The Job Guarantee Program: A Policy Platform for Sustainable Prosperity

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Outline

• The Employer of Last Resort (ELR) idea:
  – Pre-Industrial Revolution
  – Post-Industrial Revolution

• Keynes and the Great Depression

• From Keynes to Minsky
  – John Pierson (1906–2001)
  – John Philip Wernette (1903–1988)
  – Abba Lerner (1903–1982)

• Contemporary JG Proposals:
  – Hyman P. Minsky (1919-1996)
  – C-FEPS, CofFEE, Levy Institute, Binzagrr Institute

• “57 Varieties” of JG?
  – U.S., Sweden, Argentina, India, etc…

• The Cost of Full Employment in the U.S.

• Is JG possible in Developing Countries?

• Other JG studies
  – Tunisia, Saudi Arabia, etc.

• Concluding Remarks
William Petty (1623-1687)

• “[The unemployed] ought neither to be starved, nor hanged, nor given away” (Petty 1662)

• The unemployed are an untapped source of enrichment for the nation, and that they could be publicly employed to build infrastructure.

• “at worst this would keep their minds to discipline and obedience, and their bodies to a patience of more profitable labours when need shall require it” (Petty 1662)
David Ricardo (1772-1823)

- *Principles of Political Economy and Taxation* (1821, 3rd edition)
- Chapter 31: “On Machinery”
- “the substitution of machinery for human labour, is often very injurious to the interests of the class of labourers”
- “the same cause which may increase the net revenue of a country, may at the same time render the population redundant, and deteriorate the condition of the labourer” (Ricardo 1821).
- Marx: Reserve Army of the Unemployed
The Great Depression

• 1933 unemployment: 25%
• 1933-1936: New Deal Policies in the U.S.
  – Public Works Administration
  – Civil Works Administration
  – Works Progress Administration
  – Civil Conservation Corps
  – National Youth Administration
  – Rural Electrification Administration
  – Federal Emergency Relief Administration
• 1937 unemployment: 14.3%
• Roosevelt: “a balanced budget is on the way”
• New Deal spending slashed
• 1936-1937: Fed doubled reserve requirements
• 1938 unemployment: 19%
• WWII: Massive Government Spending
• 1942-1947: Office of Price Administration
• 1942 unemployment: 1.2%
Keynes

- Economic decisions in the context of:
  - Uncertainty
  - Real Historical Time
  - Monetary System of Production
- Spectrum of liquidity
- All assets have an **expected return**
- Money too has an expected return (interest)
- Money:
  - zero elasticity of production
  - zero elasticity of substitution
  - No carrying cost
- **Equilibrium**: all assets earn the same return
- Recessions/Depressions:
  - weak consumer and business confidence $\rightarrow$ C & I decline
  - People hold liquid assets (cash instead of capital equipment)
  - GDP = $C + I + G + NX$
  - Only the Gov. can boost aggregate demand and restore positive expectations during uncertain times
Minsky

- Capitalist economies are characterized by:
  - complex, expensive, and long-lived capital assets
  - endogenous change
  - Innovation in industry and finance
  - Inherent instability ("stability is destabilizing")

- Business cycles driven by waves of optimism and pessimism and by the mass psychology of the market

- "The dynamics of a capitalist economy which has complex, sophisticated, and evolving financial structures leads to the development of conditions conducive to incoherence—to runaway inflations and deep depressions" (Minsky 1986, 10).
Minsky (cont’d)

• Regulators have to accept the fact that “in a world of businessmen and financial intermediaries who aggressively seek profit, innovators will always outpace regulators” (Minsky 1986, 279).

• “Serious business cycles are due to financial attributes that are essential to capitalism” (Minsky 1986, 173).

• “Capitalist market mechanisms cannot lead to a sustained, stable-price, full employment equilibrium” (Minsky 1986, 173).

• We need institutions to constrain instability: Big Bank & Big Government
From Keynes to Minsky

- John Pierson (1906-2001)
- John Philip Wernette (1903–1988)
- Abba Lerner (1903-1982)
John H.G. Pierson (1906–2001)

- PhD from Yale University
- Held several prominent positions in the U.S. Department of Labor
- Helped draft the Employment Act of 1946
- *Full Employment* (1941)
- Economic Performance Insurance (EPI)
Pierson’s EPI Program

• The government should “stand ready to step in as employer of last resort; or step out, when necessary—[as...] disemployer of first resort. The mechanism to permit that would be a nationwide reserve shelf of additional public services and public works” (Pierson 1980).

