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Banking on ELR. How the ideas of Minsky can tackle unemployment

by

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ABSTRACT
The paper examines how to build policies that can effectively cure unemployment using the "*Employer of Last Resort*" scheme coming from the Minskyan tradition by which the State offers a job to anyone willing to work. Replying to the many criticisms it received, we show that ELR is the best suitable alternative in terms of effectiveness in curing unemployment, public finance soundness, social and financial stability, long-term growth and international economic imbalances. In a situation of structural State finance restrictions, accountability and efficiency are vital issues for the project and we think they can be addressed deepening the analogy with lending of last resort. In particular, to supervise ELR projects a State regulator should be set up, along with local controls from below ensuring the cost-effectiveness of the scheme. The society Minsky envisions with ELR proposal is one of shared prosperity, where individual freedom is granted with full employment without hindering the continuous change of capitalist economy. ELR proposal shows that Minsky's ideas are an effective alternative to mainstream economics even in its Neo-Keynesian strand and they would have prevented the world to face the crisis started in 2008.

Keywords: crises, unemployment, Big Government, ELR programs

JEL codes: B22; E62; J68

[1] The views expressed are those of the author and do not involve the responsibility of the Bank of Italy.

1. Introduction[2]

Everyone has the right to work - Universal Declaration of Human Rights, 1948

The crisis erupted in 2008 and that has produced financial and social instability ever since, has seriously called into question the founding principles enshrined in the *New Economic Consensus* (NEC). Although many economists still deny the need to fight involuntary unemployment, poverty and unfair wealth distribution, pointing at the inflationary outcome expansive policies have, cracks started to emerge into the conventional conclusions[3]. From central banks to academic research, economic thought has become receptive to a re-reading of economists that, like Minsky, building on the heritage of Keynes, have contributed to a better understanding of economic and financial instability. The expression "Minsky Moment" has become even fashionable, although not much understood in its true content. This reappraisal suggests to come back to policies ignored for decades to see if they can help to overcome the crisis, in the words of Minsky, to stabilize an unstable economy.

Minsky's contribution is already at the centre of the debate on financial stability. In this work we would like to point out that his ideas can be useful for macro-economic stability as well, especially as far as labour market policies are concerned. Dealing with this issues, this paper has two main objectives. First of all we analyze the suggestion to give the State the role of "Employer of Last Resort" (ELR). This is the part of the Minskyan tradition that has raised the more controversies. It has also been the aspect least explored, even among Minsky scholars, who have concentrated their studies on the *Financial Instability Hypothesis*[4]. Secondly, this paper will try to put this proposal in the context of the Minsky's conception of the economic role of the State that was, from the very beginning, characterized by a modern and original approach to the genesis and evolution of the instability of capitalism. We will try to show that the "responsible" *Big Government* advocated by Minsky it is an essential part of the conceptual framework we need to put world economy back on its feet[5]. The way Minsky used to amend Keynesian tradition on this point is essential to overcome orthodox counterarguments against pump priming and the like, and plays a key role in the issue of income distribution. In addition, in passing the main objections to ELR policies, we will try to show how, deepening the analogy that "last resort" entails can help to shape the proposal in an efficient way.

The paper is divided into three parts: the first (sect.2-3) illustrates the role of the State as an Employer of the Last Resort; the second (sect. 4-5) analyses the critical aspects linked to implementation of ELR programs and how to overcome them making them efficient. The concluding section gives a general overview of the points put forward and some ideas on how to step forward with the scheme.

2. Growth, unemployment and inequality: the Minsky's alternative

The darker the night, the brighter the stars – F. Dostoyevsky

NEC tenets included, among others, the following: unemployment is basically voluntary, income and wealth distribution flow from the marginal productivity role of each person and do not affect economic growth, financial markets are efficient. One can compare the heuristic strength of mainstream economic paradigm with that of Minsky who, back in the 80s, pointed out that modern economic theory is useless because it doesn't have an endogenous explanation for instability (Minsky, 1986).

After more than three decades where full employment has virtually disappeared from economic policies, and while the academia was still reflecting on its faults, central banks and governments rushed back to the business of cutting unemployment with monetary and fiscal policy. All of a sudden, war on poverty, a fairer income distribution, full employment and financial stability were back on the agenda because this is what world economy needed (Ostry et al., 2014). There are still a large platoon of Japanese soldiers who underline

[2] The authors wishes to express their sincere thanks to Dr. E. Gatti, Prof. C. Panico and Prof. A.M. Variato for their helpful comments on earlier versions of this work. All errors or omissions are to be attributed exclusively to the authors.
[3] See for instance, the IMF recent papers we list in the bibliography.
[4] See Tymoigne (2006), Assenza, Delli Gatti and Gallegati (2010), Bellofiore, Halevi and Passarella (2010), Ferri (2010).
[5] For further in-depth analyses see Tymoigne (2008) and Tymoigne (2010).

from inside the jungle the need to prevent inflation that will come from the explosive growth of the monetary base. In the meantime, deflation starts to emerge in Europe from the first time in decades.

Now we know again that unemployment ups and downs are not caused by waves of laziness but by the overall growth of the economy and that the surging power of financial *rentiers* is euthanizing economic development. Moreover, unemployment is not the result of real wages being too high but of a lack of aggregate effective demand due to the fact that wages are too low (Seccareccia, 2004). However, full employment can be reached only with a deliberate active policy. During the years of laissez-faire labour market policies, in the 80s as in the 30s, the situation seemed simple: no other routes were available. As the former leader of the Labour Party Foot put it: "there was something even worse than the mass unemployment and all its associated outrages. It was the tale we were told by our rulers throughout that whole epoch. What was it they said? *There is no alternative*." (quoted in Ali, 2013).

The need of an alternative is now overtly obvious. We should come back to what Keynes and Kalecki explained about the role of investment in the business cycle. Investment play the key role in the determination of effective demand but also in the profit rate as they modify productivity and income distribution. As Kalecki put it, crises are caused by the fact that investment are not only produced, they are also producing[6]. That is why we have cycles and instability. To use Minskyan words (1975B): "instability exists because investment – which is always a decision to use current resources for a payoff in the often quite distant future – is a speculative activity in all economies". This dynamic explains labour markets trends.

In a world where, according to the ILO, the number of unemployed people passed 200 million, full employment policies are more important than ever. We can see how deep was the famous remark by Keynes that "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income". In fact, the basic idea of what is now called ELR can be found already in the *General Theory*, where Keynes explained that public capital expenditures should be able to achieve full employment by stabilizing aggregate investment spending over the business cycle (Seccareccia, 1999). In Keynes' original framework, full employment and income distribution are, at the end of the day, a unified goal pursued by different policies. This general idea of Keynes was specified by Minsky who would have the State to provide: "an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run profit expectations of business" (Minsky 1986, see also Minsky and Whalen 1996-1997).

The importance of the ELR stems from an economic vision that seeks to promote the development of stable democratic societies characterized by a greater degree of fairness. Stable and fair societies are also more efficient as they avoid crises through full employment: labour is the key to overcome instability, inequality and the scourge of poverty.

