

Full Employment Through Direct Job Creation

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Overview of the Presentation

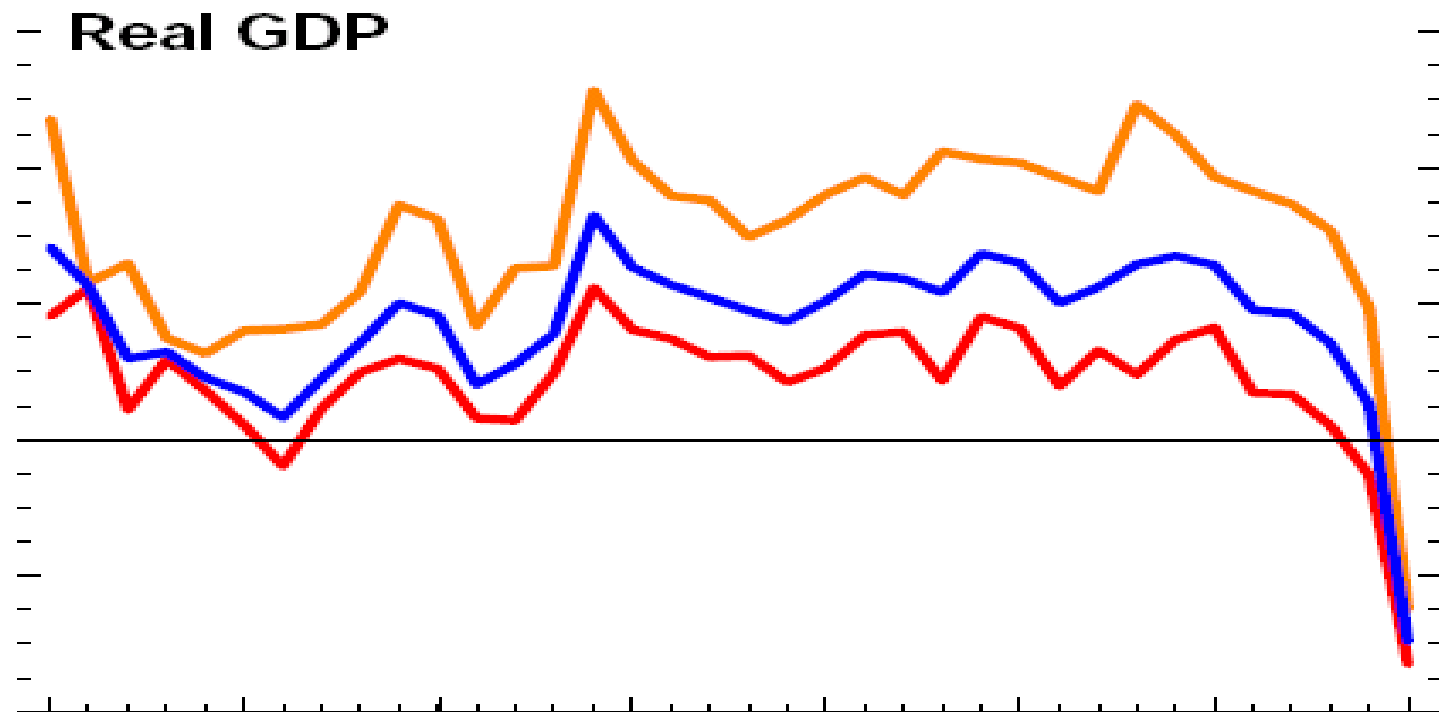
- I. Causes of Unemployment
- II. Goals of a Sovereign Government
- III. Costs of Unemployment
- IV. The Job Guarantee-In Theory
- V. The Job Guarantee-In Practice
- VI. Full Employment and Development
- VII. Full Employment and Growth
- VIII. Full Employment versus Nonsense

Causes of Unemployment

- Short Run: Global Financial Crisis and Economic Downturn
- Long Run: Demand Gaps, Structural Unemployment, Jobless Growth

The global context ... IMF G-20 outlook

Global Growth



USA Unemployment

- GDP grew 3.5% July-Sept
- But Unemp increased to 10.2%;
 - 15.7M Unemployed
- Add involuntary part-time plus discouraged
→ 17.5%
- Lost 7.5M jobs since crisis began; perhaps 12M jobs short due to crisis
- Unemp will continue to grow for many qtrs

IMF Near-term Outlook ...

- “... central banks should ... keep ... rates low until a recovery firmly takes hold.”
- “With constraints on the effectiveness of monetary policy, **fiscal policy** must play a central role in supporting demand ...”
- Even with “green shoots”, domestic employment will need boost from government

Long Run: Demand Gaps and Structural Unemployment

- Unemployment as policy tool
 - Unemployment buffer stocks (NAIRU approach)
- Structural Unemployment
 - ILO: “young people have more difficulties in labour markets than adults; women do not get the same opportunities as men, the lack of decent work is still high; and the potential a population has to offer is not always used because of a lack of human capital development or a mismatch between the supply and the demand side in labour markets.”

Long Run: Jobless Growth

- ILO 2007: 200 Million unemployed in spite of strong growth. “Every region has to face major labour market challenges”
- Growth fuels productivity growth (up 26% in past decade) but doesn't create many new jobs (up only 16.6%).
- David Ricardo's “machine problem”
- US chronic jobless = 25M-30M through thick and thin of cycle

Goals of sovereign government

- A *sovereign government* has the fiscal capacity to ensure continuous full use of domestic resources.
- Economic growth *per se* is not enough.
- Full employment and price stability should be the *primary* policy goals.

