

Bell, Stephanie A.; Wray, L. Randall

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The war on poverty after 40 years: A Minskyan assessment

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The Levy Economics Institute of Bard College

Public Policy Brief

No. 78, 2004

THE WAR ON POVERTY AFTER 40 YEARS

A Minskyan Assessment

STEPHANIE A. BELL and L. RANDALL WRAY

Public Policy Brief

**THE WAR ON POVERTY
AFTER 40 YEARS**
A Minskyan Assessment

STEPHANIE A. BELL and L. RANDALL WRAY

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Preface

Twenty to 25 years ago, a debate was under way in academe and in the popular press over the War on Poverty (WOP). One group of scholars argued that the war, initiated by Presidents Kennedy and Johnson, had been lost, owing to the inherent ineffectiveness of government welfare programs. Charles Murray and other scholars argued that welfare programs only encouraged shiftlessness and burdened federal and state budgets.

In recent years, despite the fact that the extent of poverty has not significantly diminished since the early 1970s, the debate over poverty has seemingly ended. In a country in which middle-class citizens struggle to afford health insurance and other necessities, the problems of the worst-off Americans seem to many remote and less than pressing. Moreover, the welfare reform bill of 1996 has deflected much of the criticism of the welfare state by ending the individual-level entitlement to Aid to Families with Dependent Children benefits (now known as Temporary Assistance to Needy Families) and putting time limits on welfare reciprocity, among other measures.

The debate on the WOP was in part misguided from the beginning. Though federal entitlement spending grew rapidly from the mid-1960s through the 1970s, this welfare-state expansion was unrelated to the programs that made up the original WOP. Spending growth during this period resulted from, among other factors, court rulings that strengthened the rights of welfare recipients and from an increase in Social Security spending.

The original WOP programs, such as the Job Corps and Head Start, were aimed largely at training and disciplining the workforce, not at providing welfare benefits for the nonworking population. The other important poverty policy initiatives of the Kennedy-Johnson era consisted mainly of tax cuts for business. Hence the claim that the programs in question

undermined the incentive to work is misplaced. In this brief, Stephanie A. Bell and L. Randall Wray argue that the real flaw in the WOP was that it lacked job-creation initiatives of the type developed by President Roosevelt during the Great Depression.

Bell and Wray show that people with jobs are much more likely to stay out of poverty than those without. And programs that simply attempt to increase worker skills have not succeeded in creating jobs. Programs to boost private spending, such as tax cuts for corporations, may generate new jobs, but they are far less efficient at the job-creation task than are programs of direct government hiring. They do not focus help where it is needed, on those who are least employable and most subject to discrimination.

Following the late Hyman Minsky, Bell and Wray argue for an “employer of last resort” program, which would “take workers as they are,” that is, provide jobs that use workers’ existing skills. This plan would alleviate many social ills that thrive in an environment in which huge numbers of able-bodied individuals are idle.

In proposing massive government jobs programs, Bell and Wray take a step beyond currently popular “stimulus programs,” which at best resemble the only modestly effective tax cuts of the 1960s. The Bell/Wray proposal challenges those who propose such tax cuts or various measures of “tough love,” because it offers help in the form of a paycheck, rather than the much-maligned welfare “giveaways.” Minsky rightly supported welfare programs, but only for those who “cannot or should not work.” I hope that the policies proposed in this brief will finally allow discussions of poverty in the United States to advance beyond ideas that have dominated policymakers’ attention since the WOP.

As always, I welcome your comments.

Dimitri B. Papadimitriou, *President*

June 2004

The War on Poverty after 40 Years

“The liberals’ War on Poverty was born out of neoclassical theory in which it is the poor— not the economy— that is to blame for poverty. The War on Poverty tried to change the poor, not the economy.” (Minsky 1971, p. 20)

Introduction

The War on Poverty (WOP) turned 40 just a few short months ago. It is fitting, if embarrassing, that no national celebration marked the occasion. It is a war most Americans would like to forget, a war only halfheartedly embraced by Washington, a war decisively lost. As Hyman Minsky remarked barely one year into the battle, “The war against poverty is a conservative rebuttal. . . . It can spread poverty more fairly. . . . However, this approach, standing by itself, cannot end poverty” (1965, p. 175).

Minsky characterized the original WOP as an attempt to “upgrade workers,” and any number of programs have been created since 1964 to improve the education, skills, and incentives of the jobless to make them more appealing to private sector employers. Further, “Keynesian” policies to raise aggregate demand in order to stimulate private sector employment have also been adopted on the belief that economic growth would raise the demand for labor and thereby “lift the boats” of the poor. Still, unemployment rates have trended upward, long-term unemployment has become increasingly concentrated among the labor force’s disadvantaged, poverty rates have remained stubbornly high, real wages for most workers have declined, and labor markets and residential neighborhoods have become increasingly segregated as the “haves” construct gated communities and the “have-nots” are left behind in the crumbling urban core.