Even limiting the analysis to the *latu sensu* Keynesian policies, we can ask why no effective solution has been found to counteract unemployment and the related problem of poverty. Minsky thinks that the lack of a solution arises from a problem of priorities. In combating crises and poverty, job creation should be a direct goal rather than the indirect result of growth-related policies[7]. This was clear to him assessing the War on Poverty programs, started in the 1960s and based on the idea of providing incentives to improve the skills of the workforce, so that individuals could respond more successfully to the diversified and changing requirements of the labour market. The program was sound, and yet, as Minsky predicted, it didn't worked and half a century after Lyndon B. Johnson opened this war, the enemy seems more unwinnable than ever.

Minsky's critical approach reveals a strong difference compared to the mainstream theories comprised these with a Keynesian flavour. In the conventional view it was held that social inequality can be curbed by investing in human capital to improve labour productivity, and by using redistributive policies. According to Minsky (1965B), these policies do not have a substantial impact on the differences between the well-off and

[6] We will deal thoroughly with the issue in a wider work. In this paper we can only mention the argument.

[7] On the difficulty of implementing self-sustaining growth models, see Minsky (1965A, [1982]). An approach to the fight against poverty as distinct from economic growth is shared by a vast literature that investigates this issue in depth (Bell and Wray, 2004; Wray, 2007B; Tcherneva, 2007, Kaboub, 2007A; Dodd, 2007, section 4).

the poor. Furthermore, in a situation of recurrent economic crises and widespread instability, they are unable to give to the increasingly weak members of society a genuine opportunity to avoid sliding into poverty. Recently the contributions of Pigeon and Wray (2000), Brady (2003) and Bell and Wray (2004) have confirmed this insight.

The alternative put forward by Minsky can be traced back to the vision of Keynes (1926, 1940). Full employment cannot be guaranteed by demand alone: rather, what is needed is an appropriately “focused” demand developed using public works (see also Tcherneva, 2008B). Furthermore, Minsky criticizes a form of economic organization that tends towards the concentration of wealth and power and is characterized by an increasing disparity in income and resource distribution. This uneven distribution is not only socially undesirable but also, in the medium-long term, incompatible with the respect for democracy (Krugman, 2007). He advocates an economic policy line based on income redistribution in favour of medium and low income groups, as an antidote against the dramatically escalating increase in inequality observed over the last thirty years of American history (and elsewhere) and worsened after his death. Minsky points out that strong economic growth during the period in question had not translated into greater earning for the workers, including those who acquired skills and technological expertise and that this was a recipe for growing instability.

3. The role of the State as Employer of Last Resort

In the 90s, free market policies were the theoretical backbone of economic and financial deregulation and globalization. Active demand policies like the ELR were considered useless at best. A famous OECD study (1994) marked the death knell of job guarantee schemes substituted by job search tools. All these assumptions are now history. However, full employment cannot be achieved without an active role by the State. Therefore it is useful to go back to the three lines of action envisaged by Minsky for the State: Lender of Last Resort, Big Government, and Employer of Last Resort. Although the majority of studies on this author deals with the first two elements, we think the latter is decisive as well. Minsky explained that fighting social insecurity that derives from unemployment and precarious labour conditions reduces instability, and can deliver a more balanced scenario in economic and social relations. Furthermore, policies that reduce poverty can be put into action without triggering significant inflationary effects and imbalances for public finance.

To analyze the framework where different policies can be discussed, Minsky adopted since his first works (Minsky, 1961 and the reading by Wray, 2007B) the method of *analytical institutionalism* that emphasizes the role played by institutions, rules and the political context to explain how different policies concretely affect growth, income distribution and wealth. He points out that their effectiveness is linked to the characteristics of the institutional framework into which they are implemented[8], hence stressing the need to avoid a mechanical approach to economic policy. A positive institutional framework increases policies results. That’s why the Minskyan approach discards an excessive trust in an unconstrained labour market and promotes the empowerment of labour unions while monitoring the weight of bureaucracy. A change in institutional framework explains, for example, the long lasting legacy of the Roosevelt era (Stiglitz, 1989 and 2000; Krugman, 2007, chap. IV).

A cooperative institutional framework is needed to ensure that ELR programs are socially and politically feasible, i.e. they can be put in place in a non-radicalized institutional context where every stakeholder’s legitimate interest does not overwhelm other’s. This also helps to reach a balance between public and private economy, and between expanding and contracting economic sectors. It is important to achieve a sustainable mix between efficiency and equity and between inflation and unemployment, according to the Phillips curve (Wray, 2007B). Institutional fallacies explain inflationary pressure more than economic trends alone. By the same token, employment may increase without an increase in the price level, if the new workers are employed in sectors that are operating below their production capacity provided that the right policies and a fair institutional framework is in place (Wray, 2007B). In synthesis, ELR is the only policy that can achieve full employment.

[8] This concept has also been extensively developed by Krugman (2007), in his reading of the different phases of the relation between economic inequality and political radicalization.

4. ELR and its critics

Work should be made available for all able and willing to work at the national minimum wage - H. Minsky, 1965

ELR programs have been the object of an extensive and detailed debate (for instance, Sawyer, 2003 and the reply by Forstater, 2005). In the following nine sub-sections we will analyze the main features of the ELR proposal, the criticism it received and how it could be implemented to overcome them.

4.1 Wage determination

ELR gives a base wage to anyone willing to work. The State hires all unemployed workers at the ELR wage, thereby guaranteeing effective full employment. ELR wage is lower than the prevailing private sector wages.

The first objection to ELR is that it can increase wages directly (i.e. because ordinary wages should be raised above ELR wage) and indirectly (i.e. eliminating the fear of unemployment). Here we deal with the first point, in the next sub-section we will discuss the second. The ELR does stabilize minimum wages and this is a good thing. Setting a State wage can help to create a *de facto* minimum wage for unskilled informal workers and for low-wages job in general. This helps to reduce poverty and overall demand volatility (UNPD 2010). In general, however, ELR means a low wage. The general principle is that "the movement from private sector employment to [a ELR job] must present a cost to the worker in terms of income loss" (Kriesler and Halevi 2001). However, the wage cannot be too low otherwise it does not eradicate poverty. Moreover, it cannot be too low because, "as Keynes (1936) had argued, flexible labour costs do not move the economy closer to full employment. Because of the negative feedback effects on aggregate demand, just the reverse would be true, especially if the gap between wages and profits might be widening in the long run owing to the proliferation of low wage jobs" (Seccareccia 1999). The ILO guide on public employment programs propose to use the minimum wage where present (Devereux and Solomon 2006, see also Mitchell, 2007). For instance, in the case of the program of the Indian State of Maharashtra, the High Court ruled that workers should be paid the minimum wage (Devereux and Solomon, cit.). On the contrary, in the case of Argentina's *Plan Jefes*, the hourly wage was set at three quarters of minimum wage. By the way, wage is not the only issue when we consider how appealing is an ELR job. As we will see, ELR is intrinsically based on near home positions and community jobs, something people would prefer to the dole but also to informal jobs[9].

