fear ‘crowding out’ of private investment by public investment, and are morally opposed to the ‘free handouts’ of consumption subsidization. Kalecki, Keynes, and non-mainstream economists of the time argued that the fear was misguided since capitalist economy always ran at the less than full employment level; rather, public spending would promote private investment, production, and employment. By the same token, the ELR architects, such as Wray (1998) and Tcherneva (2018), have shown that ‘crowding out’ will not occur until full employment is reached because their program does not compete with the private sector,

and consumption subsidization increases demand for goods that raises profits, but again, economic arguments can conceal political motivations.

For Kalecki, the first two reasons for capitalist class opposition to full employment can be overcome by the ‘pressure of the masses,’ and full employment can be temporarily achieved. The main issue is the ongoing maintenance of full employment, which is the goal of the ELR. Broad institutional changes would need to be made to capitalism in order that it can accommodate sustained full employment.

Indeed, under a regime of full employment, the ‘sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in the conditions of work would create political tension. (Kalecki, 1943, p. 326)

Kalecki is right to argue that mass movements play a crucial role in promoting full employment, and that an increase in class-consciousness that comes with full employment would threaten the hegemony of the capitalist class and the class structure of capitalism itself. The capitalist class is aware of this as well: “‘discipline in the factories’ and ‘political stability’ [that accompanies a situation of less-than-full employment] is more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the ‘normal’ capitalist system” (ibid.). This point seems completely ignored by the ELR advocates, or at least they stay away from the political or

noneconomic aspects of full employment. While they point out the noneconomic issues associated with *unemployment* of the working class (e.g. crime, depression), they do not pay much attention to the inverse: the noneconomic issues of *full employment* for the capitalist class.

Kalecki concludes by expressing doubt if the capitalist system, characterized by its irreconcilable class antagonisms, can adjust itself to a situation of sustained full employment by implementing reforms. And if capitalism cannot maintain full employment, “it will show itself as an outmoded system which must be scrapped” (1943, p. 331). The question then is whether a fundamentally different type of capitalism can emerge, and if so, how? This question is no less relevant today than it was in 1943, and the ELR architects have not shown that the ELR is capable of incubating a new form of capitalism characterized by full employment.

Full Employment is regaining attention in the United States, which I argue is a reflection of the increasing political clout of fledgling leftist political movements, resembling the years approaching the New Deal. ELR advocates are gaining popularity. I argue that they ought to pay closer attention to Kalecki and center class antagonism and mass movements in their theory and policy. In the next section, I question whether the ELR, if implemented, could be categorized as a full employment program.

5.2 Does the “Reserve Army of the Employed” Represent Full Employment?

Keynes showed how full employment is theoretically possible under capitalism via state intervention in a way that Marx would not have anticipated. The ELR is based on this

contention. However, for Marxists, unemployment retains its class function as a necessary counterpart to capitalist accumulation. In this section, I will address this contrast and explain how a successful ELR would not eliminate unemployment in the way Keynes and Post Keynesian economists understood, nor would it subvert unemployment's class function in the Marxian sense.

Keynes wrote very little on the specifics of implementing full employment. However, in his later work, he advocated for sustained full employment via planned, long-term public works projects (Tcherneva, 2012b).³⁵ Despite what its advocates claim, the ELR is a departure from this vision. Because the ELR divorces the hiring process from productivity and skill, the ELR creates a population that is distinct from both public and private sector workers. Whereas public and private sector workers face a competitive job market and need to match their skills to a relevant job, ELR workers get hired on-the-spot to do work that is by its nature temporary and low-skill. In Chapter 4, I argued that the sort of projects that can accommodate for these types of jobs are so limited that they might be considered a work requirement for an income allowance, or unemployment by another name. This is certainly not what Keynes had in mind.