This brief will examine what went wrong and Minsky’s alternative to the WOP. Briefly, the economic theories on which the WOP was based

misunderstand the nature of poverty. The notion that economic growth together with supply-side policies to upgrade workers and provide proper work incentives would be enough to eliminate poverty was recognized by Minsky at the time to be fallacious. Indeed, evidence suggests that economic growth mildly favors the “haves” over the “have-nots”—increasing inequality—and that jobs do not simply trickle down, at least at the levels of growth usually experienced in the postwar period. Further, most of the early success at eliminating poverty had to do with expansion of Social Security for the aged; it had little to do with either more rapid growth or the WOP programs. According to Minsky, the critical component that was missing in 1964, and that remains AWOL in 2004, is a government commitment to full employment. Only a targeted jobs program, paying decent wages, will successfully fight poverty among the nonaged in a politically acceptable manner.

Johnson Declares War: The Economic Opportunity Act

In his first State of the Union address, on January 8, 1964, President Lyndon B. Johnson declared an “unconditional war on poverty,” and the Economic Opportunity Act was submitted to Congress later that year. According to Johnson, the plan was designed to deal with the causes of poverty, rather than simply try to ameliorate its consequences. By expanding educational and training opportunities for the poor, Johnson believed it would be possible to end poverty forever. Specifically, his act:

1. called for the creation of Head Start, the Job Corps, a work-training program, and a work-study program;
2. sought recommendations from citizens throughout the country (CAPS—Community Action Programs) to design long-range proposals to fight poverty in their communities;
3. requested the authority to recruit and train thousands of citizens (VISTA—Volunteers in Service to America) for the war against poverty;
4. asked Congress for funds to help those currently unemployed (through a new program of loans and guarantees) as well as struggling farmers (through the purchase of land, the organization of cooperatives, and the creation of new family farms);

5. created the Office of Economic Opportunity (OEO), through which Johnson proposed the implementation of a comprehensive plan to create opportunities for the underprivileged.

Johnson considered the Economic Opportunity Act “a total commitment . . . to pursue victory over the most ancient of mankind’s enemies” (Papers of U.S. Presidents, p. 380). It hardly seems controversial to suggest that four decades later the enemy is still at large.

The CEA and President Kennedy

It is perhaps not sufficiently recognized that the WOP got its start under President Kennedy, with his Council of Economic Advisers (CEA) playing a significant role in shaping the strategy that would be pursued. A recent book by Judith Russell (2004) documents those origins of the WOP, reaching a final assessment that is remarkably close to the predictions Minsky made at the time. According to Russell, defeat of the WOP was foreordained largely because of the dominant role played by the CEA. The key program omission from the WOP was a massive job-creation program. This resulted from the CEA’s belief that (a) poverty was not inextricably linked to unemployment, (b) unemployment could in any case be sufficiently reduced through aggregate fiscal policies (such as Kennedy’s tax cut of 1963), and (c) millions of Americans would have to be maintained as an unemployed buffer stock to keep inflation in check. These views still hold sway among economists.

The CEA was able to turn the president and policy against the dominant “structuralist” views of unemployment held by many economists, most policymakers, and even most of Congress—and by Kennedy’s close adviser, John Kenneth Galbraith—all of whom believed that unemployment above 2 percent was unacceptable. The structuralists argued that demand stimulus alone could never generate jobs where they were most needed—by low-skilled workers, and by African Americans. Further, given that the CEA was prepared to accept 4 percent (or more) unemployment as “full employment,” and as black unemployment rates ran two to three times higher than the overall unemployment rates, a WOP formulated by the CEA could never have made much of a dent in African-American poverty.

After Kennedy's assassination, it was left to Johnson to carry the WOP through Congress. Russell builds a convincing case that the mood of the country and of Congress was such that a massive job-creation program sold by a president with Johnson's political acumen would have garnered sufficient support. It was the right idea at the ideal time, with a brief window of opportunity to put in place a jobs program that had a real chance at eliminating most poverty. It was the CEA's version of Keynesianism—based on “priming the pump” to raise demand—that played the major role in closing that window. It convinced the president that a jobs program was not a necessary element in the fight against poverty. Another culprit was the widespread belief that the poor had to be changed before poverty could be eliminated. As we will see in the next section, Minsky rejected these views and argued that without a jobs program that takes the poor as they are, the WOP would not be successful.

The War on Poverty: Minsky's Contemporary Assessment

Minsky considered the WOP “a conservative rebuttal to an ancient challenge of the radicals, that capitalism necessarily generates ‘poverty in the midst of plenty’” (1965, p. 175). As he saw it, Johnson's version of this “conservative rebuttal” was fundamentally flawed. Instead of providing the impoverished with an opportunity to work, it provided them with the opportunity to learn how to work.

Minsky blamed a great deal of American poverty on unemployment. And, since he blamed unemployment on our economic system rather than on the shortcomings of its workers, he rejected supply-side “solutions” such as workfare, training, education, and so-called “incentives to work.” But he also rejected the kind of demand stimulus policies that have been called upon to stimulate employment since World War II. In 1975, a decade into the “war,” he argued: “We have to reverse the thrust of policy of the past 40 years and move towards a system in which labor force attachment is encouraged. But to do that we must make jobs available; any policy strategy which does not take job creation as its first and primary objective is but a continuation of the impoverishing strategy of the past decade” (Minsky 1975, p. 20). Since the postwar antipoverty strategy had proven ineffectual, Minsky believed that policymakers should return to the

kind of strategy that characterized policy making prior to World War II, namely programs to provide public employment.