What about inflation then? First of all, even if ELR wage does increase wages in general, the present Phillips curve is so flat that inflation is irrelevant to labour market and vice versa (Bayoumi et al. 2014) so the effect would be positive for economy as a whole. Moreover, the scheme anchors inflation expectations in many ways. ELR wage is not linked to the specific balance of forces in each sector, neither to short term profitability and investment, so it helps to stabilize the labour market. ELR programs act as buffer, contributing to price stabilization as long as ELR wage is correctly fixed (Tcherneva, 2007, Mitchell, 1998A, Wray, 1998). Thirdly, as the scheme reinforces the range of public service provision "in kind", it reduces inflationary pushes coming from tariffs and prices of public services. More generally, Minsky's position can be seen as linked to the post-Keynesian tradition, and more specifically to the neo-Chartalist strand, which deems that inflation can be avoided even implementing expansionary fiscal policies (Tcherneva, 2008A). Finally, as ELR is an institutional agreement among all social stakeholders it reduces inflation stemming from social conflict. Overall, in the Minsky's view, inflation comes from the resistance against profit erosion and a lower unemployment is not necessarily linked to lower profits. This is not a natural process, neither exists a "natural rate" of unemployment, on the contrary, inflation comes from the specific behaviour of firms and workers: "if business and labor begin to act as if inflation will take place once unemployment rates are down, then inflation will take place" (Minsky 1965B).

Another objection against ELR is that it breaks the link between wages and productivity. The question is what is the origin of wages differential: is it the individual productivity of different workers? Marginally. As

[9] We do not enter here in the issue of payment in kinds. Broadly speaking we agree with the ILO that paying in kind can be dangerous (see Devereux and Solomon 2006, Adhikari and Bhatia 2010). Minsky did not exclude them.

Minsky noted, high wage industries are often highly unionized, so that high wages can depend on the relative strength of the employees not on their productivity. Moreover, in a situation where the financial sector is worth 40% of total profits of US economy, what does it mean "productive" is at least unclear. A similar critique is that ELR can deal only with low-skilled job unless workers are properly trained, therefore it is doomed to produce low productivity jobs. It is true that the scheme takes the workers as they are and put them to work immediately thus preventing their potential to lower until they drop out from the labour market. A key positive feature of the ELR is that, with the reduction of unemployment, wages differentials narrow and this is exactly what is needed: we must facilitate the rise of wages in low-wages industries to tackle poverty. Indeed, the program is not a substitute for job training, on the contrary it is its natural complement; however, while job training is a good long-term strategy, there are limits to the ability of these programs to transform particular kinds of jobs into an excess of supply in typologies that presented an excess of demand (Minsky 1965B). In other terms, "The war against poverty must not depend solely, or even primarily, upon changing people, but it must be directed toward changing the system" (Minsky, cit.)[10]. After securing full employment, to avoid *lock-in effect*, job training can be useful. More generally, education is a bulwark against inequality and helps to build human capital.

Other criticism comes from the left so to speak. In fact, some argues that ELR could push down public salaries during a crisis as, for instance, a local government facing cuts to its budget, could substitute its workers with relatively higher wages and trade union protection with low wage ELR workers. Trade unions sometimes are critical of ELR programs because they fear this *displacement effect*. Seccareccia (2004) is afraid that "there is nothing that would prevent government authorities to set the ELR level below a "living wage". To avoid this problem, ELR projects should not overlap whatsoever to "normal" public services, and the pay should be very close to the minimum wage with participants entitled to join trade unions. Anyway, the situation without ELR is not better, as the substitution happens right now every day in the public as well as in the private sector using downsizing, outsourcing, casual labour and so on. We also think that the threat of ELR wage to private sector retributions is not material. We must strike a balance here between the predictable protests by employers if the ELR wage is "too high" and the threat of a downward pressure if it is too low. There is nothing new in this tug of war, just think about what happens when central banks fix policy rates.

Another similar objection is the following: many unemployed people are highly skilled workers, therefore ELR means an inefficient use of human capital and a way to lower wages. The question is that, besides the simple fact that a basic wage is better than no wage, ELR is the only way to put these people back to work. After a while and a good retraining, they will be able to find the right work for their skills.

4.2 Full employment and unemployment

ELR can effectively achieves full employment. This is its more important and clear feature. No other policy tool can reach this result directly. This is particularly important to working poor: the ELR is effective in fighting poverty because in increases the number of workers per family. Full employment is the natural first best in any society because it means the best uses of productive capacities and national income is at its maximum. For the single entrepreneur, full employment is the best situation, the problem is that, as Lunghini (1995) put it: "what is convenient to the single capitalist it is not for the capitalists as a whole". In other terms, if we exclude voluntary unemployment theories, the only objection to full employment is that it is politically unfeasible, that is the Kaleckian argument. Back in 1943, analyzing counter-cyclical policies, Kalecki pointed out that "industrial leaders" are against government spending in general, and they particularly dislike subsidization of mass consumption but above all, they fear that long-term full employment would eliminate the threat of unemployment which serves to discipline the wage setting process. This fear helps to explain why employers give up the first best, that is maximum productive potential, renouncing to part of their profit. So unemployment is inefficient but inevitable in a market economy and where full employment policies are implemented investment strikes or inflation drive back wages and employment where they are supposed to be. Social peace is more vital than full employment, that

[10] This observation is particularly relevant when different policies are assessed, as it endorses a substantial equivalence between tools for reducing taxation vs. increased expenditure, and it is valid as a means to overcome a recession, but it is not valid if the goal is full employment (above all when unemployment has been triggered by structural change).

is why when the former is assured the latter comes along as well: Fascist regimes can have both (Feiwell, 1974).

Now, broadly speaking, the Kaleckian argument seems powerful, however let's look at the data. For decades after World War II, most economies experienced strong employment growth and price stability and yet, social unrest started when full employment was disappearing. Secondly, do traditionally low unemployment countries like Japan, Switzerland or Norway experience more social unrest than high unemployment country or have less profitable firms? When in the 50s in Sweden the unemployment rate was under 1%, did the country experienced civil war? Not at all. Experience teaches that social unrest are more likely with high unemployment. Inasmuch as, especially in developing countries, ELR creates awareness of workers' rights and provide opportunities for collective action it is a positive development. Unfortunately, it never happened.

As for the totalitarian flavour that someone feels in the ELR comparing it to the Nazi Arbeiter Front (Kriesler and Halevi 2001) or to Soviet experience, we stress that the voluntary nature of participation distinguishes the scheme from any forced labour system. ELR programs do not side-line jobs offered by the private sector more than central banks' lending prevent a bank to use other form of funding, it simply offers work opportunities that are not given by private enterprises (Wray, 1998 and Kaboub, 2007A). Moreover, as no alternative to ELR has ever been presented to grant full employment in a market economy, the example of the 30s can easily be overturned: mass unemployment helped Hitler to power.