Costs of Unemployment

- Labour underutilisation (unemployment + underemployment) creates **huge net income losses**.
- The **social costs** are even larger:
 - poverty, social isolation, crime
 - regional deterioration
 - health issues, family breakdown, school dropouts
 - social, political and economic instability
 - promotes violence, ethnic hostility, even terrorism
 - loss of human capital
 - hysteresis: long term unemployed become unemployable

Benefits of full employment

- Full employment **provides**
 - Production of goods and services
 - On-the-job training and skill development
 - poverty alleviation
 - community building, social networking
 - intergenerational stability
 - Social, political, and economic stability
 - Multipliers: Positive feedbacks and reinforcing dynamics create a virtuous cycle of socioeconomic benefits. The total impact exceeds the sum of the individual benefits.

Job Guarantee In Theory

- There is an alternative to NAIRU unemployment buffer stock to maintain price stability: an **employment buffer stock** program.
- This is called the Job Guarantee.
- It is an **unconditional offer of a public job** at the minimum wage to anyone who wants to work.
- Maintains continuous full employment—resolves both short term and long term unemployment problems

JG and Macro Stability

- The fixed JG wage provides an in-built inflation control mechanism.
- Full employment and price stability promotes currency stability
- Spending in the JG program is countercyclical—an automatic stabilizer.
- It is a **high quality anchor** – maintains an effective labour supply at minimum wage.
- Fluctuation of wage income and thus consumption is reduced.

Additional Benefits of JG

- It provides a framework to reduce hiring costs for private business.
- It provides on-the-job training.
- It is not the panacea for all labour market problems.
- But it is better than the unemployment buffer stock option.

Objections to JG



- Open-ended fiscal commitment; Govt can't afford it
- Will threaten macro stability: inflation and currency depreciation
- Unmanageable: not enough useful work; corruption; incorrigible workers

JG and Macro Stability



- Poverty and Unemployment is the cost of maintaining macro stability
- Objections:
 - Ethical
 - JG can *enhance* macro stability

Macro Stability through Buffer Stock

- Oz Wool Buffer Stock
 - Buys wool at floor price,
 - Sells at ceiling price
 - Cannot cause inflation of wool price
 - Moderates price flux and thus income and consumption
- Basket of Commodities as Buffer Stock
 - Helps stabilize price, employment, income, spending and currency



ELR as Buffer Stock



- Govt hires labor at JG wage; “sells” it at any higher wage
- A wage floor cannot pressure wages
- Unlike minimum wage, JG is effective and has a buffer stock to give it force
- Stabilizes wages, production costs, incomes, consumption, prices, and currency

Affordability of JG



- *Sovereign nation with floating currency can financially afford JG*
- Govt spends by crediting reserves, taxes by debiting reserves
- Deficit generates net reserve credits
- Excess reserves drained through bond sales to hit interest rate targets set by policy

The JG in Practice: *Jefes*

- Argentina created *Jefes* to quell crisis
- Created 2 million jobs, employed 14% of labour force
- Stabilized output, prices, and currency
- Reduced unemployment and poverty and moved workers to formal sector
- Community-based projects
- Enhanced social, political and economic stability
- Produced useful output, some marketed, some freely distributed to participants and neighbors
- *As economy recovered, firms hired from pool*

Examples of Projects: Useful things to do



Half of this previously fallow plot was now dedicated to growing vegetables and other crops to feed the people from this agro-cooperative and their children.



Women at work at the Mataderos bakery



All women we interviewed reported that they are happy to be working, to be involved in the community and to have jobs close to their children



This micro-enterprise also had various posters pointing to local resources for family planning, training and education.



The rest of the plot was used to prepare food using an outdoor oven and to care for the children in a mini-daycare center.

Full Employment and Development

- Is the Job Guarantee applicable to developing countries?
 - Yes, where the developing country has a sovereign currency the JG approach is available.
- JG as development strategy:
 - Puts labour resources to work
 - Enhances skills and experience
 - Can be used to improve infrastructure
 - Inclusive development through community projects
 - Can be coordinated across borders

Full Employment and Growth

- Growth by itself is not an appropriate goal
 - It does not create enough jobs
 - It can promote rising inequality
 - It can harm environment
- Full Employment through JG promotes:
 - Shared prosperity
 - Environmentally sustainable development path
 - Growth with price and currency stability

JG For Developing Nations

- Experience shows even broad program “costs” about 1% of GDP— “affordable” even on conventional criteria
- Multiplier impact + reduction of social and private costs + useful output → “net cost” is minimal
- Socially, Politically, and Economically stabilizing, not destabilizing

SPECIAL CONSIDERATIONS FOR SMALL OPEN ECONOMY

- Pegged exchange rate: reduces sovereignty; reduced scope for policy independence
- Little output demanded in international mkts; (luxury) consumption and investment goods imported
- Limited competence; institutional constraints
- Monetary leakages (imports, foreign assets); inflation pass-through

IMPLEMENTATION IN SMALL OPEN ECONOMY

- Gradual phase-in: registration, lottery, community projects
- Targeting: heads of household; rural poor; regional
- Compensation: non-money benefits: housing, healthcare, food, transportation; limit import content
- Projects: labor-intensive; limit import-content; export-oriented projects; integrated with development plans

Full Employment versus Nonsense

- “The Conservative belief that there is some law of nature which prevents men from being employed, that it is 'rash' to employ men, and that it is financially 'sound' to maintain a tenth of the population in idleness is crazily improbable--the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years....” (J. M. Keynes)



Thank you