One could see the WOP as a victory for the “Age of Keynes,” but a defeat for a real antipoverty strategy, in the sense that it brought with it a belief in the importance of maintaining aggregate demand in order to promote economic growth, but it neglected the importance of jobs in reducing poverty. There was an alternative Keynesian view to which Kennedy and Johnson could have turned for support of a real antipoverty program. Minsky’s fundamental criticism was that “a necessary ingredient of any war against poverty is a program of job creation; and it has never been shown that a thorough program of job creation, taking people as they are, will not, by itself, eliminate a large part of the poverty that exists” (1975, p. 20).

A Structuralist Interpretation of Relationships among Employment, Unemployment, and Poverty

Minsky emphasized that joblessness, insufficient hours of work, and low pay combined to create poverty among the able-bodied. He went on to argue that it was obvious that “expanded, improved, and modernized programs of transfer payments and income in kind for the aged, the infirm, the disabled, and needy children are necessary. As I see it, this has little to do with the War on Poverty; it has mainly to do with our national conscience and affection for man” (Minsky 1965, pp. 176–77). In other words, he was willing to grant that a system of welfare would be required to deal with those who could not, or should not, work. He insisted, however, that a comprehensive jobs program together with an effective and adequate minimum wage would go a long way toward eliminating poverty among those willing and able to work. Significantly, he called for a “tight full employment” goal of a 2.5 percent unemployment rate.

Compared with the expected 5.2 percent unemployment rate in 1965, he calculated this would have increased GNP by \$34 billion to \$53 billion (using “Okun’s Law,” according to which each one-percentage-point reduction of unemployment raises GNP by 3 percent). Minsky pointed out that this is far above the estimated \$11 billion or \$12 billion it would take to raise the incomes of all living in poverty above the poverty line for that year. Hence, while a comprehensive employment strategy might not resolve

all poverty problems, it would certainly generate more than enough GNP to eliminate poverty, provided that the GNP gains were appropriately distributed.

Structuralists tended to emphasize job mismatch: even at cyclical peaks when the aggregate number of jobs might be sufficient, the skills, education, and other characteristics of a substantial set of the unemployed would leave them without jobs. Such views were dominant among policy-makers of the early 1960s (Russell 2004), and similar views were also favored at the end of the 1990s as the “New Economy” boom left low-skilled workers behind (Pigeon and Wray 2000), but the structuralists of the early 1960s went further, because they argued that technological and other structural changes to jobs markets would outstrip any ability to educate and retrain displaced workers. In other words, they were highly skeptical that supply-side policies alone would be sufficient to resolve the growing unemployment problem. What was needed was a combination of “active labor market” policies and direct job-creation programs for the structurally displaced.

Minsky pointed out that even if the economy were not dynamically creating structurally displaced workers, labor market supply-side programs would have little effect for up to 20 years—the “gestation” period required to produce a worker: “We are learning that what happens to a child between the ages of three [and] five is of vital importance in determining the capabilities of the adult. Thus, preschool training is necessary to break the vicious circle of poverty. But if this view is true, then it takes 18 to 20 years to realize the benefits from such programs” (1965, p. 195). In a dynamic society that is always moving, and generally raising, the skills goalposts, that long gestation period almost guarantees that many individuals achieving the age of labor force entry will not be prepared for the jobs that then exist. Thus, there would always be a mismatch between labor “supply” and “demand.”

The War on Poverty: A Retrospective Assessment

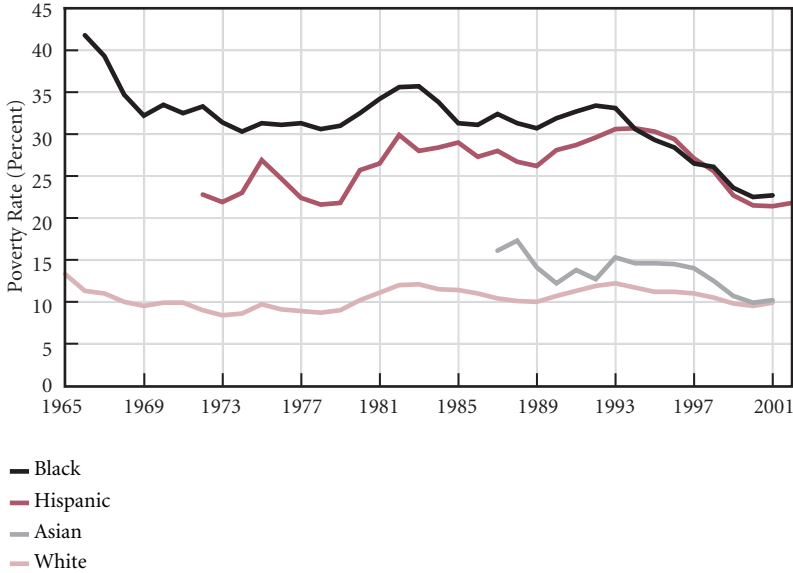
It is, of course, well established that poverty rates fell sharply over the early post–World War II period, which appears to cast some doubt on the structuralist position favored by Minsky. Perhaps rapid postwar growth

combined with the supply-side policies of the WOP would be enough, after all, to eliminate poverty? In 1940, well over half, and as many as 60 percent, of all white males aged 25 to 64 had earnings that were insufficient to raise a family of four out of poverty (this includes those who had no earnings over the year)(Farley 2001).¹ Among black males of the same age group, fully 90 percent had earnings below the poverty line for a family of four. By 1960, comparable figures were around 25 percent for white males and 50 percent for black males. Improvement continued until 1970, when 10 percent of white males and 30 percent of black males (aged 25 to 64) had earnings insufficient to keep a family of four out of poverty. However, falling average real earnings for males, together with lower employment rates, caused poverty (by this measure) to begin to rise after 1970. By 1990, about 20 percent of white males and more than 40 percent of black males aged 25 to 64 earned too little to bring a family of four out of poverty—similar to the figures for 1965, when the WOP began. Later we discuss the increasing number of families in which a male is not present.