The same reply can be given to them who state ELR is another name for underemployment but do not have viable alternatives. It is better to be partially employed than totally idle. Moreover, even when the labour market is recovering, it is common that a significant proportion of the jobs being created involves under-employment and low-wages jobs (Lal et al., 2010).

4.3 Cost and benefits for the State

The State put the ELR workers in social projects. This means that the focus of the ELR is not on money but on work: ELR is not an indiscriminate contribution. We will deal with the political issue of how the scheme fits into the Big Government issue later. Here we concentrate on costs and benefits of the program.

There are some, although not so many, studies that try to do a cost-benefit analysis of the ELR based on different tools. For instance, Majewski (2004) and Fulwiller (2013) use the Fair econometric model; Godin (2012) uses the Stock Flow Consistent approach; Papadimitriou (2008) reports simple simulations for USA, Australia and United Kingdom. All these analyses conclude that an ELR program should lead to burdens varying between 1 and 3.5 percent of GDP at its peak, with a benefit at least double in terms of GDP. This was also the original calculation of Minsky (1965B) even in the most cautionary hypothesis of the Okun's Law (elasticity equal to one between unemployment and real GDP). Therefore ELR would be more than self-financing. In addition, ELR eliminates other State expenses, some direct, such as unemployment benefits or (part of) the Cassa Integrazione Guadagni in Italy (Mitchell and Watts, 2004), other indirect, like the costs linked to misery and unemployment in terms of health, criminal activities and so on. More generally unemployed workers are fed by the employed people one way or another, therefore ELR wages are not an added social cost (Lal et al., 2010)[11].

In the medium and long run, ELR is not a cost but an investment that enormously increases the economic potential of a nation because: i) is effective in increasing social and collective productivity by supplying public services and/or goods (Minsky, 1965B); ii) prevents unemployed people to become unemployable. In fact, as the ILO has observed, prolonged unemployment transforms a proportion of the unemployed into a permanently excluded class[12]. It is a waste to pay people not to work not only because the output is inferior to its true potential but because human capital depletes. The ELR improves the basic row material of any commodity: the labour force as numerous analyses have underscored the role of welfare and public expenditure as a means of assuring a greater range of opportunities for development (Vatter and Walker 1990 and 1997, Lindert 2004 and 2005). This increase in the social and economic potential would ensure that

[11] For a general analysis see Wray (1998) and his critical assessment by Aspromourgos (2000).
[12] http://www.jobsletter.org.nz/jbl05210.htm.

public budget stays sustainable. This is another reason why ELR is not inflationary: it does enlarge the wealth of a nation increasing the workforce and allowing a significant expansion of services provided for the community, thereby improving the quality of life and productivity.

4.4 Big Government versus local communities

ELR is not mainly about Big Government, it is about the empowerment of local communities. This means that the scheme should be decentralized, helped by grassroots activism although nationally accountable (more on that in the sect. 5). The recent historical example of Argentina with the *Plan Jefes* reached what was aimed at with "overwhelmingly positive results" (Tcherneva, 2012) exactly because it was focuses on local projects. This has many advantages. First of all, local projects are more rapidly scalable if needed, so that fluctuations of unemployment can be easily adjusted adding or subtracting workforce to the projects without major disruptions to the public sector projects. Secondly local projects are more directly linked to social needs such as crèches, primary schools, support for the disabled, energy saving, renovation and restoration of the art and architectural heritage, environmental protection and safeguards and so on[13]. Local communities never object such programs, whereas big infrastructural projects very often bring about polemics and even social unrest and do not bring with them many local jobs. As the UNPD (2010) put it: "Implementing agencies must be made aware that, for equivalent amounts of resources, social sector public works deliver more jobs than do infrastructure projects".

Poor communities can see immediately how ELR is improving their life as it provides jobs and services to them and they feel more involved in the overall economy in a way State benefits cannot do. To attract local communities as workers, as "clients" but also as supervisors of the projects, they should be in charge of choosing the priority order of the projects themselves to increase the accountability of the ELR and the active participation in it by the community. ELR empowers especially poor people and women, ameliorates their environment as it supplies public goods and services that no one wants to produce enabling all people to participate in the development of society. In this regard, the scheme is very different from the National Investment Board envisaged by Keynes. This does not mean the two proposal are mutually exclusive, on the contrary they complement well each other. The NIB looks after structural investment shaping the future economy, ELR cares about anyone left behind (Lal et al., 2010).

Assessing whether the ELR increases the overall weight of the State one must reminds that Minsky was not very fond of the Big Government entailed in the approach traditionally defined as Keynesian (Minsky, 1986). Even if from Reagan onwards, criticism to this approach became equivalent to laissez-faire paeans, Minsky underlined its weaknesses in advance, pointing at the negative effects of an elevated deficit and of an increasing public sector debt that undermined the State stabilizing role in the case of severe recessions. Minsky's assessment of Big Government therefore underlines the need to focus public action towards specific objectives, chosen for the quality of their social impact. Anyway, in reality the roll back of the State from the Reagan presidency onwards, never was (Dymski, 2002 and Kregel, 1998): the rise of the neoliberal era merely resulted in channeling public expenditure in a different direction, mainly towards defense and firms (Minsky, 1986). From his point of view, Minsky urges a drastic scaling down of public monetary transfer payments to big companies and the military complex, arguing for a ELR scheme instead in order to combine the objective of holding recessive situations at bay and combating social insecurity (Minsky 1986, 1992).

After that deregulation and free market policies threw world economy in a situation that forced the States to mobilize resources in the trillions to save the day, replying to critics of the ELR as a waste of money is at least whimsical. However, ELR should pursue efficiency focusing on clear and well-defined objectives because, as Minsky himself pointed out, public investments are often poorly targeted, and in less homogeneous social situations they may act to the advantage of privileged workers and firms, failing to heal misery. We will now deal specifically with this issue.

[13] We do not touch the aspect of the kind of works the ELR can bring about as it is an issue well deepened by the literature. For instance, a UNPD (2010) study proposes more than 50 different sectors of intervention.

4.5 Fairness and efficiency: a balanced labour market

Economists can safely assume, once again, that fairness and efficiency are both key goals for public policies just like any normal person knew before the crisis or, to put it as the former CEO of Deutsche Bank did, we no longer believe in the market's self-healing power. IMF itself recently stated that "Equality enhancing interventions could actually help growth" (Ostry et al., 2014). In this regard, criticism of ELR as a program against labour market free functioning have been replied by the crisis itself. In fact, labour market policies are under reconsideration by the same IMF (Blanchard et al., 2013). Public policies that redistributes the benefits of growth to medium and low income citizens helps economic development. As they give more possibilities to all, these policies allow for a bigger accumulation of human capital and for better selection of talents. With ELR, labour force is larger and better, wages are more equal, price expectations are less volatile (Minsky, 1965B). Let's see these characteristics in turn.

