INSTITUTE OF INTERNATIONAL MONETARY RESEARCH
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I start from the position, espoused by Paul Samuelson, in the heyday of Keynesianism, that a market economy lacks an 'internally efficacious mechanism' for adjusting aggregate supply to demand at an optimum level of output and employment. I draw from this the conclusion that public intervention is necessary to bring about such a balance. But further, I conclude that 'The proper regulation of employment and investment in the economy is a matter of policy for Government, not the central bank'. (Mitchell, Toporowski,23) In other words, the macropolicy needed to secure such a balance cannot be left to central banks.

We have begun to inch back to fiscal policy after decades of believing that central banks could do any stabilising needed. The failure of monetary policy to prevent the Great Financial Crash of 2007-8, and the relative failure of QE to provide the required fillip to prices and output since 2008 has come as a deep intellectual and political shock.The tool boxes of central banks are almost empty as their balance sheets swell to unheard of size. Retiring ECB president, Mario Draghi admits that monetary policy 'needs help from fiscal policy'. (FT,29 October 2019); incoming president Christine Lagarde urges Germany and the Netherlands to use their budget surpluses to fund investments. (FT,31 October 2019). Orthodox theory sruggles to explain why so many trillions of dollars of QE money is stuck in negatively priced assets. Secular stagnationists like Larry Summers have taken to arguing, in the spirit of the stagnationists of the 1930s,that the rate of return on capital in the United States has fallen so low that only public investment can revive the American economy. (Ref:Peterson Institution,Podcast15 April 2019)

Coinciding with disappointment with monetary policy has come a much more positive reading of Obama's fiscal boost in 2008-9, and a much more negative reading of Europe's post-slump fiscal 'austerity' programmes. A notable turning point was Olivier Blanchard rehabilitation of fiscal multipliers in 2013.(Ref: Blanchard and Leigh,2013); reinforced this year with the classic understatement that 'fiscal policy has been underused as a cyclical tool'.. (Project Syndicate 10 June 2019) Also it was realised that central bank bailouts in 2008-9 were fiscal, not monetary operations. It was not central bankers who saved the world in 2008, but politicians who authorised them to pump money into the financial system at the public expense. Contrary to the standard view of twenty years ago, monetary policy is now generally viewed as a weak guarantor of economic well-being. . However, no agreed basis exists so far for future macropolicy.

The demand for fiscal 'help' is still far from being a principled discussion. Indeed the way fiscal policy is being edged back now is bound to discredit its future use. UK Chancellor of the Exchequer Sajid Javid has thrown his predecessors' painfully constructed fiscal rules to the wind.As Paul Johnson, director of IFS, points out, 'etting supposedly binding fiscal rules, missing them, abandoning them and replacing them with something new…' (Times 14 October 14 2019), harks back to the bad old days of the 'political business cycle'. What has happened is that the unexplained failure of monetary policy to re-ignite vigorous growth has led to an outburst of bribery Keynesianism. But to try to steer the economy without a theory and without a policy anchor is to court disaster.

My proposition is not that we should abandon fiscal policy, but that we should reinstate it in a non-discretionary way. But I won't produce this particular rabbit out of my hat till I have prepared the ground.

First, I will outline pre-crash orthodoxy as I understand it. Then I will argue that it failed as theory, and that monetary policy failed in practice to stabilise the economy, both before and after the crash.In the final part of my lecture I will state the case for reinstating fiscal policy, but in a way which may hope to avoid the mistakes of the past.

Pre-crash orthodoxy.

The chief elements of pre-crash orthodoxy were:

First, the belief in optimally self-regulating markets. This is associated with the rational expectations revolution of the 1970s, for which Robert Lucas and Thomas Sargent won Nobel Prizes. . In their models there is no uncertainty and wages and prices are flexible. Their work provided a theoretical underpinning for the Thatcher/Reagan labour market reforms of the 1980s. Eugene Fama's 'efficient market hypothesis', coming from the same geographical and intellectual territory, rationalised financial de-regulation and fuelled the growth of shadow banking, as giving a promise of uninterrupted liquidity.