More broadly, U.S. official poverty rates had been declining sharply in the postwar period even before the WOP, to 15 percent in 1965.² Figure 1 shows poverty rates by race. For both whites and blacks, there is a decline of poverty rates in the mid-1960s, but no improvement subsequently—at least until the Clinton expansion, when black poverty rates improved. Overall, poverty rates finished the millennium back at 12 percent, the level they had reached in 1968. From these data, it is very hard to discern any positive effect from the WOP. Further, given the long gestation period of supply-side policies, the biggest payoff should have come in the 1980s—precisely when poverty rates rose most sharply. It is true that some of the WOP programs were never fully funded, but one would expect them to have made a larger difference—if they represented a valid strategy for alleviating poverty.

Figure 2 offers additional detail, displaying poverty rates by age. Here we see sharply falling poverty rates for those aged 65 and above, from nearly 30 percent in 1966 to 15 percent by the start of the Nixon recession in 1974, and then falling to just about 10 percent by the end of the 1990s. In short, poverty among the elderly fell quite remarkably, dropping by half in the first decade of the WOP, and by about two-thirds over the first quarter-century. Clearly, this had little to do with the WOP—which was targeted to

Figure 1 Poverty Rate by Race

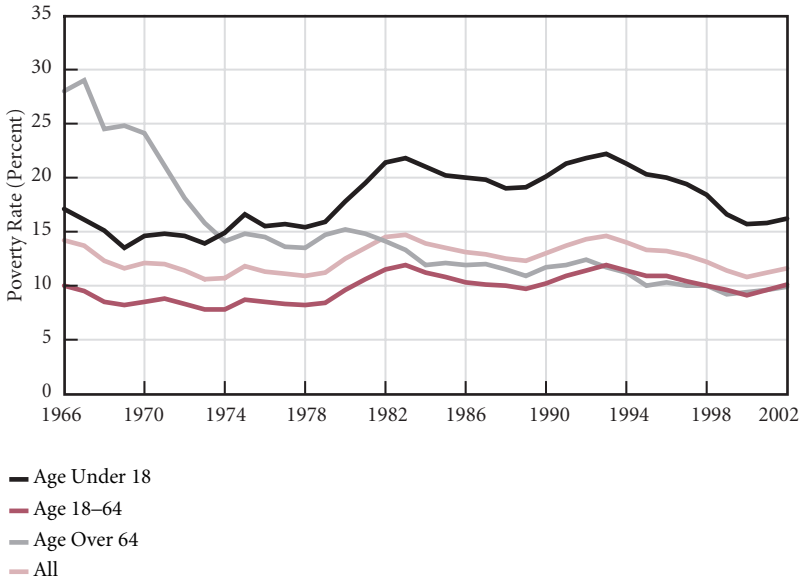


Source: U.S. Census Bureau (2004a)

a younger population—but was due almost entirely to phasing in Social Security and indexing it for inflation. The contrast with younger age groups could not be more striking: the poverty rate of those aged 18 to 64 stood at just over 10 percent at the beginning of the WOP, rose to about 12.4 percent under the Reagan presidency (1983), and finished the millennium back at about 10 percent. The poverty rate for those under 18 stood at about 17.6 percent in 1966, rose to 22.3 percent in 1983 under Reagan, and finished the millennium at 16 percent. No one looking at this figure could discern much positive impact from the WOP.

How much of the problem results from joblessness? Table 1 shows that just about 10 percent of all families in 2002 fell below the poverty line.³ Families with no workers experienced a poverty rate of 25.8 percent; families with at least one part-time or part-year worker had a poverty rate of 24.8 percent. On the other hand, families with at least one full-time, year-round worker had a poverty rate of only 3.5 percent. Black families experienced a poverty rate of 21.5 percent; however, if a black family had

Figure 2 Poverty Rate by Age



Source: U.S. Census Bureau (2004a)

no workers, its probability of falling below the poverty line rose to 57.8 percent. By contrast, a black family with at least one member who worked full-time, full-year, experienced a poverty rate of 7.3 percent. If we raise the poverty bar to 150 percent of the official poverty line, 17.4 percent of all families were poor, but families with no members working full-time experienced a poverty rate of 38.5 percent, while families with at least one member working full-time and full-year had a poverty rate of 9.2 percent. Black families with no working members had a poverty rate (at 150 percent of the poverty line) of nearly 72 percent. These data show how important a full-time, full-year job is for poverty reduction—a relationship that remained as true in 2002 as it was in 1965.

