ON THE FEASIBILITY OF ELR: Macroeconomic Stability and Affordability Issues

L. Randall Wray, Levy Institute and University of Missouri-Kansas City
Wrayr@umkc.edu
Hyman Minsky’s Employer of Last Resort

*Offers a job to anyone of legal working age

*Provides uniform compensation package

*Takes workers “as they are”

*Training is a component of every job

*Workers Do useful things
Objections to ELR

- Open-ended fiscal commitment; Govt can’t afford it
- Will threaten macro stability: inflation and currency depreciation
- Unmanageable: not enough useful work; corruption; incorrigible workers
ELR and Macro Stability

• Poverty and Unemployment is the cost of maintaining macro stability

• Objections:
  – Ethical
  – ELR can enhance macro stability
Macro Stability through Buffer Stock

• Oz Wool Buffer Stock
  – Buys wool at floor price,
  – Sells at ceiling price
  – Cannot cause inflation of wool price
  – Moderates price flux and thus income and consumption

• Basket of Commodities as Buffer Stock
  - Helps stabilize price and currency
ELR as Buffer Stock

- Govt hires labor at ELR wage; “sells” it at any higher wage
- A wage floor cannot pressure wages
- Unlike minimum wage, ELR is effective and has a buffer stock to give it force
- Stabilizes wages, production costs, incomes, consumption, prices, and currency
Affordability of ELR

- Sovereign nation with floating currency can financially afford ELR
- Govt spends by crediting reserves, taxes by debiting reserves
- Deficit generates net reserve credits
- Excess reserves drained through bond sales to hit interest rate targets set by policy
ELR vs Nonsense

• “The Conservative belief that there is some law of nature which prevents men from being employed, that it is 'rash' to employ men, and that it is financially 'sound' to maintain a tenth of the population in idleness is crazily improbable--the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years....” (J. M. Keynes)