A second element was the restriction of the state's investment function through privatisation of the 'commercial' public sector. The general argument was Ricardian. Public investment was bound to be wasteful, because if the private sector wasn't doing it, it could not be profitable. A standard conclusion from this type of analysis was that governments shouldn't interfere in the allocation of capital.

A complementary third strand was reversion to the Victorian idea that budgets should be balanced at the lowest possible level of taxes: economies grew fastest, it was claimed, if money was left to 'fructify in the pockets of the people'. Balanced budget rules were needed to ensure the sustainability of the public debt, and stop government financing its spending by printing money.. Particularly in the UK and Eurozone balanced budgets were considered an essential support for central bank policy.

Fourth, the only macro policy needed was inflation control. Recall Nigel Lawson's seminal Mais lecture of 1984:'It is the conquest of inflation, and not the pursuit of growth and employment which... should be the objective of macro-economic policy'. (cited Skidelsky, M&G,192) Following Milton Friedman, the orthodox expectation was that if inflation were controlled, market economies would normally be stable at their 'natural rate of unemployment'. If this rate was considered socially unacceptable, the remedy lay with 'freeing up' labour and product markets, nationally and globally.

Fifth, and again following in Friedman's footsteps, it was believed that monetary policy was more effective than fiscal policy. The economic argument was that fiscal policy operated only with 'long and variable lags', so that government interventions were likely to take effect in the wrong phase of the business cycle. . A much more powerful political economy argument was that stabilization policy carried out by central bank technocrats would be politically 'neutral'. In contrast, the vote-seeking propensity of politicians would infallibly lead them to inflate the economy by running budget deficits at full employment.

1976 marked the point of transition from Keynesian fiscal to Friedmanite monetary policy in this country. In the following passage, written, as is well-known by his then Friedmanite son-in-law Peter Jay, James Callaghan, Labour's prime minister, told his party conference:

We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step. Higher inflation followed by higher unemployment...That is the history of the last twenty years.(cited Skidelsky M&G,169-70).

Economists will recognise this as the death sentence of Phillips Curve Keynesianism.

I start with history not just as someone whose academic background is in history. The stories we tell ourselves about the past, however inaccurate or incomplete, strongly influence the way we think about the present and future. That is why a proper scholarly revisiting of the fateful years 1968-1975 must be part of any serious effort to rehabilitate fiscal policy. You will be surprised to learn that far from being subject to the inherent deterioration described in Calkaghan's 1976 speech, the average inflation rate in the UK was *lower* in the 1960s than it had been in the 1950s, and in the United States lower in both the 1950s and 1960s than in the 1990s. Thus what is sometimes called the 'fiscal theory of inflation' -the theory that government would always use inflation to meet its budget constraint - is at the very least greatly exaggerated. Although inflation was starting to rise at the end of the 1960 it really only took off in the 1970s under the influence of a coordinated world boom (which caused a dramatic rise in commodity prices), the first oil price shock and the breakdown of the international monetary system. In short, there is something fundamentally wrong with Friedman's narrative of the Great Inflation. (See also Benati: 'the Great Inflation was due, to a dominant extent, to large demand non-policy shocks and to a lesser extent-especially in 1973 and 1979-to supply shocks'.) We may agree that fiscal policy became in the end 'overburdened', without feeling that we needed to throw out the baby with the bathwater. We need to replace the jaundiced Friedmanite story with a more accurate narrative of 'what went wrong with Keynesianism'.

Ii. *The Weakness of Monetary Policy during the Great Moderation and After*

Monetary policy has had a prolonged trial from 1980s to today. The evidence seems to warrant two conclusions.