Structuralists of the 1960s warned about dynamic structural changes that would generate a more or less permanent jobs-skills mismatch. Has the WOP succeeded in substantially reducing the mismatch? The results obtained from a detailed multicity study of urban inequality are not encouraging. Holzer and Danziger (2001) used survey data to try to match

Table 1 Poverty Rates by Race and Employment Status, 2002

Working status	Income below 100% of poverty line				Income below 150% of poverty line					
	All	White	Black	Hispanic	Asian	All	White	Black	Hispanic	Asian
All families	9.6	6.0	21.5	19.7	7.4	17.4	11.6	34	35.6	14.9
Families with no workers	25.8	16.5	57.8	55.8	39.1	38.5	28	71.9	75.3	55.7
Families with at least one member who worked full-time year-round	3.5	1.8	7.3	10.1	2.6	9.2	5.3	17.7	24.9	7.5
Families with no members working full-time year-round but at least one part-time or part-year worker	24.8	17.0	43.5	42.8	18.6	38.4	28.2	62.1	62	37.6

Notes: White = “white alone, not Hispanic”; Black = “black alone”; Hispanic = “Hispanic, of any race”; Asian = “Asian alone”

Source: U.S. Census Bureau, http://ferret.bls.census.gov/macro/032003/pov/new06_000.htm; Table POV06. Families by Number of Working Family Members and Family Structure

entry-level jobs with the skills, education, experience, and other characteristics of likely job seekers in four major U.S. cities (Atlanta, Boston, Detroit, and Los Angeles). Note that this study excluded all jobs that required a college education. The authors found that for likely job seekers, between 20 percent and 37 percent of white high school dropouts and 12 percent to 20 percent of white welfare recipients would experience “difficulty” in obtaining jobs because of the mismatch of their characteristics and those required by employers (pp. 516–17). For African Americans and Hispanics, the supply/demand mismatch increases to between 42 percent and 56 percent for high school dropouts and between 27 percent and 40 percent for welfare recipients (*ibid.*).

Finally, our analysis here has focused primarily on employment and earning of males. Women have increased their employment rates, and have managed to close the pay gap to some extent. To a very large degree, however, poverty has become “feminized” among female-headed households. This expanding group has fallen victim to a number of unfavorable circumstances. Among the culprits contributing to the poverty of single-parent (usually mother-only) families are gender inequity in wages; inadequate and poorly enforced child support; extremely low (and now disappearing) welfare benefits; and a lack of affordable child care. The trend toward raising children in single-parent families undoubtedly arises from many complex factors (declining wages and employment of males, increased incarceration of males, rising status of women, breakdown of extended family relations, and welfare rules are obvious examples). The WOP was perhaps not well formulated to deal with these trends. But even in the absence of the feminization of poverty, the WOP would not have succeeded because—as we have shown—it has not even benefited males with low education status.

If employment is so important to poverty reduction, it is instructive to look at employment trends since implementation of the WOP and “Keynesian” policies. Employment rates for males over age 20 fell between 1965 and 2000, from 81.2 percent to 74.1 percent, while female employment rates rose from 37.7 percent to 58.7 percent. In other words, policies to “improve” workers did not increase their employment, at least in the case of males. In short, we do not see rising employment rates with the implementation of the WOP—except among women, and this should not

be attributed to the WOP, although affirmative-action programs and the women's movement probably played important roles. These trends, however, hide important differences among the population with respect to the interaction of the level of educational attainment and employment. In 1965 the employment rate for high school dropouts aged 25 to 64 was 62 percent; by 1994 this had fallen to 51 percent.⁴ The comparable employment rates for high school graduates were nearly 65 percent in 1965 and 73 percent in 1994; for those with some college, employment rates were 67 percent in 1965 and 78 percent in 1994; and for college graduates, rates rose from 82 percent in 1965 to 85 percent in 1994.

The probability of gaining employment without a high school diploma has fallen considerably—with barely half of dropouts working. Note that these figures are for the noninstitutionalized population—if incarcerated “prime age” (18 to 44 years) high school–dropout males are included, things look very much worse. As Wray (2000) has shown, the 1999 employment rate for prime age, high school–dropout males falls from 68 percent to 62 percent if we include the incarcerated population. For similarly situated black males, the employment rate falls from 46 percent to 33 percent if the incarcerated population is included.

In sum, the WOP had little success at significantly raising employment and reducing poverty rates—at least for those under age 65—especially for the least advantaged males without a high school diploma. There was some improvement for minority racial and ethnic groups, but it is not easy to separate the effects of the WOP from the effects of the Civil Rights movement. The WOP had little to do with direct job creation, and as Minsky had warned, without job creation, the WOP would only redistribute poverty. While it is true that those who helped to formulate the WOP did hold “Keynesian” views that maintenance of higher aggregate demand would cause jobs to “trickle down” to the poor, the WOP by itself contained little that would raise aggregate demand, and did not directly create many jobs. In any case, the ability of a “rising tide” to “raise all boats” is in doubt—as a study by Brady (2003) as well as work by Pigeon and Wray (2000) demonstrates. In the next section we examine Minsky's skepticism about the ability of growth to reduce poverty.