The scheme helps to increase the labour force pool. In fact, one of its best feature is that it removes entry barriers that inhibit or interrupt participation in the labour market especially for segments like women or long-term unemployed. Needless to say, as the supply of labour force is bigger, it is unlikely that wages would go up disorderly.

As for wage dispersion, ELR would also act against the phenomenon whereby wage growth in high-wage sectors pushes down retributions in non-protected sectors, with the ensuing increase in the public budget deficit. The scheme creates a more balanced situation of sectorial wages where labour cost are under control but not because of unemployment. By the way, we remind that casualizing labour is not efficient in the long run as the IMF recently discovered (Blanchard et al, 2013). Stabilizing the labour market among sectors and regions ELR also reduces the pressure to emigrate depleting poor regions of human capital or to accept jobs in the informal sector often linked to the organized crime. Helping many discouraged people back to a stable work increases long-term growth.

ELR helps to stabilize the base wage and decreases the spread of retribution between skilled and unskilled workers. Someone could argue, as Keynes said long ago, that workers are more concerned with their relative wages than with the absolute level. This makes sense. However, ELR employs people that are not working, mostly since a long time. They are competitors of employed workers just like a T-bond competes with a CDO to attract investors; after all, a worker that feeds his unemployed son passing all day on internet would be worse-off to see him taking 1.000 dollars to take care of a public garden?

ELR is universal but its primary target should be the worst off in the labour market. A careful targeting is essential to ensure that ELR can work. For instance, in the aforementioned example of Argentina: "the target population was well focused on poor households with children…over 75 percent of program beneficiaries had not completed secondary education and over 65 percent were in the bottom quintile for national income" (Papadimitriou, 2008).

4.6 ELR is superior to any comparable alternative

We think ELR is better than any other policy aimed at curing unemployment and poverty. This is first of all true by design so to speak, because ELR is the only policy that tackles together all the different aspect of a labour market policy: unemployment and employability, human capital preservation, misery prevention, consumption smoothing (Lal et al., 2010). It is at the same time a demand-side and a supply-side policy, where a subsidy or job training are one of the two. So the ELR is the right framework to achieve the Millennium Development Goals adopted by the United Nations.

Like unemployment subsidies, it can be speedily phased in but it is superior to them as their corresponding output is none while ELR produces social services. Moreover, ELR delivers what it is created for: full employment and human capital preservation, whereas money transfer schemes do not (Minsky, 1968; 1973; 1975A, Wray, 2007B). In a nutshell, ELR takes the workers as they are and put them to produce social services, basic income guarantee and the like leave workers where they are, that is without a work if they didn't get one beforehand.

As for job training, it can be useful but on the long run. It cannot cure unemployment rapidly for the limits we already exposed. Coming to classical demand management, it is unlikely that indiscriminate demand expansion in isolation will lead to full employment any soon as generalized expansion fails to address regional and sectorial labour market disparities (Mitchell, 2007). Before unemployment goes down in the poorest areas, wages of the richest ones would start to grow ensuing inflation.

That is why Minsky (1965B; 1968; 1973) pointed out that all war on poverty programs should concentrate on labour rather than monetary transfers or other forms of money aid[14]. Contrary to what free market zealots think, no one is happy to be paid not to work. Not because it is unethical, but because it is inefficient on the long run: the more he or she endures unemployment the less can escape it. Moreover, unemployed people can feel that, especially where austerity holds sway, it is political unpalatable to receive public money for nothing. In fact, Americans welcomed the cuts in welfare subsidies in the 1980s and 1990s. Bringing back people to work is not only a civic duty, it is useful for local communities because the scheme allows expansion of the supply of public services, responding to needs for which the market does not provide adequate answers. ELR provides services that improve the living standard of poor people helping income redistribution towards greater equity in a way that has often been underestimated (Bosi, 2005). Empirical analyses (for Italy see Baldini, Bosi and Pacifico, 2006) has shown these measures have a greater distributive impact than money transfers in the field of education and health care. So the most concrete and significant redistribution takes place through the production, both quantitatively and qualitatively, of public services that are of greatest benefit for those who are economically and socially most disadvantaged but also for the taxpayers as a whole.

As for cost-effectiveness, ELR is cheaper than the classical NIB scheme as they are labour not capital-intensive programs: “Comparative studies carried out in different countries…show that labour-based options are, on average, about 10-30 per cent less costly in financial terms than equipment-intensive options” (Devereux and Solomon, 2006). Moreover, huge investment projects require years to start to cure unemployment.

4.7 Financial stability

The crisis put Minsky’s *Financial Instability Hypothesis* back at the centre of theoretical and political debates. It is not by chance that Minsky also proposes ELR because it is a scheme able to counter the fragility of the economic units and supporting their cash-flow (Minsky, 1982); in fact this is the scheme best designed to secure financial stability. Without full employment and a stable income distribution, the only way left to workers to keep on with their normal life is increasing their debts with the consequences we have seen after 2008. In other terms, without full employment and good wages, financial stability is impossible. As for pump priming policies, they too can have a negative impact on financial stability[15], triggering inflation and less stringent credit and market risk criteria. This in turn would lead to an increase in the leverage ratios and severe disruptions of distributive equilibria, with significant effects on the liquidity situation of the economic units (Wray 2007B). In a world of high financial leverage, public policies should be aimed at lowering financial fragility. ELR does it in many ways, improving the income of the poor and pushing for a fairer wage growth of different sectors. In other words, it helps income redistribution without triggering inflation associated with the more traditional “Keynesian” measures for the labour market.

4.8 ELR and world economy

Globalization was the reason or better the excuse used by many countries to dismantle welfare states and to deregulate labour market. These policies, together with the weakening of the unions, provoked an unprecedented collapse of the workers’ share of national income. ELR critics warn that such a measure would determine capital flight, a decline of investment and all the classical threat used against redistributive policies. The problem is that, bowing to those threats, national authorities has pushed world economy over the edge of the abyss. Then, all of a sudden, no threat was considered significant and a turnaround in

[14] The supporters of the basic income guarantees believe such measures to be effective against the drift towards job insecurity (Aronowitz and DiFazio, 1994, Van Parijs, 1995; Widerquist, 2004). The debate on these themes is extensively illustrated by Tcherneva (2007).

[15] For a more detailed examination of these issues, see Mastromatteo (2009) and Wray (2007A; 2007B).

regulation followed. If this was the case for banking regulation why this does not hold for unemployment? In addition, ELR creates jobs in local communities to produce social services, something that is not much affected by globalization.

As for the balance of payment, if unemployment goes down and demand goes up imports also will increase: is it bad? Minsky (1965B) acknowledged that robust full employment and the elimination of poverty were not necessarily compatible with the balance of payments equilibrium[16]. He proposed to get rid of the gold standard, an heresy that the world accepted only years later. Today, the solution, however, is not devaluation, i.e. exporting unemployment, but exporting ELR instead: a concerted policy of full employment would enable all countries to increase their imports, with a benefit for exportation as well. Stabilizing labour market and demand also stabilizes exchange rates. Moreover, ELR can reduce public deficit and debt, factors that can destabilize world financial flows because Minsky realized that currency equilibrium was closely connected to the requirement of public finance solvency (Minsky, 1986). However, his attention to the problem should not be taken as implying an acceptance of the Ricardian equivalence, crowding-out effects or budget constraints[17].