First, . the Bank of of England's achievement of its target-rates of inflation during the Great Moderation was down more to good luck than to good policy. Second, it is only since 2017, well into recovery, that the Bank managed to get inflation up to 2% or more. Both suggest that monetary policy has much less influence on the real economy than monetarists believe, and that inflation outcomes are more the result of real-economy developments than their cause.

In his 1996 book, *The Death of Inflation*, Roger Bootle singled out the following structural changes, which, in his view, were bringing the inflationary era to an end: rapid technological change, low-cost labour competition from East Asia, Latin America, and eastern Europe, privatisation, collapse of trade union power, and increasing price sensitivity by consumers. These were the features Mervyn King had in mind when he talked of a 'benign environment' for monetary policy during the Great Moderation. The Bootle view was confirmed in a technical analysis by ECB economist Luca Benati in 2008, who wrote of the UK: 'Our evidence points towards a dominant role played by good luck in fostering the more stable macroeonomic environment of the last two decades'.(Journal of Money,Credit, and Banking, vol.40, no.1.February 2008)

A significant flaw in pre-crash central bank thinking, was t inattention to financial stability. Central bank models were strongly influenced by the efficient market hypothesis, which justified reduced regulation of the commercial banks. Congratulating themselves on maintaining price stability, central banks were blind to the financial instability being engendered by the explosion of securitisation and shadow banking.

[Commenting on the the Italian banking crisis John Hicks remarked: '' [The ..banks were very *unsound*, over-anxious to accept deposits, and not yet conscious of the conditions under which alone it can be prudent to push such deposits to profitable use'. (cited Skidelsky, M&G,34) This was about the Italian banking crisis of 1345. So what is new?]

Now consider the period after 2008. Post-crash experience has shown that though monetary policy may have some influence in cooling down overheating economies, it has much less influence in warming up underheating ones.

Since 2009, three periods of 'unconventional measures' (quantitative easing) in 2009-10, 2011-12, and since 2016 have injected about £500bn of 'high-powered' money, or roughly 25% of 2012 GDP into the UK economy. These injections not only failed to achieve the Bank of England's mandated inflation target, but more importantly the temporarily higher inflation rate we would associate with a strong recovery. This is paralleled in USA and Eurozone. The UK data shows some impact effects which were soon dissipated.

Graph 1. PRICE INFLATION 1991-2019.
Th vertical grey lines represent periods of QE.

Monetary policy failed to deliver a secure recovery from the 2008 recession. According to David Blanchflower, we have had the slowest recovery in GDP per capita since the South Sea Bubble (Ref:)

Grapth.2.REAL GDP GROWTH 1991-2019

But to my mind the most telling testimony to the failure of monetary policy to stimulate growth was what happened to the money supply. In the graph below the grey vertical blocks represent episodes of QE.

Graph 3. M4 1991-2019.

QE1 2009-10 gave a modest boost to broad money, but subsequent injections had little effect: the money multiplier was broken, if indeed it ever existed outside the realm of theory. To this day large corporations are still sitting on hoards of cash: it isn't lack of liquidity that's stopping them from investing, but lack of demand. **(See Stiglitz, PS 9 August 2019).**

The defence offered by the Bank of England is that the situation would have been even worse without QE. This is surely true. Given the commitment to fiscal austerity, monetary policy was the only game in town; and the Bank of England did all that it could to keep the British economy afloat. The problem was that its stimulative power was very limited, as has only belatedly been recognised.

Theoretical Weakness of Monetary Policy.

The mediocre results achieved by monetary policy point to one key theoretical weakness: the scant attention paid to the causes and existence of what Keynes the 'speculative demand for money'.The mischief can be traced back to Friedman's 'discovery' of a historically 'stable demand for money balances'.

The theoretical assumption underlying QE was that the injection of cash into the economy would raise both price level and output. There was no entirely coherent theory of how this was supposed to work. In the simple theory, expectation of higher prices would produce higher output by improving business confidence. This was the story told by Keynes in his *Tract on Monetary Reform*, and it seems to me to be the most plausible account of how monetary expansion might work. But 'expectations' has a lot of heavy lifting to do. It fudges the question of whether it is the increase in business activity (based on a possibly mistaken belief in the QTM) which causes prices to rise or whether it is the expected increase in prices which causes activity to increase.