The Strategy of Growth through Private Investment

As discussed, the CEA pushed the notion of pump-priming to generate growth. In the postwar era, with the exception of defense spending, “the preferred instrument for generating fiscal expansion has been some type of tax cut or loophole, i.e., the shifting of resources to private consumption and investment” (Minsky 1971, p. 15). These “Keynesian” policies to promote full employment relied on a favorable business environment to stimulate investment spending. Various tax incentives, including accelerated depreciation and investment tax credits, were a common feature of the postwar investment strategy (Tobin, 1966). Policymakers also tried to increase the certainty of capital income through the use of government contracts with guaranteed profits, such as those granted to the defense, transportation, and housing industries.

However, Minsky (1973) argued that there were four problems with the high-investment strategy. First, tax incentives to shift income to capital exacerbate inequality between ordinary workers and those who have money to invest. Second, high capital incomes would lead to opulent consumption by the rich and emulative consumption by the less affluent, creating the potential for demand-pull inflation. Third, contracts granted to sophisticated, high-tech industries generate demand for skilled, high-wage labor, thereby exacerbating income inequality within the labor force. Finally, by targeting the size and surety of capital income, tax-cut programs would increase business confidence and debt financing, and borrowers’ margins of safety would decline. Thus, a private investment strategy can lead to a debt-financed investment boom, thereby undermining the stability of the financial system.⁵

Minsky (1963) argued that an expansion led by the private sector would tend to increase private indebtedness and financial fragility as debt-service payment commitments rose relative to prospective business revenues. In contrast, an expansion led by public sector spending could actually enhance stability by providing safe assets (government bonds issued as the budget moved to deficit). This analysis is interesting in light of the problems created during the Clinton boom—an expansion led by private-sector borrowing, with a federal budget that moved to large surpluses. While it is still too early to predict how things will play out, the overindebtedness of the private sector is hindering recovery. Further,

evidence to date indicates that poverty, hunger, and homelessness are rising even as the economy grows, with continued slack in labor markets in an apparently “jobless” recovery (U.S. Conference of Mayors 2003).

In sum, the postwar era was characterized by a preference for private investment strategies. Even as the WOP got under way, the Johnson administration demonstrated its preference for private sector spending strategies, passing tax cuts in 1964 and again in 1965 and 1966. By encouraging private sector spending (especially investment), policymakers aimed to stimulate growth in total income. But these strategies did little to improve the conditions of lower-middle-income workers (e.g., factory workers), whose real incomes declined by 2.5 percent over the period 1965–70 (Minsky 1971). Worse, the private investment strategies tended to exacerbate income inequality, generate inflation, and undermine financial stability.

Public Employment Strategy

Even though the Kennedy and Johnson administrations succeeded in generating a postwar boom that reduced unemployment rates, policymakers failed to understand that “policy weapons which are sufficient to move an economy from slack to full employment are not sufficient to sustain full employment” (Minsky 1971, p. 28). As long as policymakers continued to favor private investment strategies, there would be no sustained strides made in the war against poverty from one business cycle to the next. Minsky’s alternative would stress high consumption fueled by policies that would increase wages and incomes at the bottom of the distribution. Further, government spending should play a major role in generating growth. Hence, Minsky’s policies would favor both greater equality and greater stability.

To improve the lot of the poor permanently, Minsky believed that policymakers needed to address the question of income distribution: “The questions that need answering if, someday, a serious war on poverty is to be mounted relate to the distribution of income and the available policy tools which can affect the distribution of income in the relatively short run” (1968, p. 328).

“How,” he asked, “can the distribution of income be improved?” (Minsky 1972, p. 5). He answered: “First of all by full employment.” By

this, Minsky meant that it was necessary to achieve and sustain “tight full employment,”⁶ which he defined as: “[the situation that] exists when over a broad cross-section of occupations, industries, and locations, employers, at going wages and salaries, would prefer to employ more workers than they in fact do” (1965, p. 177).

This would require a “bolder, more imaginative, and more consistent use of expansionary monetary and fiscal policy to create jobs than we have witnessed to date” (Minsky 1965, p. 175). “The achievement and sustaining of tight full employment could do almost all of the job of eliminating poverty” (1968, p. 329). Here, Minsky’s position is consistent with his notion that “a large portion of those living in poverty and an even larger portion of those living close to poverty do so because of the meager income they receive from work”—a point we have also emphasized above (p. 328).

Minsky believed that “a suggestion of real merit is that the government become an employer of last resort” (1968, p. 338). The employer-of-last-resort (ELR) proposal, which has recently been taken up by a number of analysts (Wray 1998, Forstater 1999, Kregel 1999, Harvey 1989), calls upon the federal government to institute a job-assurance program similar to the New Deal’s Works Projects Administration (WPA), Civilian Conservation Corps (CCC), and National Youth Administration (NYA) programs. The federal government would fund a job-guarantee program, setting the price of (unskilled) labor and adjusting the number of jobs to the number in need of work.⁷

Minsky saw clear advantages to this program. First, he expected it to eliminate the kind of poverty resulting solely from joblessness. Whereas the investment strategy begins with demand increases for specialized labor, hoping for the trickle-down creation of low-skilled jobs, the employment strategy “takes the unemployed as they are and tailor-makes jobs to their skills” (Minsky 1972, p. 6). Second, if the existence of tight labor markets draws additional workers into the labor force, the number of workers per family will increase, moving some families who are in or near poverty away from it. Third, a tight labor market strategy should improve the distribution of income among workers, as market processes raise the wages of low-income workers faster than the wages of high-income workers.⁸ Fourth, by discontinuing the preferential treatment of capital income, Minsky believed that it was possible to “decrease [labor-profit] inequality

by decreasing capital's share of income" (1973, p. 94). Fifth, Minsky believed that by deemphasizing investment-led growth, the likelihood of financial fragility would decrease. Finally, a public employment strategy frees policymakers from the overriding need to induce investment through tax incentives.

