A Proposal for a Federal Employment Reserve Authority

There is already considerable talk about the possible need for a massive public works program. An ad hoc emergency approach is going to waste billions by mismatching skills and needs. The proposal outlined here is aimed directly at providing good planning consistent with market freedom and minimizing pork barrel possibilities.

In spite of the glamour of high finance, investment banking and the stock market, efficient production and full employment are what count. A healthy economy is one that does not waste the real resources of goods and labor.

Enterprise is fostered by understood and accepted rules of the game, and the rules do not appear by magic or markets. They require the development and enforcement of items such as an accounting system, bankruptcy and default laws, a commercial code and contract law. When the system is under stress fail-safe measures must be adopted.

In the reality of a dynamic economy the formulation, legislation and the enforcement of rules to set the environment for the functioning of a successful enterprise economy are critical. The process is a difficult ongoing evolutionary process produced by fallible and self centered human beings.

The ideologues of both the right and left imagine Utopian scenarios either with no government or with an ideal government. Neither of these states has, nor ever will exist, except in political rhetoric aimed at fooling the unwary. Reality and "good enough" economic efficiency resides not only in building the institutions and laws that provide the rules of the game but in answering the question: "Can they be implemented successfully at a reasonable cost?"

One of the more successful governmental economic institutions in the United States has been the Federal Reserve. It has manifested an interesting blend of public and private forces. It is clearly sensitive to both local and global concerns in the country. Unfortunately it and the Treasury are not
enough. There are occasions where the financial control mechanisms of a society are not sufficient to stop serious damage to the underlying basic economy they are meant to protect. When this happens the system requires a “fail-safe mechanism” that comes into play when the financial brakes do not work. Such a mechanism in the form of a Federal Reserve Employment Authority is discussed below.

Our financial institutions and instruments are part of a delicate overall guidance and control system for the political-economy. The structure has to match the supply of public goods and taxation with the demands of the electorate. This calls for a blend of economic, political, bureaucratic and social forces. The 1913 Act created the Federal Reserve System. This institution has been evolving and adjusting over a century and continues to do so. The overall organization structure is laden with checks and balances and with diverse interests represented.

The Board of Governors is appointed by the President and requires confirmation by the Senate. Like the Supreme Court the Board of Governors is the product of the interplay of political, economic and legal forces. The number of governors reflects judgment calls on the balancing of powers and the ability of the institution to function.

It is suggested that for the goal of keeping an appropriate socially acceptable index of unemployment below some specified level, a government agency similar in power and structure to the Federal Reserve System would be appropriate. Such an institution, The Federal Employment Reserve Authority (FERA) would require considerable hand-tailoring to provide the appropriate control details needed. But it could provide a permanent institution that would be a vast improvement over a last minute disaster crash program such as the temporary WPA program utilized by the Roosevelt administration during the Great Depression.

In the design of an institution aimed at modifying the level of unemployment it is highly probable that we need to hand-tailor a control structure with governance numbers different from either the Supreme Court or the Federal Reserve in order to fit the United States of the twenty first century.

NAIRU or the Non-Accelerating Inflation Rate of Unemployment is a product of the institutions, laws customs and technology of each society at a particular time. An institution such as a Federal Employment Reserve
Authority would be devoted to monitoring the “natural rate of unemployment” which is natural in the sense that it is dependent on the current institutions, laws, customs and technology.

A sketch of a few features of such an establishment is noted. The Federal Reserve System has of the order of 25,000 employees and 12 district banks. Instead of 12 district banks and a central bank, this institution most naturally calls for a central or controlling authority in Washington and 50 branches, one in each state. A first cut at bounds on its size would be of the order of 6,000-11,000 employees. The regional authorities would have on the average somewhere between 100-200 employees, and a board of governors split among business and labor representatives from the state as well as academics and Federal and State representatives.

Each authority would monitor unemployment in its state. It would also maintain a listing of potential public good or desirable infrastructure projects with priorities and potential revenue generation possibilities. The stress in priorities would be on self liquidating projects where some portion of the revenues would flow back to the state or the federal government.

A new Joint Assessment Financing Board (JAFB) would be required among the Federal Reserve System, the Treasury and the Federal Reserve Employment Administration.

The duties of this board would be to constantly monitor the listing, evaluation, financing and paybacks proposed by each regional branch so that the structure of the financing can be set in place as soon as the employment level in any region passes the trigger value. A further duty of this board would be to determine how the unemployment in the state breaks down into recession unemployment or technological unemployment.

It is important to stress that constant monitoring and the ability to act quickly and deliberately is required. This will require that legislation be passed in advance to provide flexibility in emergency financing without having to go to Congress for legislation during the crisis.

Technological unemployment should not call for Agency action except via Educational Retraining Board (ERB) acting in concert with the educational resources of the state and the Federal Department of Education.
The regional branches of the FERA would employ of the order of 100-200 individuals. The governors would be selected from state government, the public and top local employers and unions in the region who are subscribers.

The Board of Governors would be responsible for developing State and Federal taxation and funding guidelines in concert with the Federal Reserve System via the Joint Assessment Financing Board (JAFB).

The FEIC would supervise oversight of projects to be enacted.

The Regional Authority and member firms would be responsible for the generation and maintenance of micro information on the state of unemployment, the valuation of local projects worthy of sponsorship in a high unemployment environment, and the distinction between recession and technological unemployment.

There are several basic principles that should be adhered to by the Authority.

It should never own assets that it does not have the in-house capability to evaluate. It should avoid supervision of projects where it does not have in-house expertise.

Its’ role is to coordinate and stimulate activities promoting employment, not to employ individuals directly. Only under conditions of deep depression a direct WPA employment approach might be permitted as an act of last resort.

The Authority must stress transparency in the availability of its information sources, evaluation of the regional economic and employment status as well as the projects to be implemented and the bidding and procurement procedures employed.

Once unemployment goes above a fixed level, say 6 or 7% (to be adjusted by circumstances) the Authority would put out bids for projects in coordination with Federal and State funding authorities for the means for financing.

The above comments are to be interpreted as a rough sketch pointing the way, not as a detailed blue print. There are many details to be worked out. The drafting of institutional rules is an evolutionary process. But this is
offered as a start at building in a fail safe system for the economy when the financial control structure fails the real economy.

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