The simple theory was subsumed by a more complicated transmission mechanism, according to which QE would lead to increased business investment by, on the one side, reducing bond yields(the bank lending channel) , and on the other hand, increase consumption by raising asset prices (wealth effect). Whatever the exact transmission mechanism from money to prices and output, it was common ground that there existed a definite, calculable money multiplier -an expansion in high powered money (M1) would lead to a multiplied expansion of broad money (M3 or M4) after at most a very short lag. It was in this absence of the 'long and variable lags' supposed to mark fiscal policy that the superiority of monetary policy was said to lie. In fact, following the crash of 2008, M1 and M4 moved in opposite directions: the money multiplier was dead.

What this argument ignored is captured in a devastating critique by Keynes: 'If, however, we are tempted to assert that money is the drink which stimulates the system to activity, we must remind ourselves that there may be several slips between the cup and the lip'. (GT, 173) What Keynes was saying is that as soon as you introduce time into your analysis, external events are bound to make all our 'best guesses' uncertain. The monetary pump is inefficient because it is so leaky. It pumps too much money into the financial or speculative system, not enough into the real economy, creating an imbalance between the two which makes another financial crash all but inevitable.

In fact, the emergence of 'idle balances' was a well-established explanation of business downturns before Keynes. It was stated clearly by Hawtrey in 1925:

When trade is slack, traders accumulate cash balances because the prospects for profit for any enterprise are slight, and the rate of interest from any investment is low. When trade is active, an idle balance is a more serious loss, and traders hasten to use all their resources in the business

.(Public Expenditure and the Demand for Labour (1925),p.42

Keynes took hold of the idea in the GT, and, so to speak, ran with it.

First, he thought of liquidity-preference arising not just in moments of 'anxiety', but as a normal condition of capitalist economies, given the inherent uncertainty about the future. It is his basic explanation of long-run underemployment equilibrium.

Second, he thought of the rate of interest as the 'price' of dishoarding, not the reward for saving. Savings could not therefore be treated as 'loanable funds', whose rate of return had only to come down for investment to pick up.

Third, absent official intervention, the liquidity premium attaching to money would prevent the establishment of a long-run rate of interest consistent with continuous full employment.

Four, Keynes distinguished clearly between the cost of capital and the demand for capital. Central Bank policy can influence the financing of credit, but not the decision to invest which depends on the expected returns from the investment.(Michael and Toporowski). QE adds to the liquid reserves of banks and corporations : it does not automatically reduce 'risky' lending rates or increase the marginal efficiency of capital.

Leaving stabilization to central banks also ignored the distributional consequences of modern financial capitalism, The underconsumptionist bias of the modern system is exemplified by Amazon. It has 600,000 employees, a total capitalisation of $1tr, so wealth per capita is $16m. The vast majority of its employees are paid just above the minimum wage, while founder Jeff Bezos's net wealth ($ 110 billion) is higher than Wales's entire GDP (a bit more than £62 billion). Karl Marx wrote: 'The last cause of all real crises 'always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces'. (Ref)

A common assumption was that by raising asset prices QE would automatically generate the 'wealth effect' of increased consumption. But given the different class propensities to consume, this 'effect' turned out to be too small to stabilise consumption, with much of it devoted to speculation in non-currently-produced assets. While the top 10% gained £350,000 in wealth between 2006 and 2014, the poorest 10% gained only £3000. Much of the rise in wealth inequality is down to the Bank of England's asset purchasing programme.

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Summing up this line of argument: M4 is not an independent variable, it depends on business expectations.And these depend on having 'consumers at the door'.

What is to be done?