• If need be, Gov. could reshelf some public works projects and/or scale back on consumer subsidies
John Philip Wernette (1903–88)

- *Financing Full Employment* (1945)
- Establish a “new fiscal-monetary system”:
  - “The Full Employment Standard” (FES)
  - “The entire purpose of the program […] is to keep private enterprise alive by underwriting a big market for the goods and services which private business can produce” (Wernette 1945)
- No dichotomy between fiscal & monetary policy
- Meticulous coordination
- Projects are carefully planned and selected not to be in competition with private enterprise
Wernette on Money

• “The function of Federal taxes is preventing inflation. The federal government literally does not have to collect taxes in order to get the money for its expenditures. Like any other sovereign government, our Federal government has the power of creating money” (Wernette 1945)
Abba Lerner (1903-1982)

- 1943 *Social Research* article: “Functional Finance and the Federal Debt”
- “The central idea is that government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money and its withdrawal of money, shall all be undertaken with an eye only to the results of these actions on the economy and not to any established traditional doctrine about what is sound or unsound” (Lerner 1943).
- 1947 *American Economic Review* article: “Money as a Creature of the State”
Functional Finance, or Modern Money Theory (MMT)

- A Sovereign Gov. is the monopoly issuer of currency
- Gov. has no limit on printing money
- A Sovereign Gov. creates a demand for its currency by imposing a tax liability on the population
- Gov. spending creates money; Tax collection destroys it
- Taxes do not and cannot finance Gov. Spending
- Bond sales do not and cannot finance Gov. Spending
- Bond sales withdraw excess money from the economy
- When the CB buys bonds, it injects currency into the economy
- The size of the deficit does not matter, as long as it plays the desired function: full employment & price stability
- A rising national debt can always be managed as long as it is denominated in the national currency
- Can’t separate fiscal & monetary policies
- No trade off between unemployment and inflation
Minsky and Full Employment

• 1964 LBJ declares the War on Poverty


Job Guarantee Research

- Center for Full Employment and Price Stability
  C-FEPS: [www.cfeps.org](http://www.cfeps.org)

- Center of Full Employment and Equity:

- Levy Economics Institute: [www.levy.org](http://www.levy.org)

- Economists for Full Employment:
  [www.economistsforfullemployment.org](http://www.economistsforfullemployment.org)

- Binzagr Institute for Sustainable Prosperity:

- ELR, Public Service Employment (PSE), Buffer Stock Employment (BSE), Job Guarantee (JG), Employment Guarantee (EG)
Minsky’s ELR

• “take workers as they are, where they are”
• “jobs first, training later”
• ELR creates “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. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government” (Minsky 1986)
ELR Explained (1)

• The Gov. offers to hire anyone who is ready, willing, and able to work at a socially established living wage.
• Fixed-wage/flex-quantity policy.
• Countercyclical adjustment.
• ELR is decentralized, projects are selected based on community needs and implemented by NGOs at the local level.
• Only the financing is centrally provided by the federal government.
ELR Explained (2)

• Private sector employers can obtain labor at a mark-up over the ELR fixed wage (price-stabilization feature).
• ELR reduces the depreciation of skills caused by unemployment.
• ELR contains training component to prepare participants for private sector employment.
• ELR will reduce uncertainty and smooth out business cycle fluctuations.
ELR Explained (3)

- ELR does not displace private sector jobs.
- Offers jobs which are undersupplied by the private sector.
- ELR jobs include:
  - low-income housing restoration
  - creation/expansions of public parks
  - improvement of public infrastructure
  - recycling projects
  - environmental cleanup
  - installation of solar energy packages
Current System

- Unemployment
  - Private sector jobs
  - Gov. jobs

Recession with JG

- JG program
  - Private sector jobs
  - Gov. jobs

Expansion with JG

- JG program
  - Private sector jobs
  - Gov. jobs
How to Finance JG?

• Like any other government spending

• Functional Finance Budgeting
Gov. Balance + Private Balance + Foreign Balance = 0
“57 Varieties of ELR”

• **USA:** New Deal (& Military Keynesianism?)

• **Sweden’s Corporatist Model:**
  – 1) highly centralized wage bargaining
  – 2) active labor market policies
  – Political commitment to full employment
  – Unions-Business-Government
  – “socialization of investment”
  – Strong emphasis on “the right to work” rather than “the right to income”

• **Argentina:** *Plan JEFES DE HOGAR*

• **India:** National Rural Employment Guarantee

• **Etc…**
Proposal for the US: Wage Structure

W1: skilled workers (post-secondary education, technical training, or an equivalent amount of prior work experience): $21/hour

W2: semi-skilled workers (secondary education, some work experience, perhaps need some additional training): $18/hour

W3: unskilled workers (no education, primary school education, no training): $15/hour
JG Cost Estimation: The case of the U.S.

• Assuming:
  – 23.4 million full-time ELR workers.
  – 40 hours/week.
  – Annual Benefits Package: $10,000 per employee.
  – Annual Material Cost: $50 billion.

• Net Total Annual Cost: $593.8 billion, or 3.93% of GDP.