Indeed, ELR advocates themselves have, for the last twenty years, used Marx's term 'reserve army' as a comparative to the ELR population, insofar as it acts as the economy-stabilizing buffer-stock population that controls inflation (Wray, 1998; Tcherneva, 2018). This may be a more apt comparison than they realize. Far from being an institutional reform that permanently eliminates unemployment, I argue that the ELR

³⁵ See Tcherneva (2012b) for a discussion of Keynes's advocacy for permanent full employment. She unwittingly exposes critical differences between Keynes's plan for full employment and the ELR – that is, ELR jobs cannot be long-term, due to their buffer-stock nature. This point is argued in Chapter 4 of this thesis.

population does, in fact, function as a reserve army in the Marxian sense, which can be referred to more accurately as a ‘reserve army of the employed.’

If the ELR were enacted, the class function of unemployment would remain in effect; the reserve army of the employed would “[contain] within itself a mechanism for regulating the wage level and hence for maintaining profits” by “putting a curb on the [working class] pretensions” (Marx, [1867] 1990, p. 792). The ELR would not remove the power of ‘the sack,’ as Kalecki argued — it only quantitatively changes the material impact of being fired.³⁶ Boddy and Crotty (1974) argue that the “[t]he mechanism of the reserve army ... requires not only the existence of unemployment but also a *threat* to those still employed” (p. 11, italics in original). ELR advocates themselves (e.g. Wray, 1998) describe the ELR population as ready and waiting to be hired by capitalists. They constitute a threat to the traditionally employed, and so the ELR population performs the class function of unemployment.

On the basis of foregoing examination, we can conclude that the ELR does not eliminate employment, either in the Marxian or Keynesian sense. Instead, it replaces the reserve army of the unemployed with a ‘reserve army of the employed,’ which is made up of workers who, occupying a position in the working class separate from those who are employed in the private and public sector, perform the same class function as those who are currently unemployed. Thus, the ELR does not present a threat to the capitalist accumulation process, but merely changes the makeup of the “mass of human material always ready for exploitation by capital in the interests of capital’s own changing valorization requirements” (Marx, [1867] 1990, p. 785). True full employment would

³⁶ Since the New Deal, the ‘social safety net’ of the welfare state already performs this function. Unemployment insurance, food stamps, and other social programs protect the unemployed from abject poverty. The ELR would functionally act in a similar way.

pose a threat to the dominance of capital (Kalecki, 1943). However, the ELR would not achieve this goal. For Wray (1998), whether labor or capital benefits from the ELR is merely an indicator of inflation. ELR advocates do not adequately consider the class function of unemployment. If they did, they would have a better chance of constructing a successful policy that achieves full employment, at least in the short term. In the next section, I critically analyze the claim made by ELR advocates that work has inherent, noneconomic value.

5.3 Alienation and the Philosophy of Work

Like all economic schools of thought, post-Keynesianism and Marxian economics have underlying philosophical bases, from which certain epistemological assumptions are made. These assumptions guide economic analysis and policy proposal. For example, ELR advocates seem to see work as possessing inherent noneconomic value, and this assumption contributes to their defense of the ELR. Tcherneva (2013) frames the ELR as providing the “opportunity to work,” because “genuine empowerment comes from earned income” (p. 97). Tymoigne (2013) notes that “labor is not just an economic activity, it is how human beings socialize and develop a sense of accomplishment and involvement in their community” (p. 81). Marxists share the view that work has inherent noneconomic value. However, this value can be subverted by the prevailing relationships of production in a given economic system. This section discusses the Marxian concept of alienation and its implication for ELR. It is hoped that the ELR advocates carefully consider the implications of work characterized by the capitalist relations of production.

For Marx, what makes humanity distinct from other animals is precisely our ability to freely decide the nature of our labor. We consciously decide the activity that enables us to live and reproduce.³⁷ Labor is not only the means for our existence; the ability to freely decide the nature of our labor is a full realization of our humanity, what Marx called ‘species-being’ ([1844] 1992, p. 328). However, if the control over labor is stripped from the worker, they suffer from ‘alienation,’ which manifests in three ways: (1) estrangement of the worker from nature; (2) estrangement of the worker from their capacity to perform labor; (3) estrangement of the worker from their ‘species-being’ (ibid.). The capitalist production process is characterized by separation of the worker from the ownership of the means of production. This means that the capitalist controls not only product of the labor process, but the time of the worker during the working-day. This relationship constitutes an obstacle of the worker’s ability to decide the nature of labor freely. For Marx, freedom in labor is “the individual’s self-realization ... but [society] has not created the subjective and objective conditions for itself ... in which labor becomes attractive work” (Marx, [1857] 1993, p. 611). In other words, work has the potential to be intrinsically good, but this potential is subverted by the capitalist production process.