So what do we do now? The post-crash consensus is that we will have 'fixed' the problem of reckless bank lending by adding financial stabilisation to monetary policy as a condition of the success of the latter. Central banks should become 'market makers of last resort'.

One major problem with proposals to increase central bank control over financial markets is that it strains central bank legitimacy.In his book *Unelected Power* (2019) Paul Tucker endorses the case for delegation of macro policy to technicians, based on lack of 'credible commitment' by politicians to govern in the public interest. What we need to do, he says, is to agree 'rules of delegation'. This translates the problem of macro-policy into one of institutional design. However, he fails to solve the problem he has set himself. He rightly points out that 'delegation' of functions is not sufficient, since 'credible commitment' problems run right through so many areas of government that it might justify government itself being delegated to a Platonic guardian. He almost says that if you don't trust elected politicians to act at least sometimes in the public interest you might as well give up on democracy.

Tucker is a thoughtful representative of those who, while recognising legitimacy problems in delegating monetary policy to unaccountable technicians, never confront the theoretical flaws of relying on monetary policy to stabilise economies. Even though they would not accept, in any simple form, the doctrine that market economies managed and regulated by independent central banks are cyclically stable, their thinking naturally gravitates to this Friedmanite point. If they now accept that monetary policy may be 'overburdened', they have not shed their mistrust of entrusting macropolicy to politicians. The choice they offer is between an 'overburdened' technocracy and an 'overburdened' democracy. Is there an escape from this dilemma? I want to consider this question in the last part of my lecture.

Conditions for the Return of Fiscal Policy

1. Any reinstatement of fiscal policy needs to start with a clear theoretical view of why we need macroeconomic policy. The Keynesian answer is that unmanaged market economies have three interrelated faults: (a)their 'normal' or long-run outcome is 'under-employment equilibrium (b)they are cyclically unstable, (c)they produce growing inequality (Ref: Piketty) which intensify the first two faults. So called New Keynesians accept the macroeconomic framework of the anti-Keynesians (rational expectations, full information,etc) but argue that because prices and wages are 'sticky' there is a policy- exploitable short-run Phillips Curve.

2. If macropolicy is required, should it be done mainly by monetary or fiscal policy? The imitations of monetary policy were made clear by events leading up to the 2008 crisis, but more emphatically since the crisis: financial instability produced a crisis followed by incomplete recovery. Central banks simply do not control money in the way envisaged by monetarists or New Keynesians, because they have only an indirect influence on the demand for credit. Attempts to broaden their mandate by by arming them with extra (partly fiscal) functions run into crises of legitimacy a la Tucker. If fiscal intervention is needed, central banks are not the agencies to undertake it.

3 However, some work is needed before fiscal policy can be made serviceable. We have been deluded by the mystical power of numbers: 3% annual deficits, 60% debt gdp ratio, 90% cliff edge. These attempts to fix the numerator while ignoring the denominator are like fixing the thermometer at just one temperature. The government should take account of the asset as well as the liabilities side of its balance sheet in drawing up its fiscal rules, something urged by Richard Hughes, former head of fiscal policy at the Treasury. Recognising the value of public sector assets like aircraft carriers, roads, or HS2 would give governments scope to increase spending on infrastructure. (FT,30 September 2019). This would, in turn, restore the investment function of the budget. It is becoming increasingly clear that

an economic system in which investment is mainly private, in which monetary policy fails to deliver, and in which government is denied a stabilizing investment role is unduly dependent on fluctuations in the news.

5. Such re-thinking should lead us to consider ways in which fiscal policy might be retained, but made more *automatic*, limiting the discretion of politicians to 'spend as if there was no tomorrow' in order to win elections. In the last part of my lecture I want to focus on the valuable concept of automatic stabilizers and the ways in which these could be strengthened.