4.9 ELR and growth

ELR can positively affect economic growth on many counts. Above all, it enlarges the workforce employed immediately and employable in the future. Critics say ELR entails jobs with low productivity but this is not the case. First of all, low productivity is better than no productivity and the productivity of an unemployed worker is by definition zero. Secondly, something than is not produced by the market maybe has not a price but it does have a value as many studies have shown[18]. This is especially true for domestic works that women are forced to do for free. ELR would ensure that women have equitable access to jobs by addressing gender differentiated labour supply constraints, as UNPD (2010) put it, the program would ensure an “Equitable Wages and Equal Pay for Comparable Work”. The positive consequences for women’s empowerment would be far higher that enforcing “pink quotas”. Moreover, these unpaid jobs have a very low productivity. Their socialization by the ELR would enormously increase the productivity of women. We knew it for centuries, that is why kindergartens were created after all: “We do not believe that low pay in the ELR program necessarily ensures low *social* productivity of the ELR program. For example, a childcare program employing ELR workers could have very high social productivity” (Mitchell 2004). Broadly speaking, ELR projects reduce the costs of reproduction of the labour force improving its quantity and quality.

As for objections that ELR distorts GDP composition: no one would take an ELR job with a low wage if other jobs were available, so ELR does not interfere with technological change or flows of workforce among sectors, it only prevents unemployed people to become useless for themselves and for society.

5. How to make ELR work

We think we have shown that ELR is an effective way to cure unemployment and it is better than any conceivable alternative. Many could agree in general with the scheme but feel that in an era of public budget restriction and howls against public works and bureaucracy, the program can be politically untenable. This is a crucial issue. Waste of public money is unacceptable in this epoch. ELR to work must be efficient, accountable and transparent. We will propose a number of measures that can help to meet these goals.

The first aspect is institutional design: who is in charge of the program, which State institution decides on investment allocation and regular budget resources. We think the best arrangement is to split responsibilities

[16] This is a reasonable position, albeit not always proved, as shown by export-led economies such as Germany, Japan and China. This issue is linked to the Cambridge growth theory and is recent refinements such as those put forward by Serrano (1995) and Trezzini (1995, 1998).

[17] See Arestis and Sawyer (2003 and 2004) for more detailed investigation on the issue. Tcherneva (2008A) argues that the crowding out effects are not caused by fiscal policies but by monetary policy. The debate on budget constraints offers markedly diversified indications; even among NEC supporters (see Woodford, 2000) it is recognized that the government is an agent that differs from the private sector. On the manner of weighting this difference, see Arestis and Sawyer, 2004 (sustainability of the State budget with a growth rate of the economy greater than the gross interest rate on the debt) and Alsopp and Vines, 2005, on the importance of the question of solvency as compared to traditional budget constraints, which can be overridden by political decisions.

[18] See for instance the documents of UNECE (http://www.unece.org/).

as follows: the “center” (latu sensu the government or a central body like a ministry) should be in charge of the general framework in terms of resources, rules etc.; local authorities and communities should be in charge of the practical tasks: priorities, hiring, paying wages etc. This is useful to ensure “popular participation” and a “sense of ownership and participation” as the ILO pointed out (Devereux and Solomon, 2006). This differentiation also borrows from the wide scientific literature on the central planning economies’ flaws. From these experiences we draw the conclusion that a decentralized ELR is better.

The second point is accountability and transparency. This is a multi-faceted theme. First of all transparency towards the people entering the scheme. In fact, the ILO guide on ELR suggests that the duration and termination of employment should be transparent, that recruitment should not be based on distinctions such as gender and ethnic or social origins and so on (Devereux and Solomon, cit.). The ELR should be transparent towards its employees, but also vice versa. This means that ELR jobs have strings attached. For instance, In the case of Argentina, eligibility for employment was conditional on proof that the workers’ children were attending school and were receiving appropriate medical treatment such as vaccinations (Papadimitriou 2008). In the same way, in discussing a job guarantee scheme for UK, the TUC pointed out that since what was on offer involved real jobs, there was no problem with sanctions faced by people who turned them down. Thirdly, transparency is also due to taxpayers as, in many cases “The main criticism against these programs have been that they are expensive, ridden with corruption and therefore benefits often do not reach the beneficiaries” (Dasgupta and Sudarshan, 2011). To avoid this outcome, it is vital to ensure clear and simple rules and empowerment of local communities. It is essential that the program is not seen as something coming from far away but that it is built step by step locally in terms of project selection, implementation and monitoring. The lack of local involvement downgrades the ELR to a simple distribution of benefits.

Assessing how to ensure accountability and transparency, it is useful to start from the analogy of the last resort. Some economist who is in favour of ELR schemes prefers to call it differently (Job Guarantee Schemes, Employment Programs and so on) as the “last resort” part has a negative connotation (Kaboub, 2007A). On the contrary, especially with the crisis, ELR is the right name for the right way to fight unemployment. In a nutshell, we state that ELR aims at treating any citizen as the banks are. They are heavily regulated in good times and they are saved with public money through lending of last resort (LLR) and other tools in bad times. Central banking has the goal of financial stability, the ELR that of social stability.

We think the analogy should be explored in a far deeper way than the creators of the idea could think. The essence of lending of last resort is that the central bank is ready to lend unlimited amount of money against a at a punitive rate. In this regards ELR should work exactly in the same way. Just like the interest rate charged by the central bank is aimed at restoring financial stability, ELR wage aims at stabilizing the labour market. How much the central bank has to lend depends on the markets conditions. The more depositors and banks regain their temper, the less LLR is vital, just like the more private firms hire, the less ELR is crucial to full employment. Just like central bank lending, ELR is not only for depression, it is useful in any economic situation as a countercyclical tool. ELR wage helps to an orderly price discovery in the labour market just like the risk-free rate does in the financial markets.

The analogy should go further. For instance, no one would propose to return to free banking. This because, just to say the least, it would force banks to have capital ratios many times higher than those prevailing now, destroying their profitability. In the same way, a “free” labour market is a bad idea because it is tantamount to use unemployment to reach higher flexibility hence wasting potential production and total income. Any good feature traditionally attached to LLR can be easily transferred to ELR measures. Therefore, we only touch two issues to complete the analogy: where is the equivalent of a central bank and how to create something similar to banking regulation.

We think that in order to manage as a whole the ELR program, the government should create a State agency similar to a banking supervisory authority or a central bank. We call it State Employment Bank (SEB). The SEB should have the mandate to cure unemployment just like the central bank is after price stability. A coordination among the SEB and the central bank would be needed as it happens where banking supervision and monetary policy are not followed by the same authority.