For work to have inherent value and to contribute to human flourishing, the relations of capitalist production must be replaced with those in which the worker is in control of their own labor. From the Marxian perspective, one cannot speak about the value of work in general; they must consider the relationships of production at any given point in history. Thus, though ELR advocates speak of the inherent value of work, their

³⁷ “What distinguishes the worst architect from the best of bees is that the architect builds the cell in his mind before he constructs it in wax ... man not only effects a change of form in the materials of nature; he also realizes his own purpose in those materials” (Marx, [1867] 1990, p. 284).

definition of ‘work’ is limited to capitalist employment; from their perspective, the only alternative to the ‘forced idleness’ of unemployment is the acceptance of a wage (Tcherneva, 2012a). Thus, they neglect an important qualifier for what gives work its value.

One need not accept Marx’s concepts of species-being and alienation as an epistemological basis in order for them to be useful tools for the analysis of work. The application of these concepts to issues related to unemployment helps to avoid the conflation of full employment with general welfare and human flourishing, as is a pitfall of existing Post Keynesian analysis.³⁸ ELR advocates do not claim that the ELR would be a panacea, but they still take as given the idea that work is inherently good. Marxian analysis enables us to think critically about the nature of work as a class relation under capitalism and to consider the limits of reforms to capitalism such as the ELR. Even if the jobs provided by the ELR are paid at a living wage and ‘meaningful’ work, and even if the wage is disassociated from productivity (which precludes exploitation in Marxian terms) workers do not possess material control over the labor process. Their capacity is to be productive, and the means to earn a livelihood is dictated by someone other than themselves; any perceived dignity of work is limited in this way, even in a full employment situation. In the next section, we return to the New Deal and *Plan Jefes*, to discuss the circumstances of their implementation from a Marxian-historical perspective.

³⁸ See Jo (2012) for a constructive critique of Post Keynesian welfare theory.

5.4 Why Were the New Deal and *Plan Jefes* Implemented?

In Chapter 4, I provided an overview of the large-scale government employment programs of the New Deal and *Plan Jefes*, which ELR advocates claim to provide evidence of the workability of the ELR in the United States today (Tcherneva, 2018; Forstater, 2004). I previously argued that the design of these programs is dissimilar to ELR in a way that casts doubt upon the notion that their success is an indication of the potential for the success of the ELR today. In addition to these concerns, the ELR advocates also fail to adequately consider the important historical factors that led to the implementation of the New Deal and *Plan Jefes*. In this section I describe the specific conditions of the economic and political landscape in which these programs were implemented from a Marxian perspective, and how these conditions relate to those of present-day United States. These differences present obstacles to the implementation of the ELR.

Recall from the previous chapter that the unemployment rate rose in the United States from 3.2 percent in 1929 to 25.2 percent in 1933 (Bureau of the Census, 1975, p. 232). This led to widespread social unrest. Many workers and unemployed people became radicalized and looked to alternatives to the capitalist system. Protests during this time were massive and militant. On March 6, 1930, more than one million people demonstrated against unemployment under the leadership of the Communist Party (Klehr, 1984). Funerals for labor leaders killed by police were attended by tens of thousands of people in Chicago and New York City, with coffins placed under banners of V. I. Lenin. Unions increasingly gained respect for, and were led by, revolutionaries.

Thousands of leading intellectuals and artists publicly declared their allegiance to communism. Farmers' associations, often influenced by communists and radicals, had membership in the tens of thousands, and were sympathetic to union struggles (ibid.). This historical situation can be viewed as a manifestation of one of capitalism's internal contradictions in the Marxian sense. While unemployment serves a necessary class function for capitalist accumulation, it can also act as a catalyst for militant opposition to capitalist class dominance.