Automatic Stabilizers

Paul .Samuelson writes: 'the modern fiscal system has great inherent automatic stabilizing properties'. When the economy turns down, government tax receipts fall and spending on unemployment benefits and other transfers rise, creating an automatic deficit which offsets the fall in private spending (or in terms of the national income identity offsets the rise in private sector saving). When the economy recovers the budget automatically re-balances. To preserve this inbuilt stability, 'no attempt should be made to balance the budget in a downturn'. However, as Samuelson noted 'a built-in stabilizer acts to reduce part of any fluctuations in the economy, but does not wipe out 100% of the disturbance. It leaves the rest of the disturbance as a task for fiscal and monetary discretionary action'.(Samuelson 1948, 332-4) If discretion is the problem the policy problem the task we face is to strengthen the automatic stabilizers at the expense of discretionary policy.

There are two main ways of doing this:

The first is to revive the state's long-run investment function. Since the 1980s, the public investment share of total investment has steadily fallen.

Graph 4. UK PUBLIC INVESTMENT AS SHARE OF TOTAL INVESTMENT IN UK 1948-2009

Adam Smith recognised a public goods argument for permanent public investment. (W of N.677, X ed.) . But in addition, as has often been pointed out, the large share of public investment in total investment in the Keynesian era had a stabilising effect ,offsetting the inherent volatility of private investment, and fulfilling Keynes's claim that 'the state...is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage'. (GT,164). The state's investment programme acts as a long-term automatic stabilizer. It is directed to the long-term and should be segregated from its current spending , and insulated from management of the 'cycle'.

Public Investment should flow through two main channels: the state's capital budget and an independent public investment institution. ie one that makes investments and not just finances them. As I see it, the state's long-run investment programme should be based on dynamic social cost-benefit analysis, while the 'off budget' Investment Institution should choose projects on commercial criteria, ie., seeking to cover its own outlays with returns from successful investments,without, however, seeking to maximise profits. Specifically, it should aim to fill the well-recognised gap in the financing of SMEs.

Now for my rabbit out of a hat. For counter-cyclical purposes I advocate a Public Sector Job Guarantee (PJP-public jobs programme for short). This would have the double advantage of *automaticity*, thus depriving politicians of discretion over counter-cyclical policy, and would also be a much more powerful automatic stabilizer than the system described by Samuelson, ie it would leave a much smaller role for discretionary policy to deal with what he calls 'the rest of the disturbance'. I see it as the modern way of honouring the Keynesian full -employment commitment.

Far from being a revolutionary innovation, PJP is an outgrowth of 'public works' programmes used by all pre-Keynesian governments to limit unemployment in a downturn. Its rationale was succinctly stated by the US National Commission on Technology, Automation and Economic Progress in 1966: (q Samuelson 775):

With the best of fiscal and monetary policies, there will always be those handicapped in the competition for jobs by lack of education, skill, experience, or because of discrimination. The needs of our society provide ample opportunities to fulfil the promise of the Employment Act of 1946: 'a job for all those able, wiling, and seeking to work'. We recommend a program of public service employment, providing, in effect, that the Government be an employer of last resort, providing work for the 'hard-core unemployed' in useful communal enterprises.

The Humphrey-Hawkins Act of 1978 'authorised' the US Federal government to create a 'reservoir of public employment' to balance fluctuations in private spending. The reservoir would automatically deplete or fill up as the economy waxed or waned, creating an 'automatic stabilizer'. No 'management' of the business cycle was involved. But the Humphrey-Hawkins Act was never implemented. It was the last gasp of New Dealism.

Put simply, the government should guarantee a job to any job-seeker who cannot find work in the private sector, at a fixed hourly rate which would not be lower than the national minimum wage rate.

For the rationale of this proposal, I draw heavily on the American literature, though limited job guarantee programmes have been implemented in Hungary, Denmark, and Argentina.

1. PJP should target not aggregate output but labour demand. This eliminates the problem of having to calculate output gaps. It is less analytically complicated to target employment than output. Definition of full employment can be made quite precise and uncomplicated: it exists 'where all who are ready,willing, and able to work are gainfully employed at a given base wage'.