Is it still true today that tight full employment would generate more than enough additional production to bring all Americans out of poverty? Using Minsky's 2.5 percent unemployment rate as a benchmark, this would be about 3.3 percent less than the actual 5.8 percent reported for 2002. By Okun's Law, a reduction of unemployment by 3.3 percentage points would raise GDP by 9.9 percent. Multiplying this percentage by 2002 GDP of \$10.481 trillion, we obtain \$1.038 trillion. In 2002 there were 7,229,000 families living below the official poverty line, with an average deficit of \$7,205 per family required to bring each up to the poverty line. The total cost is about \$52 billion. In addition, another 9,618,000 *individuals* were living below the poverty line, with an average deficit of \$4,798. The cost of bringing individuals up to the poverty line is thus \$46 billion. The total cost of eliminating poverty in 2002 would have been just under \$100 billion, or about 10 percent of the extra GDP that would have been generated by reducing the unemployment rate to 2.5 percent.

An employer-of-last-resort program is much more ambitious than demand-stimulus programs because it offers jobs to all who are ready, willing, and able to work. Many of those who will accept employment are currently counted as out of the labor force because they are not actively seeking jobs. Hence, the increase of employment will be much larger than what is indicated by a decline of unemployment of 3.3 percentage points. Further, the measured unemployment rate would probably fall below the 2.5 percent that Minsky used in his calculations—perhaps below the 2 percent usually used as an estimate of frictional and structural unemployment. Pigeon and Wray (2000) attempted to calculate how many “potentially employable” individuals had been left behind by the Clinton rising tide—coming up with a figure of more than 14 million employable workers aged 25 to 64 for 1999. At that time the number of officially unemployed individuals in this age group was under 4 million—or less than one-third of the number of potentially employable. Clearly, the gain to GDP from employing all these individuals would greatly outstrip the cost of raising all Americans above the poverty line.

Barriers to Attaining and Sustaining Tight Full Employment

Minsky seemed to anticipate the kinds of “pie in the sky” objections that might be raised, cautioning that “irrational prejudices . . . against spending, deficits, and easy money” must be ignored (1965, p. 176). But he recognized that legitimate barriers must be taken into account: “Economic forces can frustrate programs if either the policy objective is inconsistent with such forces or if the program is so poorly conceived that it quite unnecessarily runs afoul of a barrier, even though the objective is, in principle, attainable” (Minsky undated, p. 3).

One such frustrating force is inflation. “The policy problem,” he argued, is to achieve and sustain tight full employment “without an inflationary rise in prices and wages” (Minsky 1972, p. 5). But Minsky’s antipoverty campaign called for “a rapid increase of those wages that are close to or below the poverty line” (1965, p. 183). He recognized that there might be an inflationary bias in a policy of this sort, particularly if the productivity (output per hour) of the low-wage workers failed to keep pace with their wage increases. In order to keep the overall price level fairly stable, prices of other goods and services would have to be constrained. Minsky suggested that in the high-wage industries, wages “would have to rise by less than the increases in the productivity of their workers” (1965, p. 183). To prevent firms from simply increasing their profits, it was necessary to ensure that “management in these often oligopolistic industries would have to pass this decline in unit costs on to their customers” (ibid.). Thus, he argued that “effective profit and price constraints would have to accompany tight full employment” (1972, p. 6).⁹ If inflationary pressures were not contained, Minsky feared that the “political popularity of full employment” would be undermined (undated, p. 55).

The inflation constraint is, however, much less of a concern in today’s global economy. First, the deflationary pressures around the globe are substantial as many nations keep domestic demand depressed in order to run trade surpluses, looking to the United States to provide demand for the world’s “excess” output. This means that U.S. firms face substantial price competition so that even relatively rapid growth—such as that experienced in the Clinton expansion—does not produce inflationary pressures. Second, removal of trade restrictions together with technological advances has increased wage competition from abroad, reducing the likelihood that

low unemployment could generate a wage-price spiral. Finally, much of the 1970s' and 1980s' concern with low productivity growth disappeared during the Clinton boom, when productivity growth returned to more normal long-run averages (Pigeon and Wray 2002). Even in recent months, the fear has been that productivity growth might be so high that it would hinder job growth. While we believe that there is a lot of misunderstanding about the nature and importance of productivity growth, to the extent that competitive pressures keep wage growth in line with productivity growth, price pressures will remain moderate.

The final institutional barrier we wish to take up concerns the exchange rate regime. Most of Minsky's papers on antipoverty policy were written in the 1960s or early 1970s, when U.S. policy was constrained by an international monetary system with fixed exchange rates. Because the integrity of the Bretton Woods system rested on dollar convertibility to gold, policymakers had to restrict their fiscal and monetary operations to those that would not adversely affect the balance of payments. In Minsky's words: "To a considerable extent, ever since 1958 the needs of the dollar standard have acted as a constraint upon domestic income. We have not had tight labor markets because of the peculiar bind that the dollar is in internationally. It is apparently appropriate to allude to William Jennings Bryan by saying that, in part, the cross that the American poor bear is made of gold. . . . The solution to the gold standard barrier is simple: get rid of the gold standard" (1965, pp. 192–93).