Goldfield (1989) writes that "the virtually unanimous opinion among New Deal Democrats and progressive Republicans (the overwhelming majority [of the United States congress]) was that government regulation was necessary to constrain, limit, and control the increasingly militant labor movement" (p. 1274). This shows that the New Deal and its large-scale employment programs were explicitly intended to mollify the revolutionary zeal in the United States. They were designed to be a temporary defense for the capitalist accumulation process against the threat posed by the mass movements that were growing amidst the Great Depression, in order to bring the social order back from the brink of collapse.

The political circumstances in Argentina that led to the enactment of *Plan Jefes* were similar to those preceding the New Deal. As noted in the previous chapter, unemployment in Argentina was at 25 percent in 2002. Years of political and economic instability led to massive demonstrations, which were met by violence from the police. Confidence in the government was effectively non-existent, and social unrest was widespread. *Plan Jefes* was specifically enacted in order to counter this unrest and restore legitimacy to the government in the face of massive political uprising (Kostzer, 2008).

The program did successfully contribute to the decrease in unemployment when it was enacted in 2002, and was discontinued in 2006 when the economy began recovering.

It is obvious that the conditions of present-day United States are vastly different than those of *Plan Jefes* and the New Deal. In spite of the many social and economic issues facing the U.S., there is no large-scale revolutionary movement that presents a threat to the social order or to capital accumulation. At time of writing (November 2018), unemployment in the United States is officially at 3.7 percent, which is the lowest since December 1969 (Bureau of Labor Statistics, 2018a).³⁹

ELR advocates look to the New Deal and *Plan Jefes* as a model for the ELR program, but they seem to misunderstand the significance of the political conditions that gave rise to these programs. This is notable because they are certainly aware that mass movements and civil unrest were necessary prerequisites for their implementation. For example, Murray and Forstater (2013), in their empirical research regarding ELR-style programs, even acknowledge directly that such programs are politically feasible “during times of economic crisis and structural change” (p. 2). Thus, they seem to believe two contradictory things: (1) the existing employment programs are evidence that the ELR can be successful, but (2) the ELR does not require similar economic and political conditions for its implementation (even though they explicitly state that these programs are responses to economic and political crises!). While Murray and Forstater (*ibid.*) do mention the need for ‘grassroots support’ for these programs, the lack of attention paid to the political (especially class-related) conditions seems to betray a similar political naiveté of Keynes himself — the idea that merely spreading the right ideas among the

³⁹ There are, of course, many situational factors outside of those discussed here that distinguish the present day from the early 1930s that cannot be accounted for in economic data.

political and economic elite can lead to the implementation of full employment. This will be discussed further in the next section.

5.5 “Leave It to Me,” Revisited – The Political Project of the ELR

In Chapter 3, I discussed how there currently exists no coherent Post Keynesian theory of the state. This is specifically problematic for ELR advocates because the state is ultimately responsible for the implementation and maintenance of their policy agenda. In this section I will discuss how the theoretical weakness of the Post Keynesian theory of the state, utilized implicitly by the ELR advocates, inhibits both the workability of the ELR and the political project necessary for its implementation. I will again suggest that the incorporation of Marxian analysis would strengthen their advocacy of the ELR. This section begins with Keynes’s political economy and its influence on the ELR.

Keynes was a politically liberal economist; he fervently hoped and believed that state is class-neutral and it can and will solve many of capitalism’s macroeconomic problems (Sherman, 1987). His primary political aim was to convince economic and political elites that his ideas were correct; if only those in power accepted the truth of his ideas, the worst parts of capitalism could be ameliorated: “the right analysis of the problem ... can cure the disease of unemployment” (Keynes, 1936, p. 381). It was up to enlightened intellectuals like himself to save capitalism from self-destruction; “The economic problem is not too difficult to solve. Leave it to me,” he says, “I will look after it” (Keynes, 1982, p. 34).