2.The PJP pool acts as a labour buffer stock which expands and contracts automatically with the business cycle, eliminating discretionary fiscal policy. It is analogous in that sense to the unemployment insurance fund which also automatically depletes and replenishes, but is a more powerful automatic stabiliser than the latter. Because the work jobs guarantee implies a higher expenditure than a benefit guarantee, It would provide a more permanent stream of income that would avoid sudden reductions in planned private expenditures. Finally, it would maintain employability better, and could readily be coupled with on-the job training -an important factor in economic recovery and growth prospects. As Pavlina Tcherneva puts it: '... it continues to stabilize economic growth and prices, using *a pool of employed individuals* for the purpose rather than a reserve army of the *unemployed*.' (Tcherneva,2018,7)

3. PJP workers would be paid at a fixed rate. This can be set at any level the government wants above unemployment benefit. Typically, advocates of PJP suggests a 'living' wage, but all it needs to be for enhanced stabilizing purposes is higher than unemployment benefit.A fixed wage sets a floor for private firms' wages. If the PJP wage was set at the national minimum wage, no minimum wage legislation, with all its attendant compliance costs, would be needed, since private employers would always have to pay at least the PJP wage if they were to attract workers, and in periods of strong private sector demand they would have to bid for scarce labour at above the PJP wage.

By eliminating the pool of involuntarily unemployed and under-employed workers (that is, by making labour scarcer than it would otherwise have been) PJP substitutes an upward for a downward pressure on wages. It thus brings a single instrument to bear on the twin problems of unemployment and inequality

4. PJP job champions attach great importance to Keynes's stress in 1937 on the 'need…. of a rightly distributed demand [more] than of a greater aggregate demand' (CW 21,385 A satisfactory average level of employment can be consistent with some parts of the economy over-heating and others under-heating. The implication of this is that orders for work should be placed in areas experiencing, or most vulnerable, to high unemployment. As Hyman Minsky noted in 1965: 'It is only by chance that aggregate expenditures would be such that they would produce enough jobs in the right places for all of those who need them'. [Minsky,1965,177.q.Tcherneva 2014] (Minsky, 1965, p. 177) A PJP programme can be used to influence the structure of employment as well as its level.

5.Consistently with this, PJPers insist that the programmes, while funded centrally, should be administered locally, by a variety of agencies:local governments, NGOs, and social enterprises. Their goal would be to create 'on the spot' employment opportunities where they are most needed, matching unfulfilled community needs with unemployed or underemployed people. To ensure that projects can be rolled out on demand, inventories of communal needs should be prepared and kept by job banks and job centres.They would fall under three main heads: a) care for the environment; b) care for the community; and c) care for people.

Two objections commonly advanced against the PJP are that it would be inflationary and that it would create 'pretend jobs'. I have argued that the automaticity of the programme makes it less prone to be inflationary than discretionary management of the business cycle. In this context the NAIRU is not a relevant concept. As long as there is underemployment of labour, a job guarantee which removes the underemployment can't as a general rule be inflationary. It becomes inflationary when wages rise ahead of productivity at full employment'.

There are two further built-in barriers to inflation: (a) sensitivity to the regional distribution of labour demand and (b) maintenance of employability in the downturn, which would relieve the 'bottleneck' of skilled labour in the upturn.

In this updated Keynesian constitution, inflation targeting would be a fiscal, not monetary responsibility. To prevent the private sector becoming the source of inflationary pressure, the government should be required to raise anti- inflation taxes automatically to prevent inflation rising above (say) 2%.

Central Banks could remain operationally independent, but with a different mandate: to maintain a quantity of money (or short-term interest rates) consistent with the government's full-employment policy and to maintain financial stability. (cf.Abba Lerner's 'Functional Finance and the Federal Debt', Social Research February 1943).