Today the dollar is a floating currency, so that policy is not constrained by the need to protect foreign reserves. Thus, the primary barrier to attaining and sustaining tight full employment is political will.¹⁰

Conclusion

Private investment strategies together with policies to "improve" the characteristics of poor people have dominated the postwar approach to poverty. And, while the 1950s and 1960s are commonly referred to as the "Golden Age" of U.S. capitalism, important barriers prevented the American economy from sustaining what Minsky characterized as tight full employment.

Minsky's fundamental argument is simple: (1) poverty is largely an employment problem; (2) tight full employment improves income at the bottom of the wage spectrum; and (3) a program of direct job creation is necessary to sustain tight full employment. Thus, he argued that a program of direct job creation was "a necessary ingredient of any war against poverty" (Minsky 1965, p. 175). As Minsky put it: "The New Deal, with its WPA, NYA, and CCC, took workers as they were and generated jobs for them. . . . The resurrection of WPA and allied projects should be a major weapon of the War on Poverty" (1965, p. 195).

Unfortunately, Johnson's Economic Opportunity Act did not provide for significant job creation. Instead the WOP aimed to improve the skills and knowledge of the impoverished, hoping to "end poverty forever" by offering education and training to those living in or near poverty. But, as Minsky argued, "education and training have to start at virtually the cradle. . . . All the poor who missed prekindergarten or other special training are, except for the lucky or the gifted, doomed to a life of poverty—a dead-end life" (1971, p. 20). Improving the educational and skill sets of the workforce is certainly desirable, but Minsky believed that a reordering of policy objectives was required: "Once tight full employment is achieved, the second step is to generate programs to upgrade workers. I am afraid that in the poverty campaign we have taken the second step without the first; and perhaps this is analogous to the great error-producing sin of infields—throwing the ball before you have it" (1965, p. 200).

Notes

1. These data come from a four-city study of Atlanta, Boston, Detroit, and Los Angeles.
2. Data in the next two paragraphs are from U.S. Bureau of the Census (2004a).
3. Data in this paragraph are from U.S. Census Bureau (2004b).
4. All data here are from U.S. Census Bureau and Bureau of Labor Statistics, reported in Table 8.2 of Wray (2003), p. 166.
5. For more on this, see Minsky (1986).
6. Minsky used, as an interim measure of tight full employment, an official rate of unemployment of 3.0 percent. He considered this a modest

target, given that measured rates in Europe had been much lower than 3.0 percent. But he also viewed it as a desirable objective, given that it was significantly better than anything the U.S. had achieved since 1953 (Minsky 1968).

7. The details of the program can get quite complex (e.g., the inclusion of health benefits, child care, pensions, etc.). For more on the intricacies of the program, readers should consult Wray (1998). For our purposes, it is sufficient to note that the program may be administered locally (indeed, this is probably preferable), but it must be funded federally.
8. Here, Minsky refers to a study published in the *Quarterly Journal of Economics* (Anderson 1964), which showed a narrowing of wage differentials during periods of extreme labor-market tightness. Jamie Galbraith has recently shown the same patterns.
9. He also proposed the elimination of taxes on corporate income and corporate contributions to Social Security, both of which he considered inflationary (Hawley 1981, p. 10).
10. Designing policies to achieve full employment and price stability are the focus of a recent book by Wray (1998). The book demonstrates how Minsky's employer-of-last-resort program could be implemented (by nations with floating currencies) in a noninflationary way.

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About the Authors

STEPHANIE A. BELL is currently an assistant professor at the University of Missouri–Kansas City and a research scholar at the Center for Full Employment and Price Stability. Her new book (edited with Edward J. Nell) is *The State, the Market, and the Euro: Chartalism versus Metallism in the Theory of Money* (Edward Elgar). She has published articles in a number of journals. Her primary research interests include monetary theory, international economics, employment policy, Social Security, and European monetary integration. Bell received a B.S. in Business Administration and a B.A. in Economics, both from California State University, Sacramento. After finishing her undergraduate degrees, she studied at Cambridge University, where she earned an M.Phil. in Economics. She then spent a year at The Levy Economics Institute on a fellowship she won through Christ's College, Cambridge. She completed her Ph.D. at the New School for Social Research.

Senior Scholar L. RANDALL WRAY is a professor of economics at the University of Missouri–Kansas City and director of research at the Center for Full Employment and Price Stability. He is working in the areas of monetary policy, employment, and Social Security. He has used the ideas of the late Hyman P. Minsky to analyze current U.S. economic problems. Wray has published widely in journals and is the author of *Understanding Modern Money: The Key to Full Employment and Price Stability* (Edward Elgar, 1998) and *Money and Credit in Capitalist Economies: The Endogenous Money Approach* (Edward Elgar, 1990). He is also the editor of *Credit and State Theories of Money: The Contributions of A. Mitchell Innes* (Edward Elgar, 2004). He received a B.A. from the University of the Pacific and an M.A. and a Ph.D. from Washington University in St. Louis, where he was a student of Minsky's.

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