SEB balance sheet would be mainly made by assets in term of local projects and funding in terms of unemployed. Its officers would assist the matching of the two, in analogy with the ordinary credit screening and monitoring. What should be the practical tasks of the SEB? Basically: to define the ELR wage (just like the policy rate of the central bank) and to supervise the projects where ELR workers are employed. Day by day supervision of these projects is fundamental to ensure the efficiency of the program and the social and political appetite for it. As for the practical toolkit of this supervision, the experience of banking supervision can easily help: on-site inspections, off-site analysis of a structured series of efficiency indicators, analysis of the quality of management, consumer protection tools and so on as we can see in the papers that deal with the issue (such as Devereux and Salomon, 2006). This is the central part of the accountability and of course it would help greatly but it also would fail sometimes just like it happens to banking regulation. That‘s why, for ELR to work, accountability granted by a State agency is not enough.

As we pointed out ELR is not about Big Government but about social and local empowerment. ELR allows local needs and local unemployed to meet. It would be too expensive to control these projects off site and on site from the center. It would also mean to keep local communities in a state of passivity. Therefore, besides the SEB regulation, the ELR functioning should also include the active control of local community that have the unique position to ensure the input to the scheme (workers) and to receive the output (i.e. the social services). So we think in any district where a ELR project is going on, a small local control commission should be set up, made by local citizens adequately trained by the SEB, SEB nominated experts and representative of ELR workers (approximately a third each, say 9). This commission should be in charge of verifying the effectiveness of the local ELR project and could be in a sense a local branch of the SEB. The active participation from below and the expertise and coordination from the SEB could ensure the ELR is effective and efficient. This would be the final reply to the mantra that equates public projects to a waste of money. Local examiners could enforce a sort of quality assurance mechanism based on the specific features of each situation where work can be organized and managed in unconventional ways without being ‘unproductive’ (Lal et al., 2010).

6. Conclusions: ELR and the future of capitalism

During the years of wild globalization optimism, a scheme like ELR would have been considered useless at best. The crisis changed everything. Indeed, as *Newsweek* put it “we are all socialist now”[19]. By the way, caricaturing Minsky’s ideas as aiming at a quasi-socialist omnipotent State is historically baseless as Minsky gave a great importance to market mechanisms but he also acknowledged the truth on the ground. In 1986 he pointed out: “The market is an adequate regulator of products and processes except when market power or externalities exist”. With the crisis, the role of the State as producer and public ownership have been accepted as the only way out from the mayhem by government of any political affiliation.

Margaret Thatcher once famously said “there is no such thing as society”. After three decades of those ideas, society risked actually to disappear as a consequence of the biggest crisis since the ‘29. It is useful to go back to that period to understand how society survived it. The New Deal, described by Minsky as “paternalistic capitalism” (Wray, 2008) created a new environment to economic and social development. Roosevelt understood that only society as a whole could withstand such a terrible situation. He encouraged cooperation among firms and trade unions, assured rising wages as a mean to increase demand, together with the creation of a social security network. He supervised the creation of the infrastructures that gave US decades of economic supremacy. With the loans to students he pushed up their future earning capacity and human capital; he encouraged a more strongly rooted sense of shared responsibility for bringing up children and caring for the elderly and the disabled; he forced financial capital to strongly retrench, ensuring the end of bank runs and decades of financial stability to the world. Taken together, these policies contributed to reducing uncertainty, and helped to reinforce trust and promote economic stability (Krugman, 2007). We cannot enter in the historical and political reasons of the piecemeal abandonment of these policies after the collapse of Bretton Woods. We only point out that, with the hindsight of the present deep crisis, many theoretical explanation behind the abandonment proved to be baseless. Inequality, financial wilderness, welfare cuts, deregulation, casual labour yielded a slowing economy and, at the end, the collapse.

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[19] http://www.newsweek.com/we-are-all-socialists-now-82577.

That the rhetoric of State retrenchment was just that comes out from the data. Looking at the overall weight of the State we can see that many years after the paternalistic government has been replaced by a neo-conservative every man for himself government, it never really rolled back (Cecchetti et al., 2010). What changed was the direction of income redistribution among economic sectors and classes. There was a shift of emphasis from the concerns of the American middle class to the interests of the Wall Street masters. In the new framework, maintaining full employment and improving the average standard of living of the population were futile goals. Demand management was reduced to debt accumulation. At the end, this model provoked social and financial instability combined as it undermined the cash-flow solidity of families and firms in the US and elsewhere. In effect, as a result of the gradual intensification of the financial way to development, and despite the expansion that characterized the 1990s, firms did not reinforce their economic situation. They simply made greater use of external sources of financing, with a growth of financial leverage, preferring aggressive dividend distribution policies in order to respond to the demands of the institutional investors (Wray and Tymoigne, 2008). Long in advance, Minsky had addressed these issues (Wray and Tymoigne, 2008) from the late 1980s up to the mid-1990s, starting from *Stabilizing an Unstable Economy* (1986).

Against the crisis, once again State intervention had proven to be the last resort to stop financial panic and to avert the drama of a great depression. However, the scale of public intervention was such that public finances will be fragile for decades and austerity measures risk to be as lasting, especially in the Eurozone. State intervention was directed mainly towards financial sector to prevent banks meltdown. This was inevitable, in 2008. But world economy could have been avoided this disastrous path. As a counter-proposal to the NEC, Minsky in his later works put forward an alternative in the form of a regulated economy where the government's task is to set up structural macroeconomic programs that directly control fundamental elements of the economic activity. In particular this with regards to the: (i) employment of the available labour force; (ii) level and composition of investment; (iii) financial stability. Only through bold and innovative forms of public intervention, we can leave behind us the crisis and open an epoch of social and economic growth.

Minsky opposed Big Government based on monetary and fiscal stimuli but also the Reaganomics that, as history revealed, was just the most unequal form of Big Government with its agenda of wars, financial deregulation and employment casualization. Minsky argued in favour of a structural, systematic and decentralized intervention by the State, which should embrace an approach retaining a certain degree of socialization of investment in order to lead the economy towards full employment. Using the ELR approach, the State can create a context favourable to labour but also to individual initiative (also that undertaken by disadvantaged members of society). Hands-off public policies aimed at concentrating wealth are inefficient because creates a more unstable economy. Yesterday this was the contested opinion of so called "Post-Keynesian" economists. Now it is a fact.

State intervention is especially important in labour market to prevent misery and to push advanced economies towards technical innovation not low-wage shortcuts (Minsky and Whalen, 1996-97). The idea Minsky put forward, shortly before his death, is that competitiveness should be guided along "high performance" paths where the economy can express its better qualities through shared prosperity. ELR programs can give an impulse in this direction. By creating the conditions for stable full employment, they contribute to facilitating a lifelong learning approach; therefore they lay the premises for individuals to be integrated or re-integrated in a working environment[20]. Reinforcing social cohesion, ELR raises social capital, improving the quality of life and economic potential. Thus expenditure on such programs is the highest form of social efficiency attainable, fostering increased productivity and wealth (Minsky and Whalen, cit.).