A second common objection is that PJP employment is bound to be 'pretend' work, in the spirit of paying people to dig holes and fill them up again. This is one reason why some of those sympathetic to a job guarantee favour subsidising private sector employers to retain labour in a downturn.Theoretically, this would have the same effect. However, it would be extremely difficult to prevent private sector employers claiming the subsidy under false pretences, eg when they had no intention of dismissing workers or when it was profitable to hire them.

In their approach to work schemes,PJP advocates draw on Roosevelt's New Deal programmes. In 1943, reflecting on the Works Progressive Administration after its termination, Donald S. Howard wrote: "An enumeration of all the projects undertaken and completed by the WPA during its lifetime would include almost every type of work imaginable… from the construction of highways to the extermination of rats; from the building of stadiums to the stuffing of birds; from the improvement of airplane landing fields to the making of Braille books; from the building of over a million of the now famous privies to the playing of the world's greatest symphonies."

Similarly, the Civilian Conservation Corps (CCC) was designed to provide young unemployed men with work on projects that included "the prevention of forest fires…plant pest and disease control, the construction, maintenance and repair of paths, trails and fire-lanes in the national parks and national forests and such other work…as the President may determine to be desirable".

A centrally-funded, but locally determined and implemented PJP is the modern way to address 'the urgent environmental and care needs of communities…[It] can take the form of a Green New Deal that prioritizes disaster prevention and preparedness, community renewal, and food desert relief, to name a few. It will support the arts by providing music, theater, and other art initiatives. It will offer youth apprenticeship programs, child and elder care, and special needs programs for veterans, at-risk youth, and former inmates'. Large-scale infrastructure programs should not be made to fluctuate with the business cycle. But there is a lot of 'invisible' work that can be usefully done by people of low skills. The essential point is to identify the communal 'needs gaps' and devise programmes, both national and local to fill them.(Tcherneva, Pavlina R. 2018. "Job Guarantee: Design, Jobs, and Implementation," *Working Paper 902*, Levy Economics Institute, Annandale-on-Hudson, NY

Key areas of activity in the Hungarian PJP programme are:

- Use of organic and renewable energy;
- Repair of public road network inside rural settlements;
- Elimination of illegal waste dumps;
- Increase of local food sufficiency.
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(Ref. In Denmark there is currently something called a 'utility job' that is mandatory at a certain point during unemployment and with a maximum of 13 weeks. It is more a 'work for the dole'-programme, than a guarantee.India has a pretty successful rural job guarantee called MGNREGA – though subject to budget cuts: https://www.theguardian.com/global-development/2015/feb/05/india-rural-employment-funding-cuts-mgnrega)

Keynes's ironic attack on those who condemned the public works programmes of his day as 'waste' is worth recalling. 'It is curious', he wrote 'how common sense...has been apt to reach a preference for *wholly* 'wasteful' forms of loan expenditure [represented by unemployment relief] than *partly* wasteful forms, which, because they are not wholly wasteful, tend to be judged on strict 'business' principles'. (GT, CW 7,129) Keeping people on the dole when they want to work is a waste of money and a waste of ability.

Now I come to my rabbit. On the conservative assumption that a public sector job will pay double unemployment benefit, a public job guarantee would halve the negative impact of any given collapse of private sector demand: . In the example I have worked with, the immediate fall in aggregate income is 8% under the unemployment benefit scenario, whereas it is limited to only 2% under the public job guarantee scenario. For those interested in the justification of this estimate, a simple technical appendix is attached to this lecture, which is available on request.

Conclusion

This lecture has argued for five propositions: that an unmanaged market economy is cyclically unstable & liable to settle down to a long-term underemployment equilibrium; that public intervention is required to maintain continuous full employment; that fiscal policy is a much more powerful tool to achieve this than monetary policy for reasons originally explained by Keynes and confirmed during the Great Recession; that a method of fiscal intervention is needed which avoids the discretionary element in old-style Keynesian demand management; and that the contemporary method of such intervention is a mixture of long-run investment programmes and short-run job guarantee programmes.(6190)

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Technical Appendix