• The current recovery cost is already in the trillions, but has failed to produce any significant reduction in unemployment.
Gradual JG Plan

• **Phase I:** long-term unemployed (5.5 million)

• **Phase II:** Add the marginally attached to the LF and those remaining in the official unemployment pool (15.3 million people)

• **Phase III:** Add involuntary part-time workers (23.4 million people)
<table>
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<tr>
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<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
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<tbody>
<tr>
<td><strong>Number of ELR workers (millions)</strong></td>
<td>5.5</td>
<td>15.3</td>
<td>23.4</td>
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<tr>
<td><strong>Total wage bill</strong></td>
<td>189.7</td>
<td>528.7</td>
<td>808.7</td>
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<td><strong>Total benefits</strong></td>
<td>55</td>
<td>153</td>
<td>234</td>
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<td><strong>Material cost</strong></td>
<td>11.7</td>
<td>32.7</td>
<td>50</td>
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<td><strong>Income tax revenues</strong></td>
<td>28.4</td>
<td>79.3</td>
<td>121.3</td>
</tr>
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<td><strong>Multiplier effect</strong></td>
<td>241.9</td>
<td>674.2</td>
<td>1,031</td>
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<td></td>
<td>(1.6% of GDP)</td>
<td>(4.3% of GDP)</td>
<td>(6.33% of GDP)</td>
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<td><strong>Unemployment-related savings</strong></td>
<td>76.3</td>
<td>212.5</td>
<td>325</td>
</tr>
<tr>
<td><strong>Total net cost</strong></td>
<td>139.2</td>
<td>388.3</td>
<td>593.8</td>
</tr>
<tr>
<td></td>
<td>(0.92% of GDP)</td>
<td>(2.48% of GDP)</td>
<td>(3.65% of GDP)</td>
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All figures in billions of U.S. $, except where indicated.
JG Projects for Skilled Workers

• public school tutors, public school and/or community musicians/artists, community health care consultants, recycling consultants, community historians, community ethnographers, community statisticians, community computer assistants, community web developers and webmasters, and national translation agents.

• Websites devoted to information dissipation, conservation of local/regional history, culture, and traditions.

• Arts/culture revival projects, conservation of cultural heritage, youth centers, community centers, healthcare centers, ....

• Such projects would involve higher ed. graduates with degrees/specializations in history, anthropology, sociology, computer science, geology, psychology, ethnography, social work, folklore studies, literature, religious studies, art, art history, photography, journalism, communications, statistics, music, dance, graphic design, and architecture
More JG Projects

- environmental cleanup, seashore cleanup
- anti-deforestation, anti-desertification (dune fixation)
- anti-salinization, flood control, storage of runoff waters
- creation/expansions of public parks, low cost housing, improvement of public infrastructure
- recycling projects, installation of solar energy packages
- construction and maintenance of small-scale irrigation systems, soil conservations, small-dam construction, watersheds protection from erosion, management of renewable resources such as forests and groundwater supplies
- conservation of common pasture lands, land terracing, land consolidation, construction of biogas plants
JG for Developing Countries?


• Must have full financial sovereignty
  – Issue a national fiat currency
  – Collect taxes denominated in that same currency
  – Always “borrow” in that same currency
  – Flexible exchange rate (increases policy space)
  – Don’t allow foreign entities to hold/control public debt
JG-led Development

• Effective mobilization of the existing domestic labor resources
• Socializing domestic investment
• Euthanizing domestic and foreign rentiers
• Reaffirming the financial sovereignty of the State
• Allowing complete and free convertibility of the currency in international exchange markets
• Adopting a flexible exchange rate regime
• Debt must be denominated in domestic currency
• Adopting a functional finance approach to public finance
• Paying off foreign-denominated debt through export revenues, debt cancellation, or debt nationalization
Other JG studies

- **Tunisia**: less than 5% of GDP (see Kaboub 2006, Levy.org)

- **Saudi Arabia**: (See Policy Report No. 101, Binzagr-Institute.org)
  - Economic cost of unemployment: $227bil., 29% of DGP
  - JG cost: $40 billion, 5.4% of DGP
Figure 2: Cost of employing 2 million JG workers in KSA

120 billion SAR (Wages)
18 billion SAR (Benefits)
13.8 billion SAR (Materials)
Figure 3: Cost of Job Guarantee program vs. Cost of Unemployment in KSA

Cost of Unemployment (2 million unemployed) = 851.8 billion SAR

Cost of employing 2 million Saudis = 151.8 billion SAR
Figure 4: The Spectrum of Financial Sovereignty

- Full Financial Sovereignty
- Adequate Financial Sovereignty
- Limited Financial Sovereignty
- No Financial Sovereignty
Social Venture Partnership (SVP)

- $$ Funding
- Pro bono consulting
- Mentorship
- Training
Concluding Remarks

• The unemployment crisis coupled with climate crisis call for urgent and bold actions.
• The current jobs policies are too weak, expensive, and ineffective.
• Climate action policies too slow, too small, and (soon) maybe too late.
• We can’t rely on market incentives and supply side economics to produce FE.
• FE is possible, desirable, affordable, and is a prerequisite for sustainable prosperity.
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