

POLICY RECOMMENDATIONS

Institutionalist/John Harvey

Unemployment: This is by far the most serious issue in the macroeconomy, leading to many grave social problems. Although the specialization-market economy allocates resources better than any other system and has helped to create output on a scale the likes of which the world has never seen before, it does not automatically create a job for everyone who wants one. There's enough "stuff" for everyone (at least in terms of what could be produced), but not enough jobs (to generate the income, which generates output). Therefore, the government should create an investment board, which plans projects for the economy to undertake in the event that unemployment is unacceptably high (above the level created by structural and frictional unemployment). Those projects should be:

1. Not profitable, since profitable undertakings are the realm of the private sector. There is no point in the government duplicating the efforts of the private sector.
2. Of obvious and accepted social benefit. The jobs created must be considered legitimate by those employed by the private sector.

Many projects meet these criteria, including those in the defense industry, public education, and long-term research.

Because of the multiplier effect, it is not necessary to create one job for every unemployed person. In addition, it is important to make a significant proportion of the jobs government-sponsored (via contracts or grants), rather than actually in the government, so that they can be eliminated whenever the private market expands. *These jobs are created to fill gaps left by the private sector, not to replace the private sector.*

Inflation: Cost-push inflation redistributes income to those with market power. The solution is to directly address that market power via anything from threats to direct controls.

Institutionalist economists believe that demand-pull inflation exists, but that it redistributes income in a "just" way and therefore is not so serious that a recession should be induced to stop it (as thought by orthodox economists).

Interest Rates: Institutionalist economists advise that interest rates be kept low under all circumstances, so as to encourage consumption and investment.