The ELR advocates have a similar political project to Keynes. This is especially clear in their advocacy for Modern Monetary Theory (MMT). As mentioned above, they admit that the ELR is not a panacea. However, they appear to see the mainstream acceptance of MMT as tantamount to such a cure-all. One need not look farther than the title of Wray's seminal 1998 work on the subject: *Understanding Modern Money: The Key to Full Employment*. He seems to argue that if only we understood the secret of how money actually operates, we unlock the potential for a fully employed economy. Lavoie (2013) points out that advocacy of MMT is so steeped in its ideological "truthfulness" that even sympathetic critiques of MMT are met with over-reaction and hostility. 'Leave it to us,' the MMT/ELR economists say, and the state will provide for the general welfare without concern for inflation or debt crisis. Their engagement with the general public via blogging and use of social media (Juniper, Sharpe, & Watts, 2014) shows that they are less skeptical of the masses than Keynes was, and are more interested in popular, democratic support for their ideas. However, their activism is, like Keynes, centered on convincing people of the merits of their ideas, as though a mere acceptance of ideas leads to political change.

Marxian economists, on the other hand, reject the idealism inherent in the Post Keynesian activism, which is rooted in their liberal understanding of the state. Marxists center the role of mass movements and political pressure from the working class as the catalyst of institutional changes to capitalism such as full employment. Recall that, for the majority of Marxists, the state is a set of institutions that acts to guarantee the continuation of capital accumulation and the ownership relations inherent in that process. If mass movements of the working class become so potent as to threaten the class

structure itself, the state must implement new reforms in order to protect the class makeup of capitalist society. Under these conditions, a policy resembling the ELR becomes politically feasible, if only temporarily. The activism of the ELR advocates, in bringing an understanding of MMT and full employment to lay people via social media and other popular means, is a positive step in the direction of the implementation of something similar to the ELR. However, their potential for success is limited by the absence of a coherent theory of the state, and an inadequate level of engagement with the power and class dynamics of modern capitalism in their scholarship and advocacy.

5.6 Conclusion

Economists have argued since the 1930s that full employment is theoretically possible in a capitalist economy via state intervention. In spite of this, full employment in peacetime has never been achieved in a capitalist economy. Capitalists have used the language of economics to advance their political opposition to full employment. Full employment can be temporarily achieved in peacetime with pressure from mass working-class movements, but the maintenance of full employment requires a fundamental shift in the institutional makeup of the capitalist economy. It is yet unclear whether capitalism is capable of accommodating a new institution such as permanent full employment, but there is good reason to be skeptical that it can.

VI. Conclusion

In this thesis, I have argued along Marxian lines that permanent full employment is impossible under capitalism, because the class function of unemployment is necessary for the continuation of capital accumulation and its underlying relationships of production. I have also shown that the ELR is incapable of providing meaningful employment that meets social needs because of its buffer-stock nature. However, that is not to say that full employment should not be pursued. There are many unmet social needs, as well as social ills that plague economies characterized by unemployment (Tcherneva, 2017).

Policymakers should identify these social needs and design massive public works programs based on those needs, in order to meaningfully employ as many people as possible.

It must be remembered, when crafting such a program, that full employment is anathema to the capitalist class, and that the state is largely beholden to capital. History has shown that government employment programs have only been enacted when mass movements have forced the hand of the capitalist class, in order to preserve the capital accumulation process. Any sort of job guarantee program, once enacted, will face sustained opposition. Mass movements must be ready to defend it.

Full employment would represent a transfer of power in the class struggle from the capitalist class to the working class. The increase in material wealth and social cohesion of the working class that comes with full employment could increase class consciousness and threaten the hegemony of the capitalist class and class structure of capitalism itself. As Foster (2013) argues, “full employment, rather than being viewed as

an end in itself, should be utilized as the strategic basis from which labor could launch an all-out attack on the bourgeois rules of the game. Indeed, it was this possibility that made a full-employment state so dangerous to the capitalist class” (p. 8). Should capitalism continue to fail to provide permanent full employment, the short-term full employment achieved by the cooperation of mass movements and careful policy design could act as a catalyst for its replacement.

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