It is important, after decades of deregulation ideas, to go back to what Minsky pointed out on freedom. State intervention in the economy increases productivity and economic efficiency, and achieves a fairer distribution of incomes and wealth. This ensures genuine individual freedom that is citizens free from economic want and free to truly pursue their destiny (Bellofiore, 2009). The path suggested by Minsky is also the only compatible with the solvency of public finance as the crisis has destroyed a quarter of century of people sacrifices on the altar of free market policies. A stricter regulation of financial markets is a step in

[20] Pasinetti (2007) speaks of *hyper-integrated human activity*.

the direction of a freer society. For pre-crisis orthodoxy this could be unsound just like in the 30s public deposit insurance seemed curious. Nowadays no one objects the scheme. It is noteworthy that Minsky connected financial instability and active policies for the labour market, neither is casual that mainstream economics forgot both.

Minsky's ideas also are a viable alternatives to ordinary Keynesian policies that are not Keynesian in their spirit as they cannot really face capitalist instability. This is because their version of Keynesianism reduces capitalist structural fragility to information asymmetries and the like (eds Dimsky, 1994). Uncertainty and the intrinsically conventional nature of capitalist economy are by far more complex than the standard nominal rigidity models that pass as Keynesian can grasp.

ELR program, ensuring full employment, is not only compatible but a way to promote public finance health, price stability and a system capable of reconciling market freedom, distributive justice and the efficiency of State apparatus. It entails the Minskyan framework of a "shared prosperity"[21] that starts precisely tackling the situation of hardship that afflict individuals and families who have fallen into poverty as a result of involuntary unemployment, underemployment and job insecurity. His proposals, in line with the thought of Keynes, prefigure a society that sets itself the goal of reducing inequality and of moving in the direction of a person-centered approach, with awareness of people's concrete needs within the context of families and the community.

Although Minsky was prescient in assessing the direction that capitalism was taking in the 80s, we do not overlook the limits of his analysis. There is a lack, in his framework, of a genuine empirical analysis (an econometric model) to give a detailed assessment of the ELR. Secondly, Minsky's challenging vision of a society characterized by shared prosperity offers a number of different solutions as far as concrete feasibility and policy implementation are concerned and does not suggest how to choose among them (Papadimitriou, 2008, Sen, 1999). More research is needed on these issues. The main starting point, however, is the overall idea that society does exist and cannot go forward until prosperity is shared. The empowerment of the poorer strata of population is efficient and the only way forward in the long run. This is a vision solidly inscribed within the liberal tradition, but it is one that strives at the same time, in full respect of individual liberties, to reduce economic and social inequality and to grant to all citizens the best opportunities for development. ELR pushes unemployed people to go back to active life starting with the management of the immediate needs of their local communities. With the right State supervision, grassroots energies that the scheme releases will bring prosperity and social stability. It can reinforce the turnaround of banking regulation aimed at ensuring financial stability. Both legs are needed for the economy to walk.

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[21] The source of inspiration for a solution to the economic problem may also draw on an economic and social policy that makes reference to chapter 24 of the *General Theory*, namely to the "social philosophy towards which the General Theory might lead". Despite his optimism, in the closing part of the General Theory, Keynes warns that: "soon or late, it is ideas, not vested interests, which are dangerous for good or evil".

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Appendix – how much the ELR would cost to Italy

In sect. 4.3 we mentioned the empirical literature about ELR. In this appendix, we will conduct a similar appraisal for contemporary Italy. In doing this, we can borrow from a very recent case study about Greece (OESD, 2014). This thorough reading on how to tackle the terrible situation of unemployment in Greece after years of austerity, points out that a full scale ELR program would cost between 1.5 and 5.4% of GDP; moreover 60% of this cost would be recouped by the State in taxes, etc. It also estimates that at a current minimum wage, for every 10 ELR new jobs, around 4 indirect jobs are created and that the GDP increase is 2.3 times the cost of the program. Simulation results are based on the Eurostat I-O tables of the country. Comparing the I-O tables of the specific sectors used by the study as ELR jobs creators we can see that, for all the differences between Greek and Italian economies, there is a strong similarity. In fact, these five sectors[22] have a very similar weight on the economy (12.46% and 12.59% of the total output respectively in Greece and in Italy) and their input composition is also similar (see Table 1)[23].

Table 1 – input composition of the *synthetic sector*		
	Greece	Italy
intermediate consumption	46,30%	50,13%
compensation	35,09%	33,00%
gross operating surplus	18,53%	15,31%

Therefore, we can confidently use the multipliers of the original research to simulate the cost of an ELR program for Italy. In particular, we base our analysis on the following assumptions:

Table 2 – ELR program multipliers[24]	
GDP multiplier	2.3
overhead costs add-on	40%
indirect to direct jobs ratio	40%
State recouping	40%

Using these coefficients we can simulate the impact of the scheme. We put the data (for 2013) in the following table[25]:

Table 3 - Results		
Variable	Value	Comment
hourly wage (a)	8 €	In Italy there is no legal minimum wage. We reached this figure using France's SMIC for 2013 less 15%[26].
hours worked per year (b)	1,500	The hours worked in 2013 have been 1,578 in the industrial sector and 1,570 in the service sector.
ELR workers (c)	1,700,000	Total labour forces are 25.533 million; unemployed people 3.113 million; leaving aside 3% of the total labour force, as suggested by Minsky, yields approximately 2.4 million workers of which around 70% covered by ELR as direct jobs.
*ELR annual wage (W=a*b)* *ELR total cost per worker (T=W*1.4)* *ELR gross cost (G=T*c)*		12,000 € 20,000 € 34 billion €

22 Environmental services; Constructions; Security and investigation services; Services to buildings and landscape; Office administrative and support; Education services and social work.
23 The synthetic sector is built using the single sectors data weighted for their share of the total output.
24 The overhead costs add-on was estimated by Minsky at 25%. State recouping is circa the fiscal pressure.
25 Source: Bank of Italy *Annual Report for 2013, Statistical Appendix* (http://www.bancaditalia.it/pubblicazioni/relann/rel13/rel13it/app_13_totale.pdf).
26 http://www.insee.fr/fr/themes/tableau.asp?ref_id=NATnon04145.

*Increase in GDP (Y=G*2.3)*	78.2 billion €
*State recouping from ELR (S=Y*0.4)*	31.3 billion €
ELR net cost (G-S)	2.7 billion €

The gross cost of an ELR program is therefore about 2% of the GDP, close to the estimates made by Papadimitriou (2008) for US and UK. To put this number in context, we should consider that, in 2012, the total cost of employment policies for the Italian government was more than 29 billion, of which 23 billion for unemployment benefits. This means that the ELR labour cost would increase the *gross* bill for the State of no more than 5 billion. As for the net cost, considering only the direct GDP growth, the situation would be by far better, as now these benefits are paid without any increase in the GDP, while the economic growth stemming from the ELR could be in the range of 80 billion per year, that means, inter alia, more than 30 billion of new